FAR-EASTERN SHIPPING COMPANY PLC
AND ITS SUBSIDIARIES

SUMMARISED CONSOLIDATED FINANCIAL STATEMENTS

31 December 2007

CONTENTS

Far-Eastern Shipping Company PLC
and its subsidiaries

Consolidated Financial Statements

Statement of Management Responsibilities

Management has prepared and is responsible for the financial statements and related notes of Far-Eastern Shipping Company PLC and its subsidiaries ("the Group"). They have been prepared in accordance with International Financial Reporting Standards and necessarily include amounts based on judgements and estimates by management.

The Group maintains internal accounting control systems and related policies and procedures designed to provide reasonable assurance that assets are safeguarded, that transactions are executed in accordance with management's authorisation and properly recorded, and that accounting records may be relied upon for the preparation of financial statements and other financial information. The system contains self-monitoring mechanisms that allow management to be reasonably confident that controls, as well as the Group's administrative procedures and internal reporting requirements operate effectively. There are inherent limitations in the effectiveness of any system of internal control, including the possibility of human error or the circumvention or overriding of controls. Accordingly, even an effective internal control system can provide only reasonable assurance with respect to financial statement preparation.

E.N. Ambrosov, President

Y. B. Gilts, Senior Vice President

28 April 2008

**Report of the Independent Auditors
to the Members of
Far-Eastern Shipping Company PLC**

We have audited the consolidated financial statements of Far-Eastern Shipping Company Plc for the year ended 31 December 2007, from which the summarised financial statements were derived, in accordance with International Standards on Auditing. In our report dated 28 April 2008, we expressed an unqualified opinion on the financial statements from which the summarised financial statements were derived.

In our opinion, the accompanying summarised financial statements are consistent, in all material respects, with the financial statements from which they are derived.

For a better understanding of the Company's financial position and the results of its operations for the period and of the scope of our audit, the summarised financial statements should be read in conjunction with the financial statements from which the summarised financial statements were derived and our audit report thereon.

OOO Moore Stephens

OOO Moore Stephens

28 April 2008

38 Stremyanny Pereulok
Moscow
113093

Far-Eastern Shipping Company PLC
and its subsidiaries

Consolidated Balance Sheet – 31 December 2007
(Expressed in USD'000s)

	Note	31 December 2007		Restated 31 December 2006	
Non-Current Assets					
Intangible Assets					
Goodwill	4		405,138		239,702
Other intangible assets	5		17,450		13,420
Tangible Assets					
Fleet	6	673,021		744,222	
Deferred drydocking costs	7	22,305		22,482	
Vessels under construction	8	80,678		39,909	
Other fixed assets	9	670,252		282,257	
			1,446,256		1,088,869
Equity Accounted Investments	10		20,385		5,017
Long Term Investments	11		8,652		3,206
Investment Property	12		33,571		-
Other Non-current Assets	13		22,833		13,470
Current Assets					
Inventories	14	14,519		8,546	
Accounts receivable	15	230,701		184,406	
Profit tax receivable		13,360		6,319	
Loans and promissory notes receivable	16	4,360		74,543	
Bank and cash balances	17	113,839		53,589	
		376,779		327,403	
Less: Current Liabilities					
Accounts payable	18	124,005		90,531	
Profit tax payable		4,574		9,590	
Loans and other obligations	19,20	169,135		387,469	
		297,714		487,590	
Net Current Assets/(Liabilities)			79,065		(160,187)
Deferred tax	21		(93,024)		(67,262)
			1,940,326		1,136,235
Financed by:					
Share capital	22		32,044		4,130
Share premium	22		392,965		-
Treasury shares	22		(59,125)		(279)
Retained earnings			724,667		564,142
Other reserves	23		179,572		109,449
			1,270,123		677,442
Minority interest			18,895		54
Total equity			1,289,018		677,496
Long term loans and other obligations	19,20		640,873		458,739
Other long term liabilities	24		10,435		-
			1,940,326		1,136,235

E.N. Ambrosov, President____________ Y.B. Gilts, Senior Vice President ____________
Date: 28 April 2008

The attached notes on pages 9 to 27 form an integral part of these financial statements.

Far-Eastern Shipping Company PLC
and its subsidiaries

Consolidated Income Statement
For the year ended 31 December 2007

(Expressed in USD'000s)

