FAR-EASTERN SHIPPING COMPANY PLC.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2010

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ZAO KPMG
10 Presnenskaya Naberezhnaya
Moscow, Russia 123317

Telephone +7 (495) 937 4477
Fax +7 (495) 937 4400/99
Internet www.kpmg.ru

Independent Auditors' Report

To the Board of Directors of FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)

We have audited the accompanying consolidated financial statements of FAR-EASTERN SHIPPING COMPANY PLC. (FESCO) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2010, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2010, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

During the year the Group changed its accounting policy for accounting for investments in joint ventures. The reason for and the effects of this change are described in Note 4 to the consolidated financial statements. We have audited the adjustments described in Note 4 that were applied to restate the 2009 consolidated financial statements and the statement of financial position as at 31 December 2008. In our opinion, such adjustments are appropriate and have been properly applied.

ZAO KPMG

ZAO KPMG

10 May 2011

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Financial Position
As at 31 December 2010

'000 USD	Note	31 December 2010	31 December 2009 Restated	31 December 2008 Restated
ASSETS				
Non-Current Assets				
Fleet	7	411,605	424,589	723,572
Rolling stock	8	316,881	333,193	425,428
Other tangible fixed assets	9	152,916	140,144	153,098
Goodwill	5	200,252	203,638	209,178
Other intangible assets	6	5,731	7,920	10,028
Investments in associates and joint ventures	10	100,634	100,883	109,676
Other equity investments	11	165,042	702,300	618,232
Other non-current assets	12	30,721	12,935	9,897
Total non-current assets		1,383,782	1,925,602	2,259,109
Current Assets				
Inventories	13	21,341	18,324	17,810
Accounts receivable	14	147,288	153,254	239,979
Current tax assets		2,455	11,464	8,664
Other current assets	15	2,160	31,863	6,648
Cash and cash equivalents	16	556,288	82,188	207,356
Total current assets		729,532	297,093	480,457
Total Assets		2,113,314	2,222,695	2,739,566
EQUITY AND LIABILITIES				
Shareholders' Equity	21			
Share capital		57,230	57,230	57,230
Share premium		999,494	999,494	999,494
Treasury shares		(336,104)	(336,104)	(336,104)
Retained earnings		870,357	404,519	628,802
Reserves		(75,092)	166,694	116,538
Total equity attributable to equity holders of the Company		1,515,885	1,291,833	1,465,960
Non-controlling interest		11,409	7,773	15,135
Total equity		1,527,294	1,299,606	1,481,095
Non-current liabilities				
Long term loans and finance lease obligations	18	302,746	76,099	538,166
Deferred tax liability	20	32,987	28,863	47,990
Other long term liabilities	19	27,285	22,128	32,799
Total non-current liabilities		363,018	127,090	618,955
Current Liabilities				
Accounts payable	17	98,497	88,942	119,883
Current tax liabilities		2,114	613	4,701
Short term loans and finance lease obligations	18	122,391	706,444	514,932
Total current liabilities		223,002	795,999	639,516
Total liabilities		586,020	923,089	1,258,471
Total equity and liabilities		2,113,314	2,222,695	2,739,566

S.V. Generalov, President________ Y.B. Gilts, Vice President and CFO________ Date: 10 May 2011

The accompanying notes on pages 13 to 60 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Income Statement
For the year ended 31 December 2010

‘000 USD	**Note**	**2010**	**2009 Restated**
Revenue	24	800,591	610,224
Operating expenses	25	(544,224)	(461,116)
Gross profit before depreciation and amortization		256,367	149,108
Depreciation and amortisation	6, 7, 8, 9	(72,817)	(91,327)
Administrative expenses	26	(98,737)	(84,723)
Impairment reversal/(loss) on tangible fixed assets, net	29	38,644	(85,459)
Loss on disposal of tangible fixed assets	28	(5,239)	(42,047)
Bad debt charge		(4,122)	(17,831)
Other income		7,186	19,970
Profit /(loss) from operating activity		121,282	(152,309)
Interest expense		(53,973)	(62,675)
Foreign exchange loss		(2,487)	(5,841)
Result on disposal of investments	11	419,918	-
Other financial expenses, net	27	(13,895)	(2,505)
Share of profit /(loss) of equity accounted investees	10	5,920	(7,029)
Profit/(loss) before income tax		476,765	(230,359)
Income tax expense	20	(20,897)	(1,988)
Profit/(loss) for the year		455,868	(232,347)
Attributable to:			
Owners of the Company		449,352	(235,810)
Non-controlling interest		6,516	3,463
Basic profit/(loss) per share	30	USD0.176	(USD 0.092)
Diluted profit/(loss) per share		USD0.175	(USD 0.095)

The accompanying notes on pages 13 to 60 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Comprehensive Income
For the year ended 31 December 2010

'000 USD	2010		2009 Restated	
Profit/(loss) for the year		455,868		(232,347)
Other comprehensive income/(loss):				
Revaluation of fleet	416		(13,128)	
Deferred tax charge on revaluation of fleet	(1,123)		1,767	
Transfer of changes in fair value of cash flow hedge to income statement	5,334		-	
Effect of foreign currency translation	(8,787)		(16,660)	
Revaluation of available - for - sale investments	23,711		86,500	
Correction of the cost of tangible fixed assets, net of deferred tax	5,568		-	
Release from revaluation of available - for - sale investments on disposal	(220,849)		-	
Release from currency translation reserve on disposal of available- for -sale investments	(29,601)		-	
Other comprehensive income /(loss) for the year		(225,331)		58,479
Total comprehensive income/(loss) for the year		230,537		(173,868)
Total comprehensive income /(loss) attributable to:				
Ordinary shareholders of the Company		224,052		(174,127)
Non-controlling interests		6,485		259

The accompanying notes on pages 13 to 60 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Changes in Equity
For the year ended 31 December 2010

Attributable to equity holders of the Company

'000 USD	**Share capital (Note 21)**	**Share premium (Note 21)**	**Treasury shares (Note 21)**	**Retained earnings**	**Revaluation reserve**	**Investment fair value reserve**	**Translation reserve**	**Cash flow hedge**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2009 as previously presented	57,230	999,494	(336,104)	626,906	63,202	134,349	(78,594)	(2,419)	1,464,064	17,031	1,481,095
Restatement	-	-	-	1,896	-	-	-	-	1,896	(1,896)	-
Balance at 1 January 2009 as restated	57,230	999,494	(336,104)	628,802	63,202	134,349	(78,594)	(2,419)	1,465,960	15,135	1,481,095
Loss for the year				(235,810)					(235,810)	3,463	(232,347)
Other comprehensive income/(loss)											
Effect of foreign currency translation	-	-	-	-	-	-	(13,456)	-	(13,456)	(3,204)	(16,660)
Revaluation of fleet, net of deferred tax	-	-	-	-	(11,361)	-	-	-	(11,361)	-	(11,361)
Release from revaluation reserve	-	-	-	11,527	(11,527)	-	-	-	-	-	-
Revaluation of available - for - sale investments	-	-	-	-	-	86,500	-	-	86,500	-	86,500
Total other comprehensive income/(loss)	-	-	-	11,527	(22,888)	86,500	(13,456)	-	61,683	(3,204)	58,479
Total comprehensive income/(loss) for the year	-	-	-	(224,283)	(22,888)	86,500	(13,456)	-	(174,127)	259	(173,868)
Transactions with owners, recorded directly in equity											
Dividends declared	-	-	-	-	-	-	-	-	-	(7,621)	(7,621)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	-	-	(7,621)	(7,621)
Total transaction with owners	-	-	-	-	-	-	-	-	-	(7,621)	(7,621)
Balance at 31 December 2009	57,230	999,494	(336,104)	404,519	40,314	220,849	(92,050)	(2,419)	1,291,833	7,773	1,299,606

The accompanying notes on pages 13 to 60 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Changes in Equity
For the year ended 31 December 2010
(Continued)

	Attributable to equity holders of the Company										
'000 USD	**Share capital (Note 21)**	**Share premium (Note 21)**	**Treasury shares (Note 21)**	**Retained earnings**	**Revaluation reserve**	**Investment fair value reserve**	**Translation reserve**	**Cash flow hedge**	**Total**	**Non-controlling interest**	**Total equity**
Balance at 1 January 2010 as restated	57,230	999,494	(336,104)	404,519	40,314	220,849	(92,050)	(2,419)	1,291,833	7,773	1,299,606
Profit for the year	-	-	-	449,352	-	-	-	-	449,352	6,516	455,868
Other comprehensive income/(loss)											
Effect of foreign currency translation	-	-	-	-	-	-	(8,756)	-	(8,756)	(31)	(8,787)
Revaluation of fleet, net of deferred tax	-	-	-	-	(707)	-	-	-	(707)	-	(707)
Release from revaluation reserve	-	-	-	10,918	(10,918)	-	-	-	-	-	-
Revaluation of available - for - sale investments	-	-	-	-	-	23,711	-	-	23,711	-	23,711
Release from revaluation of available - for - sale investments on disposal	-	-	-	-	-	(220,849)	(29,601)	-	(250,450)	-	(250,450)
Transfer of changes in fair value of cash flow hedge to income statement	-	-	-	-	-	-	-	5,334	5,334	-	5,334
Correction of the cost of tangible fixed assets, net of deferred tax (Note 8)	-	-	-	5,568	-	-	-	-	5,568	-	5,568
Total other comprehensive income/(loss)	-	-	-	16,486	(11,625)	(197,138)	(38,357)	5,334	(225,300)	(31)	(225,331)
Total comprehensive income/(loss) for the year	-	-	-	465,838	(11,625)	(197,138)	(38,357)	5,334	224,052	6,485	230,537
Transactions with owners, recorded directly in equity											
Dividends declared	-	-	-	-	-	-	-	-	-	(2,849)	(2,849)
Total contributions by and distributions to owners	-	-	-	-	-	-	-	-	-	(2,849)	(2,849)

The accompanying notes on pages 13 to 60 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Changes in Equity
For the year ended 31 December 2010
(Continued)

	Attributable to equity holders of the Company										
'000 USD	**Share capital (Note 21)**	**Share premium (Note 21)**	**Treasury shares (Note 21)**	**Retained earnings**	**Revaluation reserve**	**Investment fair value reserve**	**Translation reserve**	**Cash flow hedge**	**Total**	**Non-controlling interest**	**Total equity**
Total transaction with owners	-	-	-	-	-	-	-	-	-	(2,849)	(2,849)
Balance at 31 December 2010	57,230	999,494	(336,104)	870,357	28,689	23,711	(130,407)	2,915	1,515,885	11,409	1,527,294

The availability of the Company's retained earnings for distribution to shareholders is determined by the Company's Charter and by Russian law and does not correspond with the figures shown above. The Company's retained earnings available for distribution under Russian Accounting Standards as at 31 December 2010 were USD 250 million (as at 31 December 2009 USD 220 million).

The accompanying notes on pages 13 to 60 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Cash Flows
For the year ended 31 December 2010

'000 USD	Note	2010	2009 Restated
Cash flows from operating activities			
Profit/(loss) for the year		**455,868**	**(232,347)**
Adjustments for:			
Depreciation and amortisation		72,817	91,327
Impairment (reversal)/ losses		(37,950)	85,175
Loss on disposal of tangible fixed assets		5,239	42,047
Foreign exchange differences		2,487	5,841
Net finance (income)/ costs		(352,050)	58,009
Share of (profit)/loss of equity accounted investees		(5,920)	7,029
Income tax expense		20,897	1,988
Share options expense/(release)		3,093	(6,417)
Cash from operating activities before changes in working capital and provisions		**164,481**	**52,652**
Change in inventories		(3,016)	(354)
Change in trade and other receivables		(22,555)	93,677
Change in trade and other payables		10,817	(16,931)
Cash flows from operations before income taxes paid		**149,727**	**129,044**
Income tax paid		(14,596)	(18,439)
Income tax received		5,640	15,309
Cash flows from operating activities		**140,771**	**125,914**
Cash flows from investing activities			
Expenditure on vessels under construction	7	(36,859)	(43,104)
Refund from cancellation of construction contract	7	25,139	55,039
Expenditure on other fixed assets	9	(52,612)	(11,411)
Expenditure on drydocking	7	(8,609)	(4,960)
Proceeds on disposal of fleet		114,664	68,010
Proceeds on disposal of other fixed assets		2,422	1,856
Associates (acquired)/disposed		(1,644)	1,592
Other investments acquired	11	(139,268)	(1,358)
Proceeds on sale of investments	11	869,469	2
Dividends received		2,516	1,263

The accompanying notes on pages 13 to 60 form an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows
For the year ended 31 December 2010
(Continued)

'000 USD	**Note**	**2010**	**2009**
Short-term loans issued		(2,784)	(3,583)
Finance lease receipt		780	748
Interest received		5,349	4,351
Net cash generated from investing activities		**778,563**	**68,445**
Cash flows from financing activities			
Loans drawn down		280,472	369,854
Loan repayments		(649,832)	(598,036)
Finance charges		(57,617)	(66,922)
Financial instruments liability paid		(9,811)	(10,822)
Decrease in overdraft		(1,530)	(1,114)
Dividends paid		(2,849)	(8,172)
Net cash used in financing activities		**(441,167)**	**(315,212)**
Exchange Differences		(4,067)	(4,315)
Net increase/(decrease) in Cash		474,100	(125,168)
Cash and cash equivalents at 1 January		82,188	207,356
Cash and cash equivalents at 31 December	16	556,288	82,188

The accompanying notes on pages 13 to 60 form an integral part of these consolidated financial statements.

1. Organisation and Trading Activities

Far-Eastern Shipping Company PLC. (FESCO) was privatised and became a joint stock company governed by the laws of the Russian Federation on 3 December 1992. The Company's registered office and principal place of business is: 15 Aleutskaya Street, Vladivostok, Primorskiy Kray, Russian Federation 690091.

The Company's immediate parent entity is SVG Holdings S.A. and Mr Sergey Generalov is considered to be the Company's ultimate controlling party.

The principal activity of FESCO and its subsidiaries (the Group) has traditionally been shipping (ship owning, ship management, chartering out and line operating). In recent years FESCO has been transformed into an intermodal logistics Group focused on Russia, offering a full range of logistical solutions through a combination of shipping, rail, trucking and port services.

2. Basis of Accounts Preparation

(a) Basis of preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of selecting and applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where estimates are significant to the financial statements are disclosed in Note 2c.

The significant accounting policies adopted by the Group have been consistently applied with those of the prior period, except as described in Note 3(w).

The consolidated financial statements are prepared on the historical cost basis except that derivative financial instruments, investments at fair value through profit and loss and financial investments classified as available-for-sale are stated at fair value. Group's vessels are stated at fair value at each reporting date based on valuation performed by an independent professional appraiser as disclosed in Note 7. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(b) Basis of consolidation

These financial statements include the accounts of FESCO and its subsidiaries. The principal subsidiaries of the Group are as follows:

Name	Country of Incorporation	Percentage Holding	Activity
Bodyguard Shipping Company Limited	Cyprus	100%	Ship owning
Diataxis Shipping Company Limited	Cyprus	100%	Ship owning
Yerakas Shipping Company Limited	Cyprus	100%	Ship owning
Antilalos Shipping Company Limited	Cyprus	100%	Ship owning
Carmina Maritime Ltd	Marshall Islands	100%	Ship owning
Kirdischev Maritime Ltd	Marshall Islands	100%	Ship owning
Angara Maritime Ltd	Marshall Islands	100%	Ship owning
Ob Maritime Ltd	Marshall Islands	100%	Ship owning

Name	Country of Incorporation	Percentage Holding	Activity
Kraynev Maritime Ltd.	Marshall Islands	100%	Ship owning
Udarnik Maritime Ltd.	Marshall Islands	100%	Ship owning
Yenisey Maritime Ltd	Marshall Islands	100%	Ship owning
Marline Shipping Company Limited	Cyprus	100%	Ship owning
Marview Shipping Company Limited	Cyprus	100%	Ship owning
FESCO Agencies N.A., Inc.	USA	100%	Shipping agency
Astro-Moon Shipping Company Limited	Cyprus	100%	Ship owning
Mar Space Shipping Company Limited	Cyprus	100%	Ship owning
Lightview Shipping Company Limited	Cyprus	100%	Ship owning
Star Warm Shipping Company Limited	Cyprus	100%	Ship owning
Anouko Shipping Company Limited	Cyprus	100%	Ship owning
FESCO Lines China, Co., Ltd.	China	100%	Shipping agency
Firm Transgarant LLC	Russia	100%	Holding company for transportation services group
FESCO Lines Vladivostok LLC	Russia	100%	Transport and forwarding services
FIT LLC	Russia	100%	Transport and forwarding services
VKT LLC	Russia	75%	Container terminal
TRANSFES Co., Ltd	Russia	100%	Shipping agency and operations
Dalreftrans Co, Ltd	Russia	100%	Transport and forwarding services
ESF	Russia	100%	Shipping agency and operations
FESCO Lines Hong Kong Limited	China	100%	Shipping agency
FESCO Agency Lines HK Limited	Hong Kong	100%	Shipping agency
FESCO Lines Management Limited	Hong Kong	100%	Financial management
FESCO Container Services Company Limited	Cyprus	100%	Line operator
FESCO Ocean Management Limited	Cyprus	100%	Shipping operations
Maritime and Intermodal Logistics Systems Inc.	USA	100%	Container freight services
Remono Shipping Company Limited	Cyprus	100%	Freight forwarder
Shonstar Limited	British Virgin Islands	100%	Share options for Group's management
FESCO Transportation Group Ltd	Russia	100%	Managing company

Subsidiaries.
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Certain subsidiaries, associate companies and joint ventures that are neither individually nor in aggregate material to the results, cash flows or financial position of the Group are not consolidated. These investments are recorded as available-for-sale investments at fair value as estimated by management. Where it is not possible to estimate fair values reliably, they are recorded at historical cost less applicable impairment.

Joint ventures and associates (equity accounted investees).
Joint ventures are those companies and other entities in which the Group, directly or indirectly, undertake an economic activity that is subject to joint control. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies Joint ventures and associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control/significant influence commences until the date that joint control/significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

Transactions eliminated on consolidation.
Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Acquisitions from entities under common control.
Business combinations arising from transfers of interests in entities that are under the control of the shareholder that controls the Group are accounted for as if the acquisition had occurred at the beginning of the earliest comparative period presented or, if later, at the date that common control was established; for this purpose comparatives are restated. The assets and liabilities acquired are recognised at the carrying amounts recognised previously in the Group's controlling shareholder's consolidated financial statements. The components of equity of the acquired entities are added to the same components within Group equity except that any share capital of the acquired entities is recognised as part of share premium. Any cash paid for the acquisition is recognised directly in equity.

(c) Critical accounting estimates and judgements in applying accounting policies

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

1. Impairment of goodwill and tangible fixed assets, see Note 5 and Notes 8,9
2. Determination of the fair value of the Group's fleet, see Note 7
3. Russian taxation contingencies, see Note 32(d)

(d) Segmental Reporting

The Group has four operating segments: shipping, which operates on a global basis, intermodal services, railway transportation services which operate in Russia and other countries of the CIS and Russian-based port and sea terminal. A segmental analysis has been included in Note 23.

3. Accounting Policies

(a) Functional and Presentation Currency

The presentation currency used in the preparation of these financial statements is the U.S. Dollar ("USD").
The functional currency of each Group entity is the currency of the primary economic environment in which the entity operates. For the purpose of the consolidated financial statements, the results and financial position of each entity are translated to USD as stated below.

In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency are translated into functional currency at the rates of exchange prevailing at the dates of the transactions. At each balance sheet date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance sheet date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Foreign currency differences arising in translation are recognised in the income statement, except for differences arising on the translation of available-for-sale equity instruments.

The results and financial position of each Group entity whose functional currency is different from USD, are translated into the presentation currency as follows:

(i) assets and liabilities at each reporting date are translated at the closing rate at this date;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
and
(iii) all resulting exchange differences are recognised as a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the income statement.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity.

None of the Group entities has a functional currency which is a currency of hyperinflational economy. All financial information presented in USD has been rounded to the nearest thousand.

The Russian rouble is not a fully convertible currency outside of the Russian Federation and, accordingly, any conversion of RUB amounts to USD should not be construed as a representation that RUB amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

At 31 December 2010, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUB 30.48 (31 December 2009 USD 1 = RUB 30.24).

Fleet

The fleet is stated on an individual vessel basis at market value as assessed by independent professional valuers and supported by calculations of value in use.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Revaluations are performed annually.

A revaluation increase is recognised in revaluation reserve in equity except to the extent that it reverses a previous revaluation deficit on the same asset recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease is recognised in the income statement except to the extent that it reversed the previous revaluation surplus on the same asset recognised directly in equity, in which case it is recognised directly in equity.

At the year end a portion of the revaluation reserve, which is equal to the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Other fixed assets are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Vessels in course of construction include advances to shipyards, supervision fees, professional fees, finance costs and interest capitalised.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Dry-docking and special survey costs ("Dry-docking costs") are recognised as a separate component of the vessel and are capitalised as incurred during the period of the dry-docking programme.

Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of that item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The costs of the day-to-day servicing of property, plant and equipment are recognised in the income statement as incurred.

Fleet depreciation

Depreciation is charged on a straight-line basis in the income statement on net book value less an estimated scrap value, based on anticipated useful lives of 25 years from date of building of the vessel.

Other fixed assets depreciation

Other fixed assets are depreciated on a straight line basis to their residual values at the following annual rates:

Buildings	3 – 10%
Rolling stock	4 – 20%
Machinery, equipment and other fixed assets	5 – 33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. Land is not depreciated.

Residual values
The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

(b) Impairment of non-financial assets.

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of material impairment. If any such indication exists, recoverable amounts are estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is recognised in the income statement unless it reverses a previous revaluation recognised in equity in which case it is recognised in equity.
Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(c) Dry-docking and special surveys

Dry-docking and special survey costs are capitalised and depreciated on a straight-line basis over a period of five years. Any unamortised amounts are derecognised when the next dry dock / special survey occurs or on disposal of the vessel to which the costs relate.

(d) Inventories

Inventories are stated at the lower of cost, calculated on a weighted average basis, and net realisable value. Inventories comprise bunkers, victualling stocks, stores, spares and materials for construction. Net realisable value is the estimated amount an item could be sold for less any selling expenses.

(e) Revenue recognition

The Group derives revenue from the following main sources:

- “freight and hire” revenue from sea transportation;
- agency fees for arranging transportation;
- provision of transportation services using own and leased wagons (operators’ business);
- revenue from stevedoring services;
- revenue from rentals.

The Group recognises revenue on an accruals basis at the fair value of the consideration received or receivable. Revenue is presented in the income statement net of VAT and discounts.

Freight and hire
Revenue from transportation services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the number of days completed out of the total estimated number of days in a particular transportation route/charter. Estimated losses on transportation in progress are recognised at the time such losses become evident.

Transportation agency fee
In certain cases Group’s subsidiaries act as a legal intermediary for transportation organizations and pay transport fees on behalf of its clients. These fees, which are reimbursed by the Group’s clients, are not included in sales or cost of sales. Consequently, only the Group’s fees for intermediary activities are recognised as sales. Debtors and liabilities that occur in accordance with these activities are recognized as accounts receivable and accounts payable respectively.

Transportation services (operator’s business)
The Group also organizes transportation for clients and provides similar services using its own or leased wagons. Normally, a transportation tariff charged by the Russian Railway is re-charged to the counterparty (the Company acts as an agent). For this type of activity, the Group’s revenue comprises operator’s fee.