	Note	31 December 2007		Restated 31 December 2006	
Continuing operations					
Turnover			872,296		457,468
Operating expenses			(515,007)		(292,656)
Gross profit	25		357,289		164,812
Depreciation and amortisation					
Fleet	6	(43,227)		(34,224)	
Deferred drydocking	7	(8,636)		(9,074)	
Other fixed assets	9	(33,497)		(11,267)	
Intangible assets	5	(2,767)		-	
			(88,127)		(54,565)
Other Income and Expenses					
Other income	26		6,725		11,468
Interest receivable			3,957		3,507
Result of investment activity			824		1,222
Excess of net assets acquired over consideration	36		3,939		1,577
Administrative expenses			(92,621)		(46,055)
Non- profit based taxes	27		(8,133)		(6,309)
Bad debt charge	15		(8,232)		(7,335)
Interest payable and finance charges			(66,991)		(36,247)
Exchange gain			15,414		1,504
			(145,118)		(76,668)
Profit before taxation, asset disposals and revaluations			124,044		33,579
Profit on disposal of fixed assets and investments	28		2,014		20,671
Loss on disposal of interest in group companies	37		(9,680)		2,338
Fair value and impairment adjustments	29		10,913		(9,519)
Group share of results of associated companies	10		3,911		1,022
Profit before Taxation			131,202		48,091
Taxation	27		(27,404)		(19,496)
Net profit for the year from continuing operations			103,798		28,595
Discontinuing operations					
Profit for the year from discontinuing operations			-		36,871
Net profit for the year			103,798		65,466
Attributable to:					
Equity holders of the parent			101,927		65,465
Minority interest			1,871		1
Earnings per share:					
Continuing operations	30		USD 0.05		USD 0.018
Discontinuing operations	30		-		USD 0.022

The attached notes on pages 9 to 27 form an integral part of these financial statements.

Far-Eastern Shipping Company PLC
and its subsidiaries

Consolidated Statement of Changes in Equity
For the year ended 31 December 2007

(Expressed in USD'000s)

	Attributable to equity holders of the parent							
	Share Capital (Note22)	Share premium (Note22)	Treasury Shares (Note22)	Retained Earnings	Other Reserves (Note 23)	Total	Minority Interest	Total Equity
Balance at 1 January 2006	4,130	-	-	466,499	83,267	553,896	552	554,448
Changes in accounting policy (Note 41)	-	-	-	19,111	(5,858)	13,253	-	13,253
Restated balance at 1 January 2006	4,130	-	-	485,610	77,409	567,149	552	567,701
Translation difference	-	-	-	-	3,149	3,149	-	3,149
Revaluation of fleet	-	-	-	-	59,950	59,950	-	59,950
Deferred tax liability arising on revaluation of fleet	-	-	-	-	(12,792)	(12,792)	-	(12,792)
Release from revaluation reserve – annual	-	-	-	12,770	(12,770)	-	-	-
Release from revaluation reserve – on disposal	-	-	-	297	(5,497)	(5,200)	-	(5,200)
Net gains recognised directly in equity	-	-	-	13,067	32,040	45,107	-	45,107
Profit for the year	-	-	-	65,465	-	65,465	1	65,466
Total recognised income for the year	-	-	-	78,532	32,040	110,572	1	110,573
Movements in own shares	-	-	(279)	-	-	(279)	-	(279)
Minority interest on disposed subsidiaries	-	-	-	-	-	-	(410)	(410)
Purchase of shares from minority shareholders	-	-	-	-	-	-	(143)	(143)
Minority interest on acquisition	-	-	-	-	-	-	54	54
Restated balance at 31 December 2006	4,130	-	(279)	564,142	109,449	677,442	54	677,496

The attached notes on pages 9 to 27 form an integral part of these financial statements.

Far-Eastern Shipping Company PLC
and its subsidiaries

Consolidated Statement of Changes in Equity
For the year ended 31 December 2007

(continued)

(Expressed in USD'000s)

	Attributable to equity holders of the parent							
	Share Capital (Note22)	Share premium (Note22)	Treasury Shares (Note22)	Retained Earnings	Other Reserves (Note 23)	Total	Minority Interest	Total Equity
Restated balance at 31 December 2006	4,130	-	(279)	564,142	109,449	677,442	54	677,496
Translation difference	-	-	-	-	15,886	15,886	-	15,886
Revaluation of fleet	-	-	-	-	97,939	97,939	-	97,939
Deferred tax liability arising on revaluation of fleet	-	-	-	-	(6,584)	(6,584)	-	(6,584)
Release from revaluation reserve – annual	-	-	-	30,029	(30,029)	-	-	-
Release from revaluation reserve – on disposal	-	-	-	5,254	(5,254)	-	-	-
Increase in minority interest on disposal of share in subsidiary of a JV (Note 37)	-	-	-	-	-	-	16,281	16,281
Net gains recognised directly in equity	-	-	-	35,283	71,958	107,241	16,281	123,522
Profit for the year	-	-	-	101,927	-	101,927	1,871	103,798
Total recognised income for the year	-	-	-	137,210	71,958	209,168	18,152	227,320
Movements in own shares	-	-	(58,846)			(58,846)	-	(58,846)
Issue of share capital	27,914	392,965	-	-	-	420,879	-	420,879
Cash flow hedges reserve (Note 35)	-	-	-	-	(1,835)	(1,835)	-	(1,835)
Equity reserve (Note 36a)	-	-	-	23,315	-	23,315		23,315
Minority interest on acquisition	-	-	-	-	-	-	689	689
Balance at 31 December 2007	32,044	392,965	(59,125)	724,667	179,572	1,270,123	18,895	1,289,018

The availability of the Company's retained earnings for distribution to shareholders is determined by the Company's Articles of Association and by Russian legal and fiscal regulations and does not correspond with the figures shown above. The Company's reserves under Russian Accounting Standards as at 31 December 2007 were USD 135 million (2006: USD 67 million).