The costs of sales for this type of activity generally includes transportation fees charged by transportation organizations for transportation of empty wagons (those are not re-charged to the counterparty), depreciation, repairs and maintenance costs for owned and leased wagons and lease payments for wagons rented on the basis of operating leases.

Revenue from port and stevedoring services
Port and stevedoring services represent cargo handling and storage in port and terminal. The revenue is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the surveys of work performed.

Revenues from rentals
Revenue earned by the Group from rentals is recognised on a straight line basis over the term of the rent agreements.

(f) Classification of financial assets

Non-derivative financial instruments.
Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Accounting for finance income and expenses is discussed in note 3(x).

Held-to-maturity investments.
If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets.
The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Other.
Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be estimated on a reasonable basis by other means, investments are stated at cost less impairment losses.

Derecognition of financial assets.
The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

(g) Derivative financial instruments

The Group's activities expose it to the financial risks arising from changes in foreign currency exchange rates and interest rates. The Group uses foreign exchange forward contracts and interest rate swap contracts to hedge these exposures. The Group does not use derivative financial instruments for speculative purposes. All derivative financial instruments are initially recognised at their fair value; attributable transaction costs are recognised in the income statement when incurred. Subsequent to initial recognition, derivatives are measured at fair value.
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion of designated cash flow hedge, changes in the fair value of designated fair value hedges and changes in the fair value of derivatives which do not meet the criteria for hedge accounting including, instances where sufficient hedge documentation is not available, is recognised in the income statement. Amounts recognised in equity are recycled in the income statement in the period in which the hedged item is recognised in the income statement, in the same line of the income statement as the recognised hedged item.

(h) Financial liabilities and equity instruments issued by the Company.

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at Fair Value Through Profit or Loss or "other financial liabilities".

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Fair value is obtained through discounting future cash flows at the current market interest rate applied to financial instruments with similar terms. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Company derecognises financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire.

(i) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.
An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.
Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.
An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(j) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(k) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, and is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from retained earnings.

(l) Operating leases

Where the Group is a lessee
Where a Group is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group company is a lessor
Assets leased to third parties under operating leases are included in property, plant and equipment in the balance sheet. They are depreciated over their expected useful lives. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(m) Finance leases

Where the Group is a lessee
Where a Group company is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method.

Assets acquired under finance leases are depreciated over the shorter of useful life and the lease term if the Group is not reasonably certain that it will obtain ownership by the end of the lease term.

Where the Group is a lessor
Assets leased out under finance lease agreements are recognized in the statement of financial position and presented as receivable at an amount equal to the net investment in the lease. The income on the finance lease is recognized as interest income and is based on the pattern reflecting a constant periodic rate of return on the Company’s net investment in the finance lease.

(n) Defined contribution plans.

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

(o) Current and deferred tax

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.
Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(p) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

(q) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise convertible notes and share options granted to employees.

(r) Goodwill arising on acquisition

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is tested annually for impairment and carried at cost less accumulated impairment losses.

Negative goodwill (excess of the fair value of the share in net assets acquired over consideration paid) is recognised in the income statement.

Any excess of the consideration paid to acquire a non-controlling interest over the book value of the non-controlling interest is recognised in equity.

(s) Other intangible assets

Other intangible assets are recognised at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over the useful life (generally five years), representing management's estimate of the period during which the Group is expected to benefit from these assets.

(t) Dividends

Dividends are recognised as a deduction from equity in the period in which they are approved by the shareholders.

(u) Share –based payments

The Group has a share option scheme to incentivise certain key members of management (see Note 20 for a fuller description of the scheme).
Due to the cash settlement option held by employees, the scheme is treated as creating a liability rather than an equity obligation. The fair value of the options outstanding is estimated by the Group at each balance sheet date using the Black-Scholes option pricing model.
For each option granted a liability based over the vesting period is recognised with a corresponding charge to the income statement(employee expenses).

(v) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss.

Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method, except to the extent that they relate to acquisition of qualifying assets, in which case they are capitalized in the cost of such assets.

(w) Changes in accounting policy

Starting from 1 January 2010 the Group changed Its accounting policy in respect of investments in joint venture from proportionate consolidation method to equity method. Comparative information for 2009 has been restated accordingly, see note 4.

Adoption of new and revised standards and interpretations.

- IFRS 3 (Revised) – *"Business Combinations"* (2008). ("Revised IFRS 3"). Effective 1 January 2010 the Group adopted Revised IFRS 3 which introduces a number of changes:
  - the definition of a business was broadened;
  - contingent consideration is to be measured at fair value;
  - transaction costs, other than share and debt issue costs, should be expensed as incurred;
  - Any pre-existing interest in the acquiree should be measured at fair value; and
  - Any non-controlling (minority) interest should be measured at either fair value, or at its proportionate interest in the identifiable assets and liabilities of the acquiree, on a transaction-by-transaction basis.

  Adoption of the revised IFRS 3 is expected to have an impact on accounting for future business combinations.

- IAS 27 (Amended) – *"Consolidated and Separate Financial Statements"* (2008) ("Amended IAS 27"). Effective 1 January 2010 the Group adopted Amended IAS 27 which requires accounting for changes in ownership interests by the Group in a subsidiary, while maintaining control, to be recognised as an equity transaction. When the Group loses control of a subsidiary, any interest retained in the former subsidiary will be measured at fair value with the gain or loss recognised in the income statement. Adoption of the revised IAS 27 is expected to have an impact on accounting for future changes in ownership interests.

A number of new standards and interpretations are not yet effective as of the reporting date and have not been applied in preparing these consolidated financial statements:

- IAS 24 (Revised) – *"Related Parties Disclosures"* (effective for Group's accounting period beginning on 1 January 2011 with retrospective application required) ("Revised IAS 24") introduces a number of changes in respect of presentation of related parties transactions, in particular, with associates of the parent company. The standard will have an impact on the presentation of related parties in the financial statements.

- IFRS 9 – *"Financial Instruments"* (effective for Group's accounting period beginning on 1 January 2013). The new standard is to be issued in several phases and is intended to replace IAS 39 *Financial Instruments: Recognition and Measurement* once the project is completed. The first phase of IFRS 9 was issued in November 2009 and relates to the recognition and measurement of financial assets. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements.

The impact of these new standards has not been determined yet.

4. Changes in accounting policy

In 2010 the Group changed its accounting policy in respect of accounting for investments in joint ventures- previously such investments were accounted for using “proportionate consolidation method”, whereas in 2010 the Group decided that use of equity accounting for joint ventures provides a more relevant and reliable picture of performance and financial position of the Group. The Group also considered the envisaged changes to IAS 31 “Interests in Joint Ventures”, which, when issued, prohibit the use of proportionate consolidation.
The comparative information has been restated accordingly. The summary of restated amounts as at and for the year ended 31 December 2009 is as follows:

‘000 USD	**As previously reported**	**Effect of change in accounting policy**	**As restated**
	Statement of Financial Position		
Fleet	424,589	-	424,589
Rolling stock	359,828	(26,635)	333,193
Other tangible fixed assets	211,204	(71,060)	140,144
Goodwill	222,285	(18,647)	203,638
Other intangibles	8,674	(754)	7,920
Investment property	6,606	(6,606)	-
Investments in associates and joint ventures	-	100,883	100,883
Investments	704,836	(2,536)	702,300
Other non - current assets	10,547	2,388	12,935
Inventories	18,970	(646)	18,324
Accounts receivable	159,258	(6,004)	153,254
Profit tax receivable	11,967	(503)	11,464
Other current assets	33,200	(1,337)	31,863
Bank and cash balances	87,815	(5,627)	82,188
Total assets	**2,259,779**	**(37,084)**	**2,222,695**
Share capital	57,230	-	57,230
Share premium	999,494	-	999,494
Treasury shares	(336,104)	-	(336,104)
Retained earnings	402,448	2,071	404,519
Total other reserves	163,491	3,203	166,694
Non-controlling interest	14,123	(6,350)	7,773
Total equity	**1,300,682**	**(1,076)**	**1,299,606**
Loans payable & FL obligations LT	91,997	(15,898)	76,099
Deferred Tax	37,723	(8,860)	28,863
Other LT	24,637	(2,509)	22,128
Accounts payable	93,404	(4,462)	88,942
Profit tax payable	1,602	(988)	614
Loans payable & other obligations - ST	709,734	(3,290)	706,444
Total liabilities	**959,097**	**(36,008)**	**923,089**

'000 USD	As previously reported	Effect of change in accounting policy	As restated
	Income Statement		
Revenue	650,114	(39,890)	610,224
Operating expenses	(485,948)	24,832	(461,116)
Depreciation	(95,976)	4,649	(91,327)
Administrative expenses	(95,098)	10,375	(84,723)
Impairment loss on FA	(85,459)	-	(85,459)
Result on TFA disposal	(42,409)	362	(42,047)
BDC	(17,553)	(278)	(17,831)
GW impairment	(4,514)	4,514	-
Other income	19,851	119	19,970
Interest cost	(64,812)	2,137	(62,675)
Exchange (loss)/gain	(6,474)	633	(5,841)
Other FI and FC	(2,582)	77	(2,505)
Results from associated	496	(7,525)	(7,029)
Taxation	(1,983)	(5)	(1,988)
Loss for the year	**(232,347)**	**-**	**(232,347)**
Attributable to minority shareholders	3,638	(175)	3,463
Attributable to equity holders of the parent	(235,985)	175	(235,810)

'000 USD	As previously reported	Effect of change in accounting policy	As restated
		Statement of Cash Flows	
Loss for the year	(232,347)	-	(232,347)
Cash flows from operating activities	129,873	(3,959)	125,914
Cash flows from investing activities	61,834	6,611	68,445
Cash flows from financing activities	(318,114)	2,920	(315,212)
Exchnage differences	(4,461)	55	(4,315)

The change in accounting policy did not result in a change in net profit attributable to ordinary shareholders of the Parent and hence the basic and diluted earnings per share remained unchanged

The summary of restated amounts as at 31 December 2008 is as follows:

‘000 USD	**As previously reported**	**Effect of change in accounting policy**	**As restated**
	Statement of Financial Position		
Fleet	723,572	-	723,572
Rolling stock	453,559	(28,131)	425,428
Other tangible fixed assets	207,317	(54,219)	153,098
Goodwill	228,372	(19,194)	209,178
Other intangibles	10,856	(828)	10,028
Investment property	19,836	(19,836)	-
Investments in associates and joint ventures	-	109,676	109,676
Investments	622,593	(4,361)	618,232
Other non-current assets	12,875	(2,978)	9,897
Inventories	18,315	(506)	17,809
Accounts receivable	246,084	(6,105)	239,979
Profit tax receivable	9,163	(499)	8,664
Other current assets	5,928	720	6,648
Bank and cash balances	218,683	(11,327)	207,356
Total assets	**2,777,153**	**(37,587)**	**2,739,566**
Share capital	57,230	-	57,230
Share premium	999,494	-	999,494
Treasury shares	(336,104)	-	(336,104)
Retained earnings	626,906	1,896	628,802
Total other reserves	116,538	-	116,538
Non-controlling interest	17,031	(1,896)	15,135
Total equity	**1,481,095**	**-**	**1,481,095**
Loans payable & FL obligations LT	550,395	(12,229)	538,166
Deferred Tax	57,833	(9,843)	47,990
Other LT	35,121	(2,323)	32,799
Accounts payable	124,483	(4,600)	119,883
Profit tax payable	5,296	(595)	4,701
Loans payable & other obligations - ST	522,930	(7,998)	514,932
Total liabilities	**1,296,058**	**(37,587)**	**1,258,471**

5. Goodwill

	Gross amount	Accumulated impairment loss	Carrying amount
		'000 USD	
At 1 January 2009	249,476	(40,298)	209,178
Translation difference	(5,540)	-	(5,540)
At 31 December 2009	243,936	(40,298)	203,638
Translation difference	(3,386)	-	(3,386)
At 31 December 2010	240,550	(40,298)	200,252

Goodwill has been allocated to groups of cash generating units (CGU's) which represent the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes.

The carrying amount of goodwill, net of impairment, allocated to each CGU is as follows:

	31 December 2010	31 December 2009
	'000 USD	
FIT LLC and its subsidiaries	3,773	4,093
Firm Transgarant LLC and its subsidiaries	47,282	48,589
FESCO ESF Limited and its subsidiaries	6,171	6,826
VKT LLC	143,026	144,130
	200,252	203,638

The Group uses discounted cash flow techniques to arrive at the recoverable amounts of the cash generating units for the purposes of an impairment testing.

The particular key assumptions used in the impairment testing, discount and growth rates for each CGU for the years 2010 and 2009 were as follows:

2010	Discount rate	Terminal growth rate	Key assumptions
FIT LLC and its subsidiaries	15.50%	3%	Container volume (intermodal transportation and container forwarding services): increase from 67,345 TEU in 2011 to 79,488 TEU in 2016
Firm Transgarant LLC and its subsidiaries	14.84%	3%	Revenue growth: increase from USD 269 million in 2011 to USD 790 million in 2016
FESCO ESF Limited and its subsidiaries	11.41%	3%	Container volume: increase from 94,644 TEU in 2011 to 125,503 TEU in 2016
VKT LLC	13.61%	3%	Throughput of containers: increase from 287,738 TEU in 2011 to 379,683 TEU in 2016

2009	**Discount rate**	**Terminal growth rate**	**Key assumptions**
FIT LLC and its subsidiaries	14.98%	3%	Container volume: increase from 62,068 TEU in 2010 to 69,854 TEU in 2016
Firm Transgarant LLC and its subsidiaries	12.64%	3%	Revenue growth: increase from USD 164 million in 2009 to USD 264 million in 2016
FESCO ESF Limited and its subsidiaries	14.86%	3%	Container volume: increase from 77,400 TEU in 2010 to 106,156 TEU in 2016
VKT LLC	13.30%	3%	Throughput of containers: increase from 230,020 TEU in 2010 to 353,000 TEU in 2016

Recoverable amount for CGU's exceed carrying values and therefore no impairment was recognised.

The table below details sensitivity analysis for each CGU :

	Discount rate	**Impairment loss**	**Revenue**	**Impairment loss**
		'000 USD		**'000 USD**
FIT LLC and its subsidiaries	+1%	-	-2%	-
Firm Transgarant LLC and its subsidiaries	+1%	-	-2%	-
FESCO ESF Limited and its subsidiaries	+1%	-	-2%	-
VKT LLC	+1%	8,900	-2%	1,700

6. Other Intangible Assets

	Cost	**Amortisation**	**Net Book Value**
		'000 USD	
At 1 January 2009	13,392	(3,364)	10,028
Written off	(418)	-	(418)
Charge for the year	-	(1,690)	(1,690)
At 31 December 2009	12,974	(5,054)	7,920
Written off	(621)	-	(621)
Additions	115	-	115
Charge for the year	-	(1,683)	(1,683)
At 31 December 2010	12,468	(6,737)	5,731

Other intangible assets comprise mainly computer software and contract rights acquired from third parties.

7. Fleet

	Carrying value		
	31 December 2010	**31 December 2009**	**31 December 2008**
		'000 USD	
(a) Fleet	307,256	339,716	505,197
(b) Deferred dry docking expenses	20,090	18,671	24,386
(c) Vessels under construction	84,259	66,202	193,989
	411,605	424,589	723,572

	Valuation	**Depreciation**	**Net Book Value**
		'000 USD	
At 1 January 2009	505,197	-	505,197
New buildings acquired during the year	89,767	-	89,767
Depreciation charge for the year	-	(38,532)	(38,532)
Disposals	(92,849)	3,700	(89,149)
Revaluation	(133,419)	34,832	(98,587)
Transfers to current assets as vessels held-for-sale	(28,980)	-	(28,980)
At 31 December 2009	339,716	-	339,716
Depreciation charge for the year	-	(15,477)	(15,477)
Disposals	(92,693)	2,188	(90,505)
Revaluation	60,233	13,289	73,522
At 31 December 2010	307,256	-	307,256
Total deadweight tonnage			704,349

The Group reviews the carrying value of the fleet on an annual basis. In determining an appropriate carrying value the Company relies on the opinion of expert third party valuers. The valuers determine by reference to recent sales transactions of similar vessels the amount a vessel could be sold for, assuming that the vessel is in a reasonable condition. Management critically reviews the valuation arrived at by the valuers and also produces calculations of value in use based on discounted anticipated future cash flows.

The valuation basis utilised implicitly includes the value of dry docking in the overall valuation. Management therefore deduct the net book value of capitalised dry dock from the valuation and account for such dry dock at historical cost less accumulated depreciation.

At 31 December 2010, the estimated scrap value of the Group's fleet was calculated based on an estimate of USD 420 per LWT (2009: USD 320). This change in accounting estimate was made in reaction to the increase in international steel prices. This change in accounting estimate resulted in an decrease of depreciation charge for the year ended 31 December 2010 by USD 2.5 million.

The fleet includes 16 vessels fully depreciated with an aggregate scrap value of USD 51 million at 31 December 2010 (14 vessels with scrap value of USD 32 million at 31 December 2009).

Had the vessels been carried at the historical cost, the carrying amount would have been USD 210 million at 31 December 2010 (31 December 2009 – USD 330 million).

The fleet was revalued as at 31 December 2010 by independent professional brokers with reference to the observable market transactions with the comparable vessels. . The resulting revaluation increase of USD 73.5 million has been recognised in the revaluation reserve (USD 0.4 million increase) and the income statement (USD 73.1 million increase).

At 31 December 2010, 17 vessels in the Group's fleet with a net book value of USD 215 million were insured for hull and machinery risks with western underwriters. Further 27 vessels with a net book value of USD 92 million were insured with Russian underwriters. The total insured value amounted to USD 349 million.

15 vessels with a net book value of USD 210 million are pledged as a security to guarantee the Group's obligations under ING Bank N.V and Citibank International plc loans (Note 18).

Movements during the period on deferred dry docking expenses were:

	Cost	Depreciation	Net Book Value
		'000 USD	
At 1 January 2009	44,320	(19,934)	24,386
Additions	5,701	-	5,701
New buildings acquired during the year	950	-	950
Charge for the year	-	(9,254)	(9,254)
Amortised dry dock write off	(5,316)	5,316	-
Release on disposal of fleet	(9,004)	5,892	(3,112)
At 31 December 2009	36,651	(17,980)	18,671
Additions	9,249	-	9,249
Charge for the year	-	(7,471)	(7,471)
Amortised dry dock write off	(5,397)	5,397	-
Release on disposal of fleet	(1,368)	1,009	(359)
At 31 December 2010	39,135	(19,045)	20,090

Movements during the period on vessels under construction were:

	31 December 2010	31 December 2009
	'000 USD	
At 1 January 2010	66,202	193,989
Expenditure incurred during the year	51,067	43,104
Capitalised borrowing costs	1,453	2,375
Transferred to fleet during the year	-	(90,717)
Impairment	(34,463)	-
Cancelled	-	(82,549)
At 31 December 2010	84,259	66,202

Details of the Group's commitments in respect of vessels under construction are given in Note 32(a).

During 2009 the Group cancelled contracts for construction of three vessels and received refund of prepayments in the amount of USD 80 million. Outstanding amount of USD 1.1 million was agreed with KUKE, Polish government agency at the reporting date. Cancellation of contracts was due to the failure of shipyard to deliver vessels on agreed term.

8. Rolling Stock

	Cost	Depreciation	Net Book Value
		'000 USD	
At 1 January 2009	483,170	(57,743)	425,427
Additions in the year	291	-	291
Transfer	476	-	476
Depreciation charge for the year	-	(24,363)	(24,363)
Disposals	(2,339)	2,306	(33)
Cancelation of financial lease contracts	(56,217)	2,664	(53,553)
Translation difference	(16,248)	1,196	(15,052)
At 31 December 2009	409,133	(75,940)	333,193

Correction of the cost of tangible fixed assets	6,986	-	6,986
Additions in the year	14,061	-	14,061
Depreciation charge for the year	-	(31,594)	(31,594)
Disposals	(3,568)	1,325	(2,243)
Translation difference	(5,715)	2,193	(3,522)
At 31 December 2010	420,897	(104,016)	316,881

Rolling stock includes assets held under finance leases with a net book value of USD 48 million (at 31 December 2009 – USD 64 million).

At 31 December 2010 rolling stock with a carrying amount of USD 133 million (31 December 2009 - USD 207 million) are subject to registered debenture to secure bank loans (Note 18).

As at 31 December 2010 rolling stock with a net book value of USD 176 million was insured with Russian insurance companies. The total insured value is USD 265 million (at 31 December 2009 – USD 247 million with a net book value of USD 289 million).

Starting from 1 January 2010 the Group reconsidered the useful life of rolling stock and its components, which resulted in increased depreciation charge by USD 8 million. The cost of the property, plant and equipment has been increased on 1 January 2010 by USD 7 million to reflect the cumulative effect of corrections relating to prior periods.

9. Other Tangible Fixed Assets

	Buildings and Infrastructure	**Plant, Machinery and Other**	**Assets under construction**	**Total**
		'000 USD		
Cost				
At 1 January 2009	68,612	131,560	17,463	217,635
Additions	422	5,136	3,596	9,154
Transfer	2,724	14,246	(17,446)	(476)
Disposals	(276)	(3,808)	(358)	(4,442)
Translation difference	(512)	(1,521)	(1,018)	(3,051)
At 31 December 2009	70,970	145,613	2,237	218,820
Additions	14,487	11,748	7,749	33,984
Transfer	1	102	(103)	-
Disposals	(3)	(5,468)	-	(5,471)
Translation difference	(3,141)	(1,016)	(87)	(4,244)
At 31 December 2010	82,314	150,979	9,796	243,089
Depreciation				
At 1 January 2009	15,881	48,656	-	64,537
Depreciation charge for the year	2,410	15,078	-	17,488
Eliminated on disposal	(19)	(2,891)	-	(2,910)
Translation difference	(21)	(418)	-	(439)
At 31 December 2009	18,251	60,425	-	78,676
Depreciation charge for the year	2,538	14,054	-	16,592
Eliminated on disposal	-	(4,542)	-	(4,542)
Translation difference	(24)	(529)	-	(553)
At 31 December 2010	20,765	69,408	-	90,173
Net Book Value				
At 31 December 2008	52,731	82,904	17,463	153,098

At 31 December 2009	52,719	85,188	2,237	140,144
At 31 December 2010	61,549	81,571	9,796	152,916

Plant, machinery and other fixed assets include containers held under finance lease with a net book value of USD 23 million (at 31 December 2009– USD 24 million).

At 31 December 2010 fixed assets with a carrying amount of USD 11 million (31 December 2009 - USD 18.5 million) are pledged as a security to guarantee the Group's loan obligations. (Note 18).

10. Investments in associates and joint ventures

Equity accounted investments represent investments in joint ventures and associates.