Far-Eastern Shipping Company PLC
and its subsidiaries

Consolidated Cash Flow Statement
For the year ended 31 December 2007

(Expressed in USD'000s)

	Note	31 December 2007	31 December 2006	
			Continuing Activities	Discontinuing Activities
Cash Flow from Operating Activities				
Receipts from customers		903,212	435,643	132,474
Payments to suppliers		(512,369)	(341,799)	(106,238)
Other cash receipts		6,725	11,468	103
Other cash payments		(106,859)	(77,647)	(28,056)
Operating cash flows		290,709	27,665	(1,717)
Taxation		(58,420)	(18,533)	(3,843)
Net operating cash flows	32	232,289	9,132	(5,560)
Cash Flow from Investing Activities				
Vessels under construction	8	(83,563)	(224,949)	-
Vessels acquired	6	-	(7,400)	-
Expenditure on other fixed assets	9	(130,060)	(43,674)	-
Expenditure on investment property		(5,030)	-	-
Expenditure on non-current assets		(5,878)	(2,511)	-
Expenditure on drydocking		(10,275)	(7,281)	-
Proceeds on disposal of fleet		180,472	63,478	-
Proceeds on disposal of other fixed assets		11,358	3,137	6,205
Subsidiaries acquired	36	(338,194)	(367,759)	-
Cash on acquisition of subsidiaries	36	7,318	7,480	-
Associates acquired	10	(3,242)	(1,778)	-
Short term investments acquired		(3,121)	(2,260)	-
Proceeds on sale of subsidiaries/business	37	7,341	6,540	53,266
Cash on sale of subsidiaries		(277)	(207)	-
Proceeds on sale of investments		924	-	-
Short-term loans issued/ (received)		7,130	(5,177)	-
Interest and investment income		4,781	4,767	90
Net cash used in investing activities		(360,316)	(577,594)	59,561
Cash Flow from Financing Activities				
Issue / (purchase) of own shares		362,033	(279)	-
Loan repayments		(669,490)	(312,121)	-
Movement on restricted cash	17	1,300	(1,968)	-
Increase in overdraft		2,879	704	
Finance charges		(66,991)	(36,286)	-
Loans drawn down		549,985	841,417	-
Net cash generated by financing activities		179,716	491,467	-
Exchange Differences		9,861	4,756	3
Net increase/(decrease) in Cash		61,550	(72,239)	54,004
Increase/(decrease) in Cash		61,550	(18,235)	-
Cash and Cash equivalents at 1 January		51,621	69,856	
Cash and Cash equivalents at 31 December	17	113,171	51,621	

The attached notes on pages 9 to 27 form an integral part of these financial statements

Notes to the Summarised Consolidated Financial Statements – 31 December 2007

1. 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 individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in USD. In preparing the financial statements of the individual entities, transactions in currencies other than the entity's functional currency (foreign currencies) are recorded 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. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

The results and financial position of each Group entity (functional currency of none of which is a currency of a hyperinflationary economy) are translated into the presentation currency as follows:

(i) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;
(ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect 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.

All financial information presented in USD has been rounded to the nearest thousand. Any conversion of RUR amounts to USD should not be construed as a representation that RUR 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 2007, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUR 24.55 (31 December 2006 USD 1 = RUR 26.33).

(b) Impairment allowances

Accounts receivables are assessed for indicators of impairment at each balance sheet date. For balances which are not individually material, impairment is assessed on a collective basis, using the Group's past experience of collecting payments and consideration of the number of delayed payments in the portfolio past the average credit period. The amount of impairment is the difference between the carrying amount of the debtor and the present value of future cash flows discounted at the original effective interest rate. Changes in the carrying amount of the impairment account are recognized in the income statement.

(c) Fixed assets and depreciation

Fleet
The fleet is stated on an individual vessel basis at market value as assessed by management and supported by independent professional valuations and calculations of value in use. Other fixed assets are stated at the lower of cost and recoverable amount (where appropriate recoverable amounts are estimated by management) less accumulated depreciation.

Fleet depreciation
Depreciation has been provided on a straight-line basis on book value less an estimated scrap value, based on anticipated useful lives of 25 years from date of building.

3. Accounting Policies (Continued)

(c) Fixed assets and depreciation (continued)

Other fixed assets depreciation

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

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

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, the term of the relevant lease.

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.

Impairment

The carrying amounts of the Group's fixed assets are reviewed at each balance sheet date to determine whether there is any indication of material impairment. Where appropriate, recoverable amounts are estimated by management.

An impairment loss is recognised whenever the carrying amount of an asset exceeds its recoverable amount. The impairment loss is charged to the income statement account unless it reverses a previous revaluation in which case it is charged to equity.