Name	Country of Incorporation	Percentage Holding	Activity
Commercial Port of Vladivostok (VMTP)	Russia	50%	Commercial Port
"Russkaya Troyka"	Russia	50%	Intermodal Container Operations
FESCO Wallem Shipmanagement Limited	Hong Kong	50%	Technical, crewing and safety management services provider
Trans Russia Agency Japan Co. Ltd	Japan	50%	Agency services
International Paint (East Russia) Limited	Hong Kong	49%	Ship Paint Production
"SHOSHTRANS" JVCSC	Uzbekistan	25%	Forwarding services
NYOR	BVI	49%	Forwarding services
Transorient Shipping Co., Ltd	South Korea	49%	Maritime general agency

Movements in joint ventures and associated companies consolidated on an equity basis are as follows:

	31 December 2010	31 December 2009
	'000 USD	
Balance as at 1 January	100,883	109,676
Share of results of equity accounted investees	5,920	(7,029)
Additions	1,644	-
Disposal	-	(2,706)
Dividends paid	2,875	6,223
Dividends received	(9,921)	(3,676)
Translation differences	(767)	(1,605)
Balance as at 31 December	100,634	100,883

Summary financial information for equity- accounted investees, not adjusted for the percentage ownership held by the Group:

	Reporting date	Current assets	Non-current assets	Total assets	Current liabilities	Non – current liabilities	Total liabilities	Income	Expenses	Profit/ (loss)
2010					'000 USD					
VMTP (joint venture)	31 December	5,060	164,837	169,897	1,789	32,963	34,752	109,040	(93,660)	15,380
Russkaya Troyka (joint venture)	31 December	6,798	55,478	62,276	6,427	27,821	34,248	12,090	(16,075)	(3,985)
Fesco Wallem (joint venture)	31 December	1,167	100	1,267	838	-	838	2,575	(2,422)	153
Trunsrussia agency (joint venture)	31 December	3,592	43	3,635	3,331	134	3,465	2,188	(2,393)	(205)
International Paint (associate)	31 December	2,979	45	3,024	2,094	-	2,094	10,453	(8,099)	2,354
Shoshtrans (associate)	31 December	3,331	520	3,851	2,217	-	2,217	1,044	(1,144)	(100)
Transorient (associate)	31 December	4,295	155	4,450	1,239	-	1,239	4,774	(4,635)	139
NYOR (associate)		5,437	512	5,949	4,191		4,191	2,097	(2,572)	(475)
		32,659	221,690	254,349	22,126	60,918	83,044	144,261	(131,000)	13,261
2009										
VMTP (joint venture)	31 December	24,795	158,467	183,262	18,708	37,013	55,721	78,180	(84,869)	(6,689)
Russkaya Troyka (joint venture)	31 December	8,778	57,588	66,366	4,792	27,717	32,509	8,107	(15,668)	(7,561)
Fesco Wallem (joint venture)	31 December	1,609	150	1,759	1,477	7	1,484	2,826	(2,780)	46
Trunsrussia agency (joint venture)	31 December	1,965	179	2,144	1,748	-	1,748	1,790	(2,634)	(844)
International Paint (associate)	31 December	1,947	13	1,960	1,182	-	1,182	6,626	(5,471)	1,155
Shoshtrans (associate)	31 December	4,812	666	5,478	3,086	-	3,086	457	(197)	260
Transorient (associate)	31 December	6,206	460	6,666	3,632	-	3,632	1,864	(2,392)	(528)
		50,112	217,523	267,635	34,625	64,737	99,362	99,850	(114,011)	(14,161)

Goodwill in amount of USD 18 million related to VMTP is included into the investments in associates and joint ventures.

11. Other equity investments

	31 December 2010	31 December 2009
	'000 USD	
(a) Investments available-for-sale	162,979	700,000
(b) Other investments	2,063	2,300
	165,042	702,300

In July 2010 the Group sold its investment in NCC Group Limited and Ealingwood Limited for a consideration of USD 900 million to a third party. The financial effect of the transaction resulted a profit on disposal of USD 420 million and was calculated as follows:

	'000 USD
Consideration received in cash	900,000
Less expenses related to sale	(30,531)
Subtotal: Cash received from disposal of investment in Cash Flow Statement	869,469
Fair value of investment at the date of disposal	700,000
Revaluation recycled from other comprehensive income	(220,849)
Currency translation gain recycled from other comprehensive income	(29,600)
Subtotal: historical cost of investment	449,551
Profit on disposal of investments available-for-sale	419,918

In November 2010 the Group acquired shares and Global Depository Receipts (GDR) of TransContainer OJSC representing 12.5% of the share capital for total cash consideration of USD 139 million. This investment is classified as available for sale and shown at fair value determined based on Russian Trading System (RTS) and London Stock Exchange (LSE) for shares and GDR respectively (level 1 of the hierarchy of the fair values).

12. Other Non-Current Assets

	31 December 2010	31 December 2009
	'000 USD	
Non-current portion of finance lease receivable, at amortized cost	8,636	7,838
Long term bank deposit, at cost	3,361	3,387
Prepayments for fixed assets, at cost	12,879	419
Other long term prepayments, at cost	2,291	-
Long term loan to related party, at cost	2,660	1,157
Other non-current assets	894	134
	30,721	12,935

Prepayments for fixed assets represent prepayments for equipment.

The Group leases railroad platforms to one of its joint ventures. The lease agreement provides for ownership transfer of assets to the lessee at the end of the lease term for nominal consideration. The contractual interest rate on the platforms leased is 13.2 %.

Lease receivables as at 31 December are scheduled as follows:

	31 December 2010		31 December 2009	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	'000 USD		'000 USD	
Within one year	2,231	740	3,688	2,318
Two to five years	11,082	8,636	9,842	7,838
Over five years			-	-
	13,313	9,376	13,530	10,156
Less: future finance charges	(3,937)		(3,374)	
Present value of lease obligations	9,376		10,156	
Less current portion		(740)		(2,318)
Non-current portion		8,636		7,838

13. Inventories

	31 December 2010	31 December 2009
	'000 USD	
Bunkers	13,975	11,660
Stores and spares	3,851	4,283
Victualing	426	420
Other stocks and raw materials	3,089	1,961
	21,341	18,324

14. Accounts Receivable

	31 December 2010	31 December 2009
	'000 USD	
Trade debtors	82,689	75,238
VAT receivable	45,258	42,916
Receivable from KUKE (Note 7(c))	1,100	23,400
Prepayments to OAO "Russian Railways"	18,944	12,756
Receivable from shipyard	-	5,171
Amounts due from associates and joint ventures	5,213	2,184
Amounts due from non-consolidated subsidiaries	782	890
Other debtors and prepayments	25,153	23,723
Allowance for impairment	(31,851)	(33,024)
	147,288	153,254

The balance of value added tax receivable includes tax receivable totalling USD 7 million (2009: USD 10 million), which was incurred on acquisition of rolling-stock by “Firm “Transgarant” LLC subsidiary from “Firm “Transgarant” LLC. Management expects this amount will be disputed by the Russian Tax Authorities and its recovery can be delayed. However, based on effective tax legislation and his experience, management also believes that the recovery of this balance will be completed within 12 months after the year end, so this amount is included in current assets and no discounting has been applied to the balance.

15. Other Current Assets

	31 December 2010	31 December 2009
	‘000 USD	
Vessels held for-sale	-	28,980
Loans and promissory notes issued to related parties, at cost	1,354	-
Short term finance lease receivable, at amortized cost	740	2,318
Short term portion of interest rate swap, at fair value	66	483
Loans and promissory notes issued to third parties, at cost	-	82
	2,160	31,863

16. Cash and Cash Equivalents

	31 December 2010	31 December 2009
	‘000 USD	
Bank accounts and cash in hand	554,305	79,966
Restricted deposits	1,983	2,222
	556,288	82,188

17. Accounts Payable

	31 December 2010	31 December 2009
	‘000 USD	
Trade creditors	62,983	44,551
Fair value of interest swap contracts (Note 31)	11,625	9,477
Taxes payable, other than income tax	4,805	6,420
Interest payable	1,539	4,991
Amounts due to associates and joint ventures	2,587	1,498
Current portion of liability for share- based payments (Note 22)	-	815
Amounts due to non-consolidated subsidiaries	-	84
Other creditors and accruals	14,958	21,106
	98,497	88,942

18. Loans Payable and Finance Leases Obligations

(a) Loans payable

	31 December 2010	31 December 2009
	'000 USD	
Loans and other obligations comprise:		
Secured loans		
At fixed rate 1.5%-5%	52,993	93,127
At fixed rate 5% - 10%	43,892	110,085
At fixed rate 10% -15%	248	127,988
At fixed rate 15% -20%	-	49,855
At variable rates 0.95%-5% above Libor/Euribor /Mosprime	202,868	227,030
At variable rates 5%-9.5% above Libor/Euribor /Mosprime	52,611	103,337
	352,612	711,422
Unsecured loans		
At variable rates 3.65%-4.15% above Libor	-	9,990
At fixed rate 9.5% -11%	26,249	-
Interest free	-	4,750
	26,249	14,740
Obligations under finance leases at fixed rate 6%	25,001	25,325
Obligations under finance leases at fixed rate 11.3% - 18.3%	21,275	31,056
	46,276	56,381
	425,137	782,543
Repayable within the next twelve months	122,391	706,444
Long term balance	302,746	76,099
	425,137	782,543

For currency and maturity analysis of loans and other obligations see Note 33.

Fixed assets pledged as a security for loans are disclosed in Notes 7, 8, 9.

In the year ended 31 December 2009 the Group breached certain financial covenants contained in several loan agreements. The non-fulfilment of these covenants triggered a cross-default for some other loans of the Group. As a result, long-term portion of bank loans in the amount of USD 333 million has been re-classified to current liability as at 31 December 2009. In 2010 the Group received waivers and made repayments of those loans which were in breach as at 31 December 2009. The Group was in compliance with covenants as at 31 December 2010.

In December 2010, the Group entered into loan agreement with European Bank of Reconstruction and Development ("EBRD") totalling USD 100 million. The funds in accordance with agreement have not been received yet.

(b) Finance Leases obligations

The Group partially finances the purchase of wagons and containers through leasing and sale-leaseback transactions with leasing companies.

All the lease agreements provide for ownership transfer of assets to the Group at the end of the lease terms for a nominal consideration.

The Group's finance leases mainly relate to acquisition of containers and railroad platforms.
The average effective interest rate on the wagon lease liability is 14.35% (2009: 14.35%) and on the container lease liability it is 6%. Minimum lease payments and future interest element are estimated based on the rates applicable to each individual lease contract.

Lease payments as at 31 December are scheduled as follows:

	31 December 2010		**31 December 2009**	
	Minimum lease payments	**Present value of minimum lease payments**	**Minimum lease payments**	**Present value of minimum lease payments**
	'000 USD		**'000 USD**	
Within one year	13,806	9,984	18,803	13,215
Two to five years	39,508	30,212	48,245	34,640
Over five years	6,962	6,080	11,161	8,526
	60,276	46,276	78,209	56,381
Less: future finance charges	(14,000)		(21,828)	
Present value of lease obligations	46,276		56,381	
Less current portion		(9,984)		(13,215)
Non-current portion		36,292		43,166

19. Other Non-Current Liabilities

	31 December 2010	**31 December 2009**
	'000 USD	
Fair value of interest rate swap (Note 31)	21,072	19,606
Defined benefit obligations	832	839
Share based payments (Note 22)	4,690	1,190
Other non-current payables	691	493
	27,285	22,128

20. Current and Deferred Tax

Companies within the Group are subject to taxation in different jurisdictions. The most significant tax expense arises in entities incorporated in the Russian Federation.

	31 December 2010	**31 December 2009**
	'000 USD	
Current tax expense		
Current year	20,592	18,524
Adjustment for prior years	(1,129)	(252)
	19,463	18,272
Deferred tax expense		
Origination and reversal of temporary differences	1,434	(16,284)
	1,434	(16,284)
Total income tax expense	20,897	1,988

Reconciliation of effective tax rate:

	31 December 2010		31 December 2009	
	‘000 USD	%	‘000 USD	%
Profit/(loss) before income tax	476,765	100	(230,359)	100
Income tax at applicable tax rate of 20% (2009: 20%)	95,353	20	(46,072)	20
Effect of income taxed at (lower)/higher rates	(78,539)	(16)	38,826	(17)
Income tax on intra group dividends	525	-	2,411	(1)
Non-deductible temporary differences, net	4,687	-	7,075	(3)
Under/(over) provided in prior years	(1,129)	-	(252)	-
	20,897	4	1,988	(1)

The Group’s deferred tax liability mainly arises in entities incorporated in Russia and the effect of deferred taxation in other jurisdictions is not material.