(d) Fleet revaluation reserve

Increases over historical cost book values arising from the revaluation of the fleet are transferred to a revaluation reserve. In case of downward revaluations decreases are charged to the revaluation reserve until they exceed historical cost book values when they are charged to the income statement.

The balance of the reserve is released on an individual vessel basis to retained earnings in equal annual instalments over the remaining anticipated useful lives of the vessels or on disposal, if earlier.

(e) Dry-docking and special surveys

Dry-docking and special survey costs are capitalised and written off evenly over five years. Any unamortised amounts are written off in full when the next dry dock / special survey occurs or on disposal of the vessel to which the costs relate.

The accounting policy in respect of dry-docking and special survey costs was changed in 2007 as it is believed by Management to give a more accurate presentation of performance.

(f) Investment properties

Investment properties, which are properties held to earn rentals and/or for capital appreciation, are stated at fair value at the balance sheet date. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss for the period in which they arise.

3. Accounting Policies (Continued)

(g) Inventories

Inventories are stated at the lower of cost, calculated on a weighted average basis, and net realisable value and 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 costs required to effect the sale.

(h) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and on deposit with banks.

Cash and cash equivalents include all highly liquid investments with an original maturity of three months or less at the time of purchase. Restricted balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances which can not be used to settle a liability for at least twelve months after the balance sheet date are included in other non-current assets.

(i) Revenue recognition

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

Freight and hire
Freight and hire is recognised on the percentage of completion basis. Credit is taken for the appropriate share of profits on voyage charters in progress at the balance sheet date, calculated under the percentage of completion method. Full provision is made for any losses on voyages in progress at the balance sheet date. The results of time charters in progress at the balance sheet date are apportioned into the relevant accounting period.

Rail transportation services (operator's business)
The Group acts as an operator in organising rail transportation services for clients and providing similar services using its own or leased wagons. Revenues are recognized when services have been rendered for concluded contracts, the price is fixed or determinable and collectibility reasonably assured. The revenues from transportation services are recognised in the period in which the services are provided net of VAT.

Agency fees
The Group acts as a legal intermediary between clients and transportation organisations. In the capacity of agent it pays fees and certain other costs on behalf of its clients. These costs, which are reimbursed by the Group's clients, are not included in 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 recognised as accounts receivable and accounts payable.

Revenues from operating lease of rolling stock
Revenue earned by the Group from wagons leased out under operating leases is recognised on a straight line basis over the term of operating rent agreements.

Revenue from stevedoring services (cargo handling and storage)
Revenue from stevedoring services are recognised in the accounting period in which the services are rendered.

Revenue from sales of containers and resale of goods
Revenues from sales of goods are recognised at the point of transfer of risks and rewards of ownership.

Interest income
Interest income is recognised on a time-proportion basis using the effective interest method.

3. Accounting Policies (Continued)

(j) Classification of financial assets.

Financial assets are classified into the following categories: financial assets “at fair value through profit or loss” (FVTPL), “held-to-maturity” investments, “available-for-sale” (AFS) financial assets and “loans and receivables”. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term.

Initial recognition of financial instruments.

Except where explicitly stated otherwise, all of the Group’s financial assets and liabilities are initially recorded at fair value adjusted for transaction costs where applicable. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

All purchases and sales of the Group’s financial instruments are recognised on the settlement date with the change in value between the commitment date and settlement date not recognised for assets carried at cost or amortised cost.

Derecognition of financial assets.

The Company derecognizes 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.

(k) Investments and investment income

Investments acquired principally for the purpose of short term holding gains are classified as investments at fair value through profit or loss and are generally shown within current assets. Non-derivative investments with fixed or determinable payments and fixed maturity that the Group intends to hold to maturity are designated as held-to-maturity investments. All other investments are classified as available for sale investments and are included in long term assets.

Investments at fair value through profit or loss are initially recognised at cost and immediately remeasured to fair value. The resultant profit or loss is recognised in the income statement. Available for sale investments are initially recognised at cost and immediately remeasured to fair value. Gains or loss are recognised through the statement of changes in equity until the investment is derecognised. Held-to-maturity investments are initially recognised at cost and are subsequently shown at amortised cost with the associated revenue shown in the income statement. Impairment losses on all categories of investment are taken directly to the income statement.

For quoted investments trading in an active market fair value is determined by reference to the latest bid price. Where no active market exists management uses valuation techniques to determine fair value. Investments in equity instruments that do not have a quoted market price in an active market and whose fair value can not be reliably measured are stated at historical cost less impairment provisions where appropriate. Investment income is credited when received.

3. Accounting Policies (Continued)

(l) Derivative financial instruments

The Group's activities expose it primarily to the financial risks of changes in foreign currency exchange rates and interest rates. The Group principally 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 valued at their current market rates and the movement is adjusted against reserves. When the contracts are realised, hedging used to cover exchange rate fluctuations on capital contracts is released to the cost of the asset being acquired.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are deferred in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the "other gains and losses" line of the income statement. Amounts deferred in equity are recycled in profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the income statement as the recognised hedged item.

(m) Financial liabilities and equity instruments issued by the Group

Debt and equity instruments are classified as either financial liabilities or as equity 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 amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. Realised and unrealised gains and losses arising from changes in the fair value are included in the financial income or expenses in the income statement in the period in which they arise.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Loans are classified as long-term liabilities if they are expected to be realised in more than 12 months of the balance sheet date. If there is an intention to dispose of loans within 12 months after the balance sheet date, the carrying amount of loans less the appropriate adjustments may approximate their fair value. Trade payables are not interest bearing and are recognized and carried at original invoice amount. If there is an intention to dispose of payables within 12 months after the balance sheet date, the carrying amount of payables approximates their fair value.

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

3. Accounting Policies (Continued)

(n) Operating leases

Where the Group is a lessee
Where a Group company 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.

(o) 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.

For leases that carry a variable rate of interest, minimum leases payments are recognised based on the interest rate applicable at the date of inception of the lease and future changes in interest rates are recognised in the income statement as they arise.

(p) Pension scheme

Certain Group companies have established pension and other retirement schemes in accordance with local practices in the countries in which they operate, none of the schemes is a defined benefit one. Full provision is made for the associated liabilities.

(q) Fair Value

In the opinion of management the carrying amounts of the Group's financial assets and liabilities do not differ significantly from their fair values at the balance sheet date.

(r) Deferred taxation

Provision is made for deferred taxation on all temporary differences which arise because the carrying amount of an asset or liability in the balance sheet differs from its tax base. Movements in deferred taxation are charged or credited to the Income Statement except for movements attributable to fleet revaluation surpluses which are dealt with through the revaluation reserve.

Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

3. Accounting Policies (Continued)

(s) Business combinations

The acquisition of subsidiaries is accounted for using the purchase method. The cost of acquisition is measured at the aggregate of the fair values, at the date of exchange, of assets given, liabilities incurred, and equity instruments issued by the Group in exchange for control of the acquiree, plus any costs directly attributable to the business combination. The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under IFRS 3, are recognised at their fair values at the acquisition date, except for non-current assets that are classified as held for sale in accordance with IFRS 5 "*Non-current Assets Held for Sale and Discontinued Operations*", which are recognised and measured at fair value less costs to sell.

(t) Goodwill on consolidation

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 assets acquired over consideration) is accounted for when the fair value of net assets acquired on the purchase of a business exceeds the purchase price. Negative goodwill is taken directly to the income statement.

An annual impairment review is carried out in respect of the goodwill attributable to each individual cash generating unit (CGU). This is generally carried out using cash flow projections for 10 to 20 years and an appropriate discount rate selected based on management estimates of the cost of capital employed. Alternatively, the review is based on assessment of fair value carried out by independent experts.

(u) Other intangible assets

Other intangible assets principally represent contractual arrangements acquired by the Group for the provision of services, recognised at fair value and computer software. Amortisation is charged on a straight line basis over five years, representing management's estimate of the minimum period during which the Group is expected to benefit from these arrangements.

(v) Borrowing costs

Interest payable and other borrowing costs that are not attributable to any specific assets are expensed in the period to which they relate.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised as part of cost of that asset.

(w) Dividends

Dividends are accounted for in the period in which they are approved by the shareholders.

(x) Share –based payments

The Group has a share option scheme to incentivise certain key members of management (see Note 24 for a fuller description of the scheme).

Due to the cash settlement option, 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 pricing model.

For each option granted an accrual based on the expired proportion of the time from granting of the options to the vesting date is included on the balance sheet as a long term or a short term liability as appropriate with a corresponding charge to the income statement to account for the movement since the last balance sheet date.

2. Business Segmental Analysis

For management purposes, the Group is organised into four major operating divisions – shipping, intermodal, railway services and container terminals. These divisions are the basis on which the Group reports its primary 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, line operation and the provision of agency services. These activities are carried out on cabotage, cross trade and import-export basis. The vessels operated by the shipping division are largely container vessels and bulk carriers.
Intermodal	The intermodal division 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.
Container terminals	The container terminals division owns and operates container terminals in Russia and Ukraine and provides cargo handling, stevedoring, container storage and rental and related port services and facilities.