Movements in temporary differences during 2010 and 2009 were the following:

	Balance 31 December 2009 (Restated)	(Charge) / release to income for the year	Translation differences	Charge to equity for the year	Balance 31 December 2010
	‘000 USD				
Vessels	(14,913)	(1,049)	-	(1,124)	(17,086)
Deferred dry docking	(2,314)	(146)	-	-	(2,460)
Other fixed assets	(31,974)	6,378	68	(1,397)	(26,925)
Assets under construction	321	(243)	-	-	78
Inventories	26	29	(5)	-	50
Accounts receivable	6,520	(4,097)	(36)	-	2,387
Accounts payable	6,415	(2,049)	(30)	-	4,336
Provisions, accruals and deferred income	734	519	(189)	-	1,064
Other	(93)	(27)	71	-	(49)
Tax loss carry-forwards	6,415	(749)	(48)	-	5,618
	(28,863)	(1,434)	(169)	(2,521)	(32,987)

	Balance 31 December 2008 (Restated)	(Charge) / release to income for the year	Translation differences	Charge to equity for the year	Balance 31 December 2009
	‘000 USD				
Vessels	(19,917)	3,237	-	1,767	(14,913)
Deferred dry docking	(2,955)	641	-	-	(2,314)
Other fixed assets	(30,554)	(906)	(514)	-	(31,974)
Assets under construction	6	315	-	-	321
Inventories	(55)	81	-	-	26
Accounts receivable	(371)	6,250	641	-	6,520
Accounts payable	5,280	238	897	-	6,415
Provisions, accruals and deferred income	302	311	121	-	734
Other	274	-	(367)	-	(93)
Tax loss carry-forwards	-	6,115	300	-	6,415
	(47,990)	16,282	1,078	1,767	(28,863)

Unrecognised deferred tax liability

A temporary difference of USD 128 million relating to investments in subsidiaries and joint ventures has not been recognised as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

21. Shareholders' Equity

	31 December 2010	31 December 2009
	'000 USD	
Authorised number of shares (1 Rouble per share)	3,643,593,000	3,643,593,000
Issued number of shares	2,951,250,000	2,951,250,000
Share capital ('000 USD)	57,230	57,230

As at 31 December 2010 and 2009 the Group held 393,705,807 of its own shares which were purchased for USD 336 million, being approximately 13% of the shares in issue .

	31 December 2010	31 December 2009
	Number of shares	
Treasury shares held by:		
Far Eastern Shipping Company PLC	55,783	55,783
Neteller Holdings Limited	393,650,024	393,650,024
	393,705,807	393,705,807

Stock lending agreement was concluded between the Group and related party for the loan of 90 million of treasure shares for a fee in the amount of 0.3% per annum of the market value of the shares.

22. Share – Based Payments

In May 2010, the Board of Directors of the Company took a decision to introduce certain changes in share option program of the Group, resulting an increase in a number of share options to 54,643,593 shares. Exercise price is established at USD 0.32 at the expiry period of 3 years. The old program was fully abandoned.

The Group's obligations may be settled in shares or in cash at the choice of the employee. Vesting of the options is subject to the individuals concerned remaining employees at the end of the specified period, although leavers may have a pro-rata entitlement. The employees are not required to achieve any other non-market or market based performance conditions.

In 2010 the Group settled its liability related to share options exercised in 2010, resulting in a total cash-settled payment of USD 0.4 million.

The accumulated liability from recognised grants amounts to USD 4.7 million (31 December 2009 – USD 2 million).

The fair values of options granted under the Group's share option scheme were calculated at the period end using a Black-Scholes option pricing model with the following key assumptions:

	2010	**2009**
Stock price, USD	0.54	0.36
Exercise price, USD	0.32	0.33-1.08
Risk – free rate	1.02%	0.20%-1.42%
Volatility	137.50%	79.05%-177.93%
Time to expiration	3 years	0.5-2.5 years

The stock price was obtained from Russian Trading System (RTS) data on the balance sheet date. The risk – free rate is based on an estimate of returns on US two-four year Treasury bonds. Volatility is based upon historical record of share price with reference to the period of time from the reporting date to expected exercise date ranging from 0.5 to 2.5 years. The method corresponds to level 3 of the hierarchy of determination of the fair values.

The variables set out above resulted in a value per option of 43.95 cents. This value is sensitive to changes in volatility. An increase in the assumed volatility to 200% will result in an increase in price to 50.06 cents. A decrease to 50% volatility will result in a decrease of price by 27.79 cents.

The movement in options to subscribe for shares under the Group's share option scheme is shown in the table below.

	2010		**2009**	
	Number of share option	**Weighted average exercise price, USD**	**Number of share option**	**Weighted average exercise price, USD**
Outstanding at 1 January	27,941,076	0.5385	27,941,076	0.5385
Granted during the year	54,643,593	0.32	-	-
Forfeited during the year	27,941,076	0.5385	-	-
Outstanding at 31 December	54,643,593	0.32	27,941,076	0.5385

Options granted to 11 directors and senior executives were outstanding at 31 December 2010. The scheme is funded by shares held by a Group company (Note 21).

In December 2010, the Board of Directors of the Company took a decision to grant additional share options within share option program of the Group, resulting an increase in a number of share option to 85,643,593 shares.
These changes in share option program become effective starting from 1st January 2011.

23. Business Segmental Analysis

For management purposes, the Group is organised into four major operating divisions – shipping, liner and logistics, railway services and ports. The Group also includes certain companies that cannot be allocated to a specific division; these include investing and managing companies. These divisions are the basis on which the Group reports its operating segment information. The services provided by each of these divisions are as follows:

Shipping	The shipping division is involved in ship ownership, ship management, chartering out and provision of agency services. These activities are carried out on a cabotage, cross trade and import-export basis. The vessels operated by the shipping division are largely container vessels and bulk carriers.
Liner and Logistics	The Liner and logistics division operates liner services and provides freight forwarding services both for containers and break-bulk cargoes.
Railway Services	The railway services division provides services both as an operator and an agent. When acting as an operator it renders services for containerised and bulk cargoes using locomotives, railway wagons, hoppers, steel-pellet wagons and tank wagons

owned by the division or leased by it under finance leases. In addition it uses rolling stock hired on short term operating leases.

Ports — The ports division owns and operates port facilities and container terminals in Russia and provides cargo handling, stevedoring, container storage and rental and related port services and facilities.

Segmental reporting information is submitted to management of the Group on a regular basis as part of the management reporting process. It is used to assess the efficiency of the segments and to take decision on the allocation of resources.

Segment information for the main reportable segments of the Group for the year ended 31 December 2010 is set out below.

	Shipping	Liner and Logistics	Railway services	Ports	Corporate	Eliminations/ Adjustments	Total
				'000 USD			
External sales	132,320	428,091	205,738	34,442	-	-	800,591
Inter-segment sales	27,417	2,183	2,889	24,320	-	(56,809)	-
Segment revenue	159,737	430,274	208,627	58,762	-	(56,809)	800,591
Total segment operating expenses	(143,338)	(366,323)	(152,329)	(24,281)	(23,522)	66,832	(642,961)
Segment result	16,399	63,951	56,298	34,481	(23,522)	10,023	157,630
Segment non-cash items:							
Depreciation and amortization	(25,217)	(10,548)	(32,181)	(3,490)	(1,381)	-	(72,817)
Impairment reversal on tangible fixed assets	38,644	-	-	-	-	-	38,644
Bad debt (charge) / release	(1,747)	(2,264)	117	(61)	(167)	-	(4,122)
Other material items of income/expense:							
Profit on disposal of available- for -sale investments	-	-	-	-	419,918	-	419,918
(Loss)/profit on disposal of tangible fixed assets	(4,855)	1,579	(2,075)	11	101	-	(5,239)
Interest expense, share of profit/(loss) of associates and income tax expense:							
Interest expense	(16,083)	(2,807)	(25,699)	(329)	(26,825)	17,770	(53,973)
Share of profit/(loss) of equity accounted investees	1,103	(78)	(2,795)	7,690	-	-	5,920
Income tax expense	(3,054)	(7,699)	(2,192)	(7,774)	(178)	-	(20,897)

Segment information for the main reportable segments of the Group for the year ended 31 December 2009 is set out below.

	Shipping	Liner and Logistics	Railway services	Ports	Corporate	Eliminations/ Adjustments	Total
				'000 USD			
External sales	142,134	313,675	134,912	19,820	-	(317)	610,224
Inter-segment sales	40,425	2,406	1,252	18,113	-	(62,196)	-
Segment revenue	182,559	316,081	136,164	37,933	-	(62,513)	610,224
Total segment operating expenses	(163,943)	(310,783)	(114,541)	(17,526)	(17,241)	78,197	(545,837)
Segment result	18,616	5,298	21,623	20,407	(17,241)	15,684	64,387
Segment non-cash items:							
Depreciation and amortization	(50,358)	(11,475)	(25,424)	(2,683)	(1,387)	-	(91,327)
Impairment loss on tangible fixed assets	(85,459)	-	-	-	-	-	(85,459)
Bad debt (charge) / release	1,210	(2,857)	(16,448)	264	(1,330)	1,330	(17,831)
Other material items of income/expense:							
(Loss)/profit on disposal of tangible fixed assets	(23,916)	1,454	(19,464)	(117)	(3)	(1)	(42,047)
Interest expense, share of profit/(loss) of associates and income tax expense:							
Interest expense	(16,568)	(4,004)	(43,107)	(377)	(41,287)	42,668	(62,675)
Share of profit/(loss) of equity accounted investees	713	(617)	(3,781)	(3,344)	-	-	(7,029)
Income tax expense	(3,860)	(1,976)	10,855	(7,371)	364	-	(1,988)

Segmental assets and liabilities

	Assets		Liabilities	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
		'000 USD		
Shipping (Global)	635,101	570,844	241,569	368,650
Liner and logistics (Global)	172,993	139,547	73,316	63,635
Railway services (Russia)	435,410	455,152	224,030	312,855
Stevedoring services (Russia)	145,624	249,149	17,774	21,284
Total of all segments	1,389,128	1,414,692	556,689	766,424
Goodwill	200,252	203,638	-	-
Other items not attributable to a specific segment	523,934	604,365	29,331	156,665
Consolidated	2,113,314	2.222,695	586,020	923,089

Other segmental information

	Acquisition of segment assets		Investments in equity accounted investees	
	31 December 2010	31 December 2009	31 December 2010	31 December 2009
	‘000 USD			
Shipping (Global)	82,032	53,709	1,074	1,049
Liner and logistics (Global)	3,580	763	2,350	797
Railway services (Russia)	14,876	-	14,014	16,928
Stevedoring services (Russia)	7,987	3,780	84,272	83,185
	108,475	58,252	101,710	101,959

24. Revenue

	2010	2009
	‘000 USD	
Transportation services (operators’ business)	607,913	432,311
Hire and freight	132,320	142,590
Port and stevedoring services	34,436	19,820
Revenue from rentals	16,739	7,413
Agency fees	9,183	8,090
	800,591	610,224

25. Operating Expenses

	2010	2009
	‘000 USD	
Railway infrastructure tariff and transportation services	319,611	254,997
Voyage and vessel running cost	92,935	98,653
Payroll expenses	52,249	53,349
Stevedoring services	11,296	7,172
Operating lease	60,003	39,135
Non- profit based taxes	8,130	7,810
	544,224	461,116

26. Administrative Expenses

	2010	2009
	‘000 USD	
Salary and other staff related costs	54,648	42,398
Professional fees	12,174	11,961
Office rent	6,468	7,322
Other administrative expenses	25,447	23,042
	98,737	84,723

Salary and other staff related costs include share based expense in amount of USD 3 million (2009: USD 6.4 million release).