Segmental revenue

	External sales		Inter-segment		Total	
	2007	2006	2007	2006	2007	2006
			USD'000s			
Shipping	417,717	455,351	91,911	75,172	509,628	530,523
Intermodal	137,936	78,569	13,791	734	151,727	79,303
Railway services	174,813	25,589	2,515	609	177,328	26,198
Container terminals	141,830	17,942	8,126	-	149,956	17,942
Total for all segments					988,639	653,966
Eliminations					(116,343)	(76,515)
Less: revenue from discontinued operations					-	(119,983)
Consolidated revenue					872,296	457,468

25. Business Segmental Analysis (continued)

Segmental result

	2007	2006
	USD'000	
Continuing operations		
Shipping (without cross trade lines)	104,085	96,256
Intermodal	36,714	7,597
Railway services	63,287	4,895
Container terminals	88,519	11,132
	292,605	119,880
Unallocated expenses	(96,657)	(42,870)
Interest and other investment income	4,781	4,729
Interest expense	(66,991)	(36,247)
Loss on disposal of a share in a joint venture	(10,386)	-
Share of profits of associates	3,911	1,022
Excess of net assets acquired over consideration	3,939	1,577
Profit before tax	131,202	48,091
Income tax expenses	(27,404)	(19,496)
Profit for the year from continuing operations	103,798	28,595

	2007	2006
	USD'000	
Discontinued operations		
Cross trade lines	-	(4,442)
Gain on disposal	-	45,156
Profit before tax	-	40,714
Income tax expenses	-	(3,843)
Profit for the year from discontinued operation	-	36,871

Segmental assets and liabilities

	Assets		Liabilities	
	31 December 2007	31 December 2006	31 December 2007	31 December 2006
	USD'000s			
Shipping	915,706	934,334	49,965	62,383
Intermodal	115,314	111,929	45,603	12,626
Railway services	497,026	150,760	79,859	10,551
Container terminals	347,309	129,132	16,289	7,786
Total of all segments	1,875,355	1,326,155	191,716	93,346
Goodwill	405,138	239,702	-	-
Investments	33,397	82,768	-	-
Loans payable	-	-	731,037	820,481
Other items not attributable to a specific segment	17,174	42,462	119,293	99,764
Consolidated	2,331,064	1,691,087	1,042,046	1,013,591

25. Business Segmental Analysis (continued)

Other segmental information

	Acquisition of segment assets		Depreciation and amortisation of segment assets	
	31 December 2007	31 December 2006	31 December 2007	31 December 2007
	USD'000s			
Shipping	93,838	301,064	51,863	43,298
Intermodal	3,768	6,457	5,675	160
Railway services	215,701	134,551	18,889	3,030
Container terminals	179,184	44,952	8,651	791
	492,491	487,024	85,078	47,279

3. Contingencies and Commitments

a) Capital commitments

As a part of M-Port acquisition agreement, the Group has a commitment to purchase the remaining 50% interest in M-Port by July 2010 for a minimum purchase price of USD 90 million, the amount may be increased based on the performance of the port.

In June 2007 the Group entered into shipbuilding contracts for the construction of four 57,000 DWT bulk carriers in China at a purchase price of USD 38.9 million each. The vessels are scheduled for delivery not later than 30 June, 30 September, 30 October and 30 December 2010 respectively. The first instalment of 30% was paid in August after receipt of a refund guarantee. Two instalments of 20% each are due upon steel cutting and keel- laying respectively. A fourth instalment of 10% is due after launching. The remaining 20% will be due on delivery.

The Group's commitments in respect of new buildings fall due as follows:

	31 December 2007	31 December 2006
	USD'000s	
In one year	167,411	88,986
In two to five years	227,848	232,629
Total outstanding commitment	395,259	321,615

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

The Group leases under operating lease terms rolling stock from a number of third parties. All lease contracts are cancellable and are for periods of 12 months with renewal options. Lease receipts are collected monthly, one month in advance.

At 31 December 2007, the Group had the following outstanding commitments under cancellable operating leases.

	31 December 2007	31 December 2006
	USD'000s	
Within one year	26,142	1,458
In two to five years	25,135	776
After more than five years	-	-
	51,277	2,234

Operating lease expenses included in operating expenses are USD 29 million (2006 – USD 3.1 million).

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

Operating lease payments to be received by the Group under a non-cancellable operating lease contract for the supply of the Fesco Sakhalin are as follows:

	31 December 2007	31 December 2006
	USD'000s	
Within one year	16,499	16,454
In two to five years	27,320	43,775
After more than five years	-	-
Total minimum lease payments	43,819	60,229

d) Taxation contingencies

The taxation system in the Russian Federation 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. 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 relevant authorities may have differing interpretations and the effect of these could be significant.

The Group is currently in dispute with the taxation authorities regarding numerous matters. Where the Group believes it is probable that a liability will arise and this liability can be measured with sufficient accuracy provision has been established. Where the Group believes the probability of a liability crystallising is remote or where it is not possible to assess the likely outcome with sufficient accuracy no provision has been made.

The most significant instance for which no provision had been made is a claim by the tax authorities amounting to USD 35 million in taxes and penalties. The Group is vigorously contesting this claim and assess the probability of a material charge crystallising as extremely remote.

4. Subsequent events

On 7 March 2008 the Group disposed of its 50% shareholding in ZAO "Universal TransGroup" to I.T.L & Finance Limited. Total cash consideration received was USD 9 million.

Fesco Argun, a 1,100 TEU Container vessel, was delivered to the Group on 21 March 2008.

On 15 February 2008 Swedbank granted a letter of credit facility to BCT amounting to EUR 8.5 million.