27. Other Financial Income and Cost

	2010	2009
	'000 USD	
Interest income	6,648	4,697
Changes in fair value of financial instruments	(19,707)	(2,241)
Other expenses	(836)	(4,961)
	(13,895)	(2,505)

28. Loss on Disposal of Tangible Fixed Assets

	2010	2009
	'000 USD	
Loss on sale of vessels	(5,182)	(24,251)
(Loss)/profit on disposal of other fixed assets and investment property	(57)	1,668
Loss on disposal of fixed assets due to cancellation of finance lease contracts	-	(19,464)
	(5,239)	(42,047)

29. Reversal of/(Impairment loss) on Tangible Fixed Assets

	2010	2009
	'000 USD	
Fleet impairment reversal/(charge) (Note 7)	73,107	(85,459)
Impairment of vessels under construction (Note 7)	(34,463)	-
	38,644	(85,459)

30. Profit/(loss) per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares in issue during the year, excluding those held by Group companies . For diluted earnings per share, the weighted average number of ordinary shares in issue is adjusted to assume conversion of all potential dilutive ordinary shares. These represent share options granted to management.

	31 December 2010	31 December 2009
	USD	
Profit/(loss) for the year	449,352,000	(235,810,000)
Weighted average number of shares in issue (note 21)	2,557,544,193	2,557,533,776
Basic profit/(loss) per share	0.176	(0.092)

	31 December 2010	31 December 2009
	USD	
Profit/(loss) for the year, adjusted for stock option expense	452,445,000	(242,227,000)
Weighted average number of shares in issue, adjusted for stock options (note 21)	2,579,564,745	2,559,006,996
Diluted profit/(loss) per share	0.175	(0.095)

31. Derivatives

To manage its exposure to variability in cash flows arising from interest rate and exchange rate fluctuations, the Group uses a number of derivative financial instruments:

	31 December 2010		31 December 2009	
	Derivative assets	Derivative liabilities	Derivative assets	Derivative liabilities
	'000 USD		'000 USD	
Non-current				
Interest rate swaps	24	(17,530)	134	(11,551)
Cross currency interest rate swaps	-	(3,542)	-	(8,055)
	24	(21,072)	134	(19,606)
Current				
Interest rate swaps	66	(8,062)	483	(8,791)
Cross currency interest rate swaps	-	(3,563)	-	(686)
	66	(11,625)	483	(9,477)
	90	(32,697)	617	(29,083)

As at 31 December 2010, the Group held a number of interest rate swap contracts for hedging the interest rate risk, namely:

- Interest rate swap contracts with VTB intended for hedging the interest rate risk arising from external borrowings. The contracts swap Libor against fixed rates vary from 3.62% to 6.04% per annum with maturities on 1 May 2012, 29 September 2013, 31 January 2016, 30 October 2022 and 30 December 2022. Notional amount of hedged facilities equals to USD 129.2 million (2009: USD 139.4 million);

- Interest rate swap contracts with Citibank. The swap contracts set out Libor floor rate and cap rate at 4.70% and 5.95% respectively. The Group is required to make payment to Citibank when Libor is below the floor rate and receive payment when Libor exceeds the cap rate. Maturity date of the agreement is 30 June 2022 and 30 September 2022. Notional amount of hedged facilities equals to USD 67 million (2009: USD 39.4 million);

- Interest rate swap contracts with international bank: the contracts swap Libor 3M against fixed rate of 2.64% with the maturity date during 2013. Notional amount of hedged facilities equals to USD 68 million (2009: USD 80.3 million).

Additionally, the Group has entered into cross currency interest rate swap contract with Merrill Lynch Bank, intended for hedging the exchange rate and interest rate risks. In accordance with the swap contract terms, the company pays 3-month London Interbank Offered Rate ("Libor") + 4.35% and 3-month Libor + 4.05% in United States Dollars in exchange for 3-month Mosprime + 2.85% and 3-month Mosprime + 3.15% in Russian Roubles. The agreement is valid for the period from 20 June

2008 to 5 September 2012. Notional amount of hedged facilities equals to USD 36.1 million (2009: USD 53.1 million).

Before 2009 management assessed the hedge of interest rate risk to be effective and the hedge of foreign exchange rate risk to be ineffective. Accordingly, the change in fair value of derivatives in respect of the interest rate swap portion was recognised as a cash flow hedge reserve, and the change in fair value of derivatives in respect of the exchange rate swap portion was recognised in the income statement.

In 2009 and 2010 the management considered that these financial instruments do not meet all the required characteristics of hedge accounting and all changes in the fair value of derivatives are recognised in the income statement in current year.

The fair value of swap is determined by brokers using financial models which correspond to level "2" of the hierarchy of the fair values.

For maturity analysis of cash flows hedges see Note 33.

The fair value of the swaps is as follows:

	31 December 2010	31 December 2009
	'000 USD	
Current liability	11,625	9,477
Non-current liability	21,072	19,606
	32,697	29,083

32. Contingencies and Commitments

(a) Capital commitments

The Group's commitments which mainly relate to new buildings fall due as follows:

	31 December 2010	31 December 2009
	'000 USD	
In one year	42,746	58,412
In two to five years	-	34,974
Total outstanding commitment	42,746	93,386

At 31 December 2010 the Group has capital commitment for acquisition of rolling stock in the amount of USD 6.6 million (2009: nil).

(b) Operating lease commitments – where a Group company is the lessee

The Group leases rolling stock, berths and office premises under non-cancellable lease agreements. As at the year end all non-cancellable operating lease agreements are for a period of less than 12 months with renewal options.

At 31 December 2010, the Group had the following outstanding commitments under non-cancellable operating leases.

	31 December 2010	31 December 2009
	‘000 USD	
Within one year	22,019	25,207
In two to five years	11,963	4,207
	33,982	29,414

(c) Operating lease commitments – where a Group company is the lessor

Operating lease proceeds receivable by the Group under a non-cancellable operating lease contract (including long-term time charter) are as follows:

	31 December 2010	31 December 2009
	‘000 USD	
Within one year	21,842	44,429
In two to five years	-	2,719
After more than five years	-	209
	21,842	47,357

(d) Taxation contingencies

The Group operates in several jurisdictions with significantly different taxation systems. Management believes that the Group’s shipping and holding companies incorporated in low-tax jurisdictions are not subject to taxes outside their countries of incorporation. However, there is a risk that the taxation authorities of higher tax jurisdictions may attempt to subject the Group’s earnings to income taxes of a particular jurisdiction. Should the taxation authorities be successful in assessing additional taxes, late payment interest and imposing fines on this basis, the impact on these financial statements could be significant.

Russian tax law and practice are not as clearly established as those of more developed market economies. Russian tax laws, regulations and court practice are subject to frequent change, varying interpretation and inconsistent and selective enforcement. As a result, sometimes taxpayers are being challenged as to structures and transactions which have not been challenged or litigated as a result of prior tax audits. Taxation of companies in the transportation and freight forwarding industry in particular has historically been a vague area in the Russian tax legislation. Recently, the Russian Supreme Arbitration Court issued a ruling # 8133/09 of 8 December 2009 upholding the position of lower courts that there is no basis to apply 0% VAT to unloading of imported goods unless the goods have been placed under the customs regime of free customs zone and stating that the Russian Tax Code does not unequivocally require application of 0% VAT rate to services with respect to unloading and storage of imported goods. Based on that line of reasoning, the court confirmed the importer’s entitlement to recovery of 18% input VAT on respective services. There were a number of cases where the tax authorities attempted to assess additional VAT on transportation companies and freight forwarders for prior periods arguing that 18% VAT rate (rather than 0% VAT rate) should apply to services on the transportation of imported goods and using the above decision as a basis for their challenge.

The Group’s subsidiaries, including FESCO Lines Vladivostok LLC (FLV) provided multimodal transportation services for goods imported into Russia and applied 0% VAT rate to such services. In the past the tax authorities confirmed FLV’s right to benefit from 0% VAT rate with respect to such services during fieldwork audits for 2007 and 2008 as well as desktop audits for respective tax periods. However, in February 2010 following the desktop audit of adjusted VAT returns for respective tax periods of 2007, 2008 and third quarter of 2009 the tax authorities issued decisions challenging the application of the 0% VAT to such services and assessing additional VAT of USD 31.4 million. Subsequently the tax authorities confirmed 0% VAT application for some periods with the reference to the Russian Supreme Arbitration Court ruling # 13485/10 issued 15 February 2011. Management believes the decision in respect of other periods will be in favour of the Group.

The taxation system in the Russian Federation and countries of the former Soviet Union is relatively new and is characterised by numerous taxes and frequently changing legislation, which is often unclear, contradictory, and subject to interpretation. Often, different interpretations exist amongst numerous taxation authorities and jurisdictions. Taxes are subject to review and investigation by a number of authorities, who are able by law to impose severe fines, penalties and interest charges. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation and enforcement of tax legislation.

These facts may create tax risks in Russia substantially more significant than in other countries. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

(e) Business environment

Part of the Group's operations is located in the Russian Federation. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

33. Financial Risk Management Objectives and Policies

Capital Risk Management

The Group manages its capital to ensure that it can continue to operate and expand their operations while at the same time maximising returns to shareholders through the optimisation of the debt-equity balance. This strategy remains unchanged from prior year.

The Group is financed by a combination of borrowing and equity attributable to shareholders. Borrowing comprises long and short term loans (as disclosed in Note 18) and is monitored net of cash and cash equivalents. Equity attributable to shareholders comprises issued share capital, share premium, retained earnings and other reserves less treasury shares (as disclosed in notes 21 and 23).

The Group is not subject to externally imposed capital requirements other than those included, from time to time, in the financial covenants associated with bank borrowing and those, imposed by the Russian legislation.

The Board of Directors monitors the capital structure of the Group taking into account the costs and risks associated with each category of capital. The Group's net debt to equity ratio is the primary tool used in the monitoring process. No formal targets have been set to maintain a net debt to equity ratio on a definite level.

The Group's net debt to equity ratio at the year end was as follows: -

	31 December 2010	31 December 2009
	'000 USD	
Net debt		
Long term borrowing	302,746	76,099
Short term borrowing	122,391	706,444
Less bank and cash balances	(556,288)	(82,188)
	(131,151)	700,355
Equity attributable to equity shareholders of the Company	1,513,726	1,289,706
Net debt to equity ratio	-	54%

Major categories of financial instruments.

The Group's principle financial liabilities comprise borrowings, finance leases, trade and other payables.

The main risks arising from the Group's financial instruments are market risk which includes foreign currency and interest rate risk, credit and liquidity risks.

The Board of Directors has overall responsibility for the establishment and overseeing of the Group's risk management framework. The Group Audit Committee is responsible for developing and monitoring the Group's risk management policies.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which the customer operates, has less of an influence on a credit risk. There is no concentration of credit risk with a single customer.

Each company within the Group establishes its own credit policy taking into account the specifics of the sector and the company's customer base.

The majority of the Group's customers have been transacting with the Group companies for many years and losses arising from this category of customer are infrequent.

Policies established by Group companies for new customers will generally involve some form of credit check based on the available information. Where a customer is not deemed creditworthy the Group will generally only offer services on a prepayment basis.

The Group has provided fully for all receivables over one year because historical experience is such that receivables that are past due beyond one year are generally not recoverable.

The Group's maximum exposure to credit risk in relation to each class of recognised financial asset is the carrying amount of those assets as stated in the balance sheet and was as follows:

	31 December 2010	31 December 2009
	'000 USD	
Accounts receivable	147,288	153,254
Current tax assets	2,455	11,464
Other current assets	2,160	31,863
Cash and cash equivalents	556,288	82,188
	708,191	278,769

The ageing profile of trade receivables was:

	31 December 2010		31 December 2009	
	'000 USD			
	Total book value	Allowance for impairment	Total book value	Allowance for impairment
Current	52,292	3,326	42,196	131
Overdue 90 days	4,114	190	4,907	672
Overdue 91 days to one year	4,177	854	2,901	1,041
Overdue more than one year	22,106	22,106	25,234	25,234
	82,689	26,476	75,238	27,078

During the year, the Group had the following movement on allowance for trade receivables:

	31 December 2010	31 December 2009
	'000 USD	
Balance as at 1 January	27,078	6,424
Uncollectible receivables written off during the year	(4,396)	-
Increase in allowance	3,794	20,654
Balance as at 31 December	26,476	27,078

The remaining impairment allowance is mainly attributable to VAT receivable from tax authorities. Historically, it has not always been possible to obtain the supporting documents required to recover these amounts.

Other assets of the Group with exposure to credit risk include cash and advances to suppliers. Cash is placed with reputable banks. Advances to suppliers mainly include prepayments to shipyards in respect of new buildings, which are covered by a refund guarantee, and prepayments to Russian Railway. As such, management does not expect these counterparties to fail to meet their obligations.

(b) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

Currency risk

The Group is exposed to currency risk on sales, purchases, finance leases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the RUB and USD.

Borrowings and interest thereon are generally denominated in currencies that match the cash flows generated by the underlying operations of the Group, this providing an economic hedge.
In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

At 31 December 2010, the Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity:

	USD	RUB	Other currencies
		'000 USD	
Assets			
Other non-current assets	8,636	869	-
Accounts receivable	11,889	8,610	11,499
Other current assets	740	-	-
Bank and cash balances	9,271	1,991	5,294
Intra-group assets	10,533	17,797	228
	41,069	29,267	17,021
Liabilities			
Accounts payable	7,283	6,615	7,780
Loans and other obligations	76,757	16,703	4,162
Intra-group liabilities	33,461	10,986	277
	117,501	34,304	12,219
	(76,432)	(5,037)	4,802

Other currencies include EURO and UK Pound primarily.

At 31 December 2009, the Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity.

	USD	RUB	Other currencies
		'000 USD	
Assets			
Other non-current assets	3,919	-	-
Accounts receivable	5,104	16,036	4,973
Other current assets	1,159	-	-
Bank and cash balances	9,270	17,976	1,788
Intra-group assets	46,638	2,401	1,003
	66,090	36,413	7,764
Liabilities			
Accounts payable	3,450	4,450	5,021
Loans and other obligations	248,064	24,293	54
Intra-group liabilities	16,934	11,997	313
	268,448	40,740	5,388
	(202,358)	(4,327)	2,376

The Group has entered into a number of currency options as a part of managing its exposure to foreign currency risks. The option contracts are stated at their fair value with the movements in fair value recognised in the income statement, see Note 31.

Foreign currency sensitivity analysis

The table below details the Group's sensitivity to strengthening/weakening of USD against the RUB by 10% which represents management's assessment of the possible change in foreign currency exchange rates.

	RUB/USD impact			
'000 USD	31 December 2010	31 December 2010	31 December 2009	31 December 2009
	RUB/USD +10%	RUB/USD -10	RUB/USD +10%	RUB/USD -10%
Profit or (loss)	7,643	(7,643)	20,235	(20,235)

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's interest risk mainly arises from its debt obligations in particular non-current borrowings. Borrowing at variable rates exposes the Group to cash flow interest rate risk. Lending at fixed rates or the purchase of debt instruments at fixed rates expose the Group to changes in the fair value.

The Group constantly reviews its debt portfolio and monitors the changes in the interest rate environment to ensure that interest payments are within acceptable levels. Information relating to interest rates on the Group's borrowings is disclosed in Note 18.

Structure of interest rate risk.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments, excluding the effect of derivative financial instruments, was:

	Carrying amount	
	2010	2009
	'000 USD	
Fixed rate instruments		
Cash and cash equivalents	490,000	16,854
Loans and promissory notes receivable	4,014	1,157
Long term deposits	3,361	3,386
Finance lease receivable	9,376	10,156
Borrowings and finance lease obligations	(169,658)	(437,436)
Receivables from KUKE and shipyard	1,100	30,508
	338,193	(375,375)
Variable rate instruments		
Borrowings	(255,479)	(340,357)
	(255,479)	(340,357)

Interest rate sensitivity analysis

The table below details the Group's sensitivity to increase or decrease of floating interest rates by 1%. The analysis was applied to loans and borrowings (financial liabilities) based on the assumption that the amount of liability outstanding as at the balance sheet date was outstanding for the whole year.

	LIBOR impact		MOSPRIME impact	
	31.12.2010	31.12.2010	31.12.2010	31.12.2010
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
	'000 USD	'000 USD	'000 USD	'000 USD
Profit/ (loss)	(2,359)	2,359	(196)	196

(c) Fair value hierarchy

The table below analyses financial instruments carried at fair value, by valuation method. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

31 December 2010	**Level 1**	**Level 2**	**Level 3**	**Total**
		'000 USD		
Investments available for sale	162,979	-	-	162,979
Share-based payments liability	-	-	(4,690)	(4,690)
Interest rate swap liability	-	(32,697)	-	(32,697)
	-	(32,697)	(4,690)	(37,387)

31 December 2009	**Level 1**	**Level 2**	**Level 3**	**Total**
		'000 USD		
Investments available for sale	-	-	700,000	700,000
Share-based payments liability	-	-	(2,005)	(2,005)
Interest rate swap liability	-	(29,083)	-	(29,083)
	-	(29,083)	(2,005)	(31,088)

(d) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group has in place a detailed budgeting and cash flow forecasting process to help ensure that it has sufficient cash to meet its payment obligations.

Loans, borrowings, finance lease and other payables

	Carrying value	Minimum future payment	Less than 3 month	3-6 month	6-12 month	1-5 years	Later than 5 years
				'000 USD			
As at 31 December 2010							
Loans	378,861	378,861	35,095	17,596	59,714	207,611	58,843
Interest payable on loans	1,539	51,339	4,627	4,906	8,118	28,207	5,481
Finance Leases	46,276	60,275	5,846	2,752	5,207	39,508	6,962
Interest swap	32,697	32,697	2,028	3,550	6,047	21,068	4
Trade and other payables	75,681	75,681	70,205	3,636	1,840	-	-
Share-based payments	4,690	4,690	-	-	-	4,690	-
Defined benefit obligations	832	832	-	-	-	832	-
Other non-current payables	691	691	-	-	-	691	-
Total	541,267	605,066	117,801	32,440	80,926	302,607	71,290
As at 31 December 2009							
Loans	724,631	724,631	157,090	192,600	342,008	32,914	20
Interest payable on loans	4,991	42,490	7,909	16,853	15,536	2,192	-
Bank Overdraft	1,530	1,530	1,530	-	-	-	-
Finance Leases	56,381	78,209	4,028	4,819	9,956	48,244	11,162
Interest swap	29,083	29,083	2,072	1,823	5,581	19,328	278
Trade and other payables	71,210	71,210	58,533	4,010	8,667	-	-
Share-based payments	2,005	2,005	-	815	-	1,190	-
Defined benefit obligations	839	839	-	-	-	839	-
Other non-current payables	493	493	-	-	-	493	-
Total	891,163	950,490	231,162	220,920	381,748	105,200	11,460

34. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if both parties are under common control or one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

During the year eleven individuals were considered to be the Group's key management and directors (2009 – eleven individuals). Their remuneration during the period was as follows:

	31 December 2010	31 December 2009
	'000 USD	
Salaries	1,727	1,663
Termination payment	-	1,410
	1,727	3,073
Share options expense	3,093	-
	4,820	3,073

Statement of financial position	31 December 2010	31 December 2009	Nature of balances
	'000 USD		
Non-consolidated subsidiaries	781	807	Trade receivables
Associates	3,502	460	Agency and other service
Joint Venture Company	(2,485)	(1,404)	Trade payables
Joint Venture Company	1,609	854	Trade receivables
Non-consolidated subsidiaries	699	-	Loan issued
Joint Venture Company	-	(4,748)	Loan payable
Related through management	-	83	Loan issued
Joint Venture Company	2,660	1,158	Loan issued
Related through common shareholder	148,281	15,186	Deposit
Joint Venture Company	9,376	10,156	Finance lease receivable

Income Statement	31 December 2010	31 December 2009	Nature of transactions
	'000 USD		
Non-consolidated subsidiary purchases	(1,148)	(925)	Agency Services
Non-consolidated subsidiary sales	236	113	Agency Services
Associates purchases	(3,644)	(3,238)	Agency services, rent and security expenses
Joint Venture Company purchases	(5,849)	(4,035)	Agency ,transportation and stevedoring services
Joint Venture Company sales	1,914	309	Transportation services
Joint Venture Company	1,571	1,376	Finance lease and interest income
Related through common shareholder	641	1,500	Interest income
Related through common shareholder	(27,000)	-	Selling expenses related to disposal of investment

35. Events Subsequent to the reporting date

In February 2011 the Group redeemed loans in the amount of USD 99 million;

Subsequent to the balance sheet date the Group entered into rolling stock finance lease agreement where contracted value of leased rolling stock is USD 130 million.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Schedule of Fleet at 31 December 2010

	Year of Building	Deadweight Tonnage	Book Value '000 USD	Insured Value '000 USD
Bulk				
Ivan Makarin	1982	19,252	3,397	2,700
Kapitan Tsirul	1982	19,252	3,397	2,700
Cheremkhovo	1984	23,242	3,413	4,000
Chelyabinsk	1984	23,242	3,413	4,000
Grigoriy Aleksandrov	1986	24,105	3,241	4,000
Fesco Angara	1985	37,155	3,394	5,750
Fesco Yenisei	1985	37,178	3,384	7,000
Fesco Ob	1986	36,690	4,311	7,750
Amur	1997	5,295	5,570	6,000
Ussuri	2002	5,437	6,538	7,500
Khudozhnik Kraynev	1986	24,105	3,257	3,750
		254,953	43,315	55,150
Container				
Kapitan Krems	1980	5,720	1,770	1,800
Kapitan Gnezdilov	1980	5,720	1,770	1,800
Kapitan Sergiyevskiy	1981	5,629	1,770	2,000
Kapitan Artyukh	1986	9,141	2,250	2,500
Krasnogvardeyets	1986	9,141	2,250	2,500
Kapitan Lyashenko	1987	8,717	2,507	2,500
Khudozhnik N. Rerikh	1989	8,579	2,532	2,600
Kapitan Afanasyev	1998	23,380	10,561	13,500
Kapitan Maslov	1998	23,380	11,235	13,500
Vladivostok	1998	23,380	10,551	13,500
Fesco Trader	1997	15,231	7,904	5,500
Fesco Voyager	1998	15,231	8,537	6,250
Fesco Ascold	2006	13,760	16,487	13,750
Fesco Vitim	2008	22,750	27,287	32,250
Fesco Voronezh	2008	22,750	27,260	33,350
Fesco Vladimir	2009	22,750	28,213	20,500
Fesco Diomid	2009	42,274	45,633	53,600
		277,533	208,517	221,400
General Cargo				
Pioner Kirgizii	1978	6,780	1,706	2,000
Abakan	1990	9,500	3,417	4,500
Yelena Shatrova	1990	7,365	2,644	4,500
Igor Ilyinskiy	1990	7,365	3,274	4,500
Sinegorsk	1991	7,365	2,915	4,500
Vysokogorsk	1991	7,365	2,988	4,500
Vasiliy Golovnin	1988	10,700	6,297	6,500
		56,440	23,241	31,000

	Year of Building	Deadweight Tonnage	Book Value '000 USD	Insured Value '000 USD
Ro-Ro				
Igarka	1983	19,943	4,543	5,500
Amderma	1983	19,943	4,542	6,200
Anatoliy Kolesnichenko	1985	19,728	4,618	5,710
Kapitan Man	1985	19,763	4,618	5,710
Vasiliy Burkhanov	1986	19,724	4,618	6,200
Fesco Gavriil	1976	4,600	2,352	2,000
Fesco Nikolay	1984	5,500	2,737	2,500
Fesco Uelen	2006	3,023	2,997	3,000
Fesco Ulan Ude	1985	3,199	1,158	2,500
		115,423	32,183	39,320
Total		**704,349**	**307,256**	**346,870**