5. Financial Risk Management Objectives and Policies

Capital Risk Management

The Group manages its capital to ensure that the entities within in 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 2006.

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 19) and is monitored net of bank and cash balances. Equity attributable to shareholders comprises issued share capital, share premium, retained earnings and other reserves less treasury shares held (as disclosed in Notes 22 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.

The Board of Directors monitors the capital structure of the Group on an informal basis 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 but the Board intends to maintain a net debt to equity ratio of less than 70% in the period to 31 December 2008.

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

	31 December 2007	31 December 2006
	USD'000s	
Net Debt		
Long term borrowing	640,873	458,739
Short term borrowing	169,135	387,469
Less bank and cash balances	(113,839)	(53,589)
	696,169	792,619
Equity	1,270,123	677,442
Net debt to equity ratio	55%	117%

5. Financial Risk Management Objectives and Policies (continued)

Major categories of financial instruments

The Group's principal financial liabilities comprise borrowings, finance leases, trade payables and other payables, provisions and accruals. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various financial assets such as trade receivables and other receivables, loans given, cash and cash equivalents.

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

The Board of Directors has overall responsibility for the establishment and oversight 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 risk management policies are established to identify and analyse risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations.

The Group 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 credit risk.

Each company within the Group established 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 customers 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 company 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. Other receivables are provided for based on individual assessment of significant balances.

5. Financial Risk Management Objectives and Policies (continued)

(a) Credit risk (continued)

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 indicated in the balance sheet. At the balance sheet date, there was no significant concentration of credit risk to the Group. The ageing profile of trade receivables was:

	31 December 2007		31 December 2006	
	USD'000			
	Total book value	Allowance for impairment	Total book value	Allowance for impairment
Current	76,139	-	83,590	-
Overdue 90 days	31,838	-	9,812	-
Overdue 91 days to one year	5,416	1,035	3,743	1,315
Overdue more than one year	19,498	19,498	12,382	12,382
	132,891	20,533	109,527	13,697

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

	31 December 2007	31 December 2006
	USD'000	
Balance as at 1 January	13,697	12,581
Charge for the year	6,836	1,116
Balance as at 31 December	20,533	13,697

In view of past experience the Group considered that there was no need for an impairment allowance on current and 90 days overdue trade receivables. About 80% of these trade receivables are attributable to customers who have previously proved reliable.

The remaining impairment allowance (Note 15) 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 financial assets of the Group with exposure to credit risk include cash. Cash is placed with reputable banks. As such, management does not expect any counterparty to fail to meet their commitments.

5. Financial Risk Management Objectives and Policies (continued)

(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 optimizing the return on risk.

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

Where appropriate foreign currency forward contracts are used by the Group to manage the foreign currency exposure arising from newbuilding obligations denominated in foreign currencies. It is not the Group's policy to trade in derivative contracts.

Interest on borrowings is denominated in currencies that match the cash flows generated by the underlying operations of the Group, primarily USD. This provides an economic hedge and no derivatives are entered into.

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 as spot rates when necessary to address short-term imbalances.

At 31 December 2007, the Group had the following positions in USD, RUR and other currencies:

	USD	RUR	Other currencies
		USD 000's	
Assets			
Equity accounted and long term investments	3,242	25,795	-
Other non-current assets	5,701	17,132	
Inventories	3,094	10,558	867
Accounts receivable	113,013	113,565	17,483
Loans issued	1,313	3,047	-
Bank and cash balances	58,558	44,041	11,240
	184,921	214,138	29,590
Liabilities			
Accounts payable	58,517	57,207	12,855
Loans and other obligations	684,104	107,788	28,551
	742,621	164,995	41,406
	(557,700)	49,143	(11,816)

5. Financial Risk Management Objectives and Policies (continued)

(b) Market risk (continued)

At 31 December 2006, the Group had the following positions in USD, RUR and other currencies:

	USD	RUR	Other currencies
		USD 000's	
Assets			
Equity accounted and long term investments	-	8,223	-
Other non-current assets	-	1,012	12,458
Inventories	1,330	7,216	-
Accounts receivable	87,346	103,017	362
Loans issued	69,414	5,129	-
Bank and cash balances	24,289	26,076	3,224
	182,379	150,673	16,044
Liabilities			
Accounts payable	18,898	79,364	1,859
Loans and other obligations	711,661	134,547	-
	730,559	213,911	1,859
	(548,180)	(63,238)	14,185

The Group's primary currency exposure is to the RUR. The Group has net monetary assets denominated in RUR equivalent to USD 47.6 million (2006 USD 63.2 million of net liabilities) making it vulnerable at the year end to a strengthening of the USD against the RUR (2006 – weakening).

Foreign currency sensitivity analysis

The table below details the Group's sensitivity to strengthening/weakening of USD against the RUR by 5% which represents management's assessment of the maximum possible change in foreign currency exchange rates. The analysis was applied to monetary items at the balance sheet dates denominated in RUR.

	RUR impact	
	31.12.2007	31.12.2007
	RUR/USD +5%	RUR/USD -5%
	USD'000	USD'000
Profit or loss	(8,301)	8,301
Other equity components	-	-

5. Financial Risk Management Objectives and Policies (continued)

(b) Market risk (continued)

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 fair value interest rate risk.

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 Notes 19 and 20.

As the Group has an excess of floating rate liabilities over floating rate assets it is vulnerable to rises in interest rates. As part of interest rate management the Group maintains an interest rate swaps that convert floating rate borrowings into fixed rates of interest. Under the terms of the swap the Group pays a fixed rate of 4.77 per cent on a USD 84 million loan facility. The fair value of the interest swap contract as at 31 December 2007 recognised directly in equity was USD 1.8 million.

The Group's surplus funds are placed with reputable banks as fixed deposits which generate interest income for the Group. The Group's policy is to obtain the most favourable interest rates available.

Structure of interest rate risk

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

	Carrying amount	
	2007	2006
	USD'000	
Fixed rate instruments		
Financial assets	5,254	1,002
Financial liabilities	(117,461)	(204,490)
	(112,207)	(203,488)
Variable rate instruments		
Financial assets	5,701	-
Financial liabilities	(682,548)	(638,549)
	(676,847)	(638,549)

5. Financial Risk Management Objectives and Policies (continued)

(b) Market risk (continued)

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		EURIBOR impact		MOSPRIME impact	
	31.12.2007	31.12.2007	31.12.2007	31.12.2007	31.12.2007	31.12.2007
	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%	Interest rate +1%	Interest rate -1%
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Profit/ (loss)	(5,337)	5,337	(166)	166	(611)	611
Other equity components	(387)	387	-	-	-	-

Limitations of sensitivity analysis

The above tables demonstrate the effect of a change in a key assumption while other assumptions remain unchanged. In reality, there is a correlation between the assumptions and other factors. It should also be noted that these sensitivities are non-linear and larger or smaller impacts should not be interpolated or extrapolated from these results. The sensitivity analyses do not take into consideration that the Group's assets and liabilities are actively managed. Additionally, the financial position of the Group may vary at the time that any actual market movement occurs.

Other limitations in the above sensitivity analyses include the use of hypothetical market movements to demonstrate potential risk that only represent the Group's view of possible near-term market changes that cannot be predicted and the assumption that all interest rates move in an identical fashion.

This analysis is for illustrative purposes only, as in practice market rates rarely change in isolation of other factors that also affect Group's financial position and results.

Management believe that fair value of the loans, borrowings and finance lease obligations approximates their carrying amounts as the majority of obligations bear interest rates approximating market rates at 31 December 2007.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they are due The Group's liquidity position is carefully monitored and managed. The Group has in place a detailed budgeting and cash forecasting process to help ensure that it has adequate cash available to meet its payment obligations. Moreover the Group maintains different lines of credit for replenishment of working capital needs. Longer term cash needs are managed by negotiating and or renegotiating bank lending.

5. Financial Risk Management Objectives and Policies (continued)

(c) Liquidity risk (continued)

Summaries of the maturity profile of the Group's financial liabilities as at 31 December 2007 and 2006 based on contractual payments are presented below.

Loans, Borrowings and Finance Lease

	Carrying value	Minimum Future payment	Less than 3 month	3-6 month	6-12 month	1-5 years	Later than 5 years
				USD'000			
As at 31 December 2007							
Loans	727,455	727,455	40,353	23,851	80,203	510,925	72,123
Interest payable	7,798	117,202	12,750	11,793	20,667	57,334	14,658
Bank Overdraft	3,582	3,582	1,060	2,522	-	-	-
Finance Leases	71,173	103,228	8,482	5,671	8,359	49,816	30,900
Total	810,008	951,467	62,645	43,837	109,229	618,075	117,681
As at 31 December 2006							
Loans	819,777	751,027	183,608	45,312	271,962	175,468	74,677
Interest payable	3,169	90,777	9,224	9,019	19,152	42,174	11,208
Bank Overdraft	704	704	190	-	514	-	-
Finance Leases	22,558	29,151	2,797	3,257	7,326	12,659	3,112
Total	846,208	871,659	195,819	57,588	298,954	230,301	88,998

Trade and other payables

Management estimate that the average credit period on purchases is 90 days. No interest is incurred on the outstanding balance for trade and other payables. The table below summarizes the maturity profile of the Group's trade and other payables as at 31 December 2007 and 2006 based on contractual undiscounted payments:

	1-3 months	3-6 months	6-12 months	More then 1 year	Total
			USD'000		
As at 31 December 2007					
Trade payables	74,127	8,902	3,245	-	86,274
Accrued expenses and other payables	19,476	2,632	6,396	-	28,504
	93,603	11,534	9,641	-	114,778
As at 31 December 2006					
Trade payables	56,053	304	464	-	56,821
Accrued expenses and other payables	30,974	114	675	-	31,763
	87,027	418	1,139	-	88,584