

**FAR-EASTERN SHIPPING COMPANY PLC
AND ITS SUBSIDIARIES**

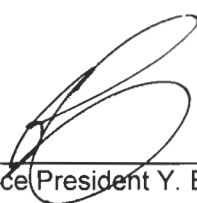
CONSOLIDATED FINANCIAL STATEMENTS

31 DECEMBER 2003


STATEMENT OF MANAGEMENT RESPONSIBILITIES

Management has prepared and is responsible for the financial statements and related notes of Far-Eastern Shipping Company PLC ("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.



Senior Vice President Y. B. Gilts



Chief Accountant A.P. Nazarov.

21 June 2004

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

We have audited the accompanying balance sheet of Far-Eastern Shipping Company PLC and its subsidiaries as of 31 December 2003 and the related statements of income, changes in shareholders' equity and cash flows for the year then ended, as set out on pages 3 to 23. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with International Standards on Auditing. Those Standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements present fairly, in all material respects, the financial position of the Group as of 31 December 2003 and of the results of its operations and its cash flow for the year then ended in accordance with International Financial Reporting Standards.

Moore Stephens Vladivostok

MOORE STEPHENS VLADIVOSTOK

21 June 2004

Russia, Vladivostok,
Verkhne-Portovaya 18-a

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Consolidated Balance Sheet – 31 December 2003

(Expressed in U.S.\$'000s)

	Note	2003	2002
Fixed Assets			
Fleet	3	342,166	257,490
Other fixed assets	4	37,498	49,029
Assets under construction	5	17,596	1,930
		<u>397,260</u>	<u>308,449</u>
Long Term Debtors			
		221	208
Long Term Investments	6	2,479	2,679
Current Assets			
Inventories	7	4,221	4,230
Voyages in progress		1,227	299
Accounts receivable	8	36,666	26,649
Investments available for sale	9	747	7,205
Bank and cash balances	10	33,943	17,244
		<u>76,804</u>	<u>55,627</u>
Less: Current Liabilities			
Accounts payable	11	36,771	45,930
Loans and other obligations	12	13,367	17,536
		<u>50,138</u>	<u>63,466</u>
Net Current Assets/(Liabilities)		26,666	(7,839)
Deferred tax	13	(25,115)	(3,890)
		<u>401,511</u>	<u>299,607</u>
Financed by:-			
Share capital	14	4,130	4,130
Retained earnings		336,785	241,339
Other reserves	15	22,221	3,013
		<u>363,136</u>	<u>248,482</u>
Long term loans and other obligations	12	38,375	51,125
		<u>401,511</u>	<u>299,607</u>

Senior Vice President Y.B. Gilts

Chief Accountant A.P. Nazarov

The attached notes on pages 7 to 23 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 2003**

(Expressed in U.S.\$'000s)

	Note	2003	2002
Income			
Hire and freight income		346,235	292,603
Voyage and running costs		<u>(257,455)</u>	<u>(243,836)</u>
Profit on vessels' trading		88,780	48,767
Profit on ancillary operations		466	520
Interest receivable		994	762
Result of investment activity		403	342
Other income		<u>6,564</u>	<u>6,207</u>
		<u>97,207</u>	<u>56,598</u>
Expenses			
Depreciation			
Fleet	3	(19,676)	(19,700)
Other fixed assets	4	<u>(8,449)</u>	<u>(9,783)</u>
		(28,125)	(29,483)
Amortisation of intangibles		-	(306)
Administrative expenses		(31,084)	(27,520)
Non- profit based taxes	16	(1,205)	(3,865)
Bad debt provision release/(charge)	8	3,162	(10,555)
Interest payable and finance charges		(2,320)	(3,649)
Exchange gain/(loss)		<u>2,418</u>	<u>(1,141)</u>
		<u>(57,154)</u>	<u>(76,519)</u>
Profit/(Loss) before taxation and asset disposals and revaluations		40,053	(19,921)
Profit/(Loss) on disposal of fixed assets and investments	20	1,305	(4,012)
Fair value adjustments	21	<u>74,209</u>	<u>10,499</u>
Profit/(Loss) before Taxation		115,567	(13,434)
Taxation	16	<u>(19,911)</u>	<u>(5,103)</u>
Profit/(Loss) for the year		<u>95,656</u>	<u>(18,537)</u>
Profit/(Loss) per share	22	U.S.\$ 0.058	U.S\$ (0.01)

The attached notes on pages 7 to 23 form an integral part of these financial statements

**Far-Eastern Shipping Company PLC
and its subsidiaries**

**Consolidated Statement of Changes in Shareholders' Equity
For the year ended 31 December 2003**

(Expressed in U.S. \$'000s)

	Share Capital (Note 14)	Treasury Stock	Retained Earnings	Other Reserves (Note 15)	Total
Balance at 1 January 2002	4,130	(1,689)	260,112	(630)	261,923
Loss for the year	-	-	(18,537)	-	(18,537)
Dividends paid	-	-	(236)	-	(236)
Disposal of treasury shares	-	1,689	-	-	1,689
Translation difference	-	-	-	222	222
Revaluation of investments to fair value	-	-	-	644	644
Release from investment reserve on disposal	-	-	-	1,129	1,129
Revaluation of fleet	-	-	-	1,648	1,648
Balance 31 December 2002	4,130	-	241,339	3,013	248,482
Profit for the year	-	-	95,656	-	95,656
Deferred tax liability arising on revaluation of fleet	-	-	-	(6,422)	(6,422)
Translation difference	-	-	(708)	258	(450)
Release from investment reserve on disposal	-	-	-	262	262
Release from revaluation reserve – annual	-	-	498	(498)	-
Revaluation of fleet	-	-	-	25,608	25,608
Balance 31 December 2003	4,130	-	336,785	22,221	363,136

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.

**Far-Eastern Shipping Company PLC
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**Consolidated Cash Flow Statement
For the year ended 31 December 2003**

(Expressed in U.S.\$'000s)

	Note	<u>2003</u>	<u>2002</u>
Cash Flow from Operating Activities			
Hire and freight received		337,819	278,706
Payments for voyage and running costs		(260,721)	(242,546)
Other cash receipts		7,030	6,727
Other cash payments		<u>(37,559)</u>	<u>(17,635)</u>
Cash generated by operations		46,569	25,252
Taxation		<u>(4,851)</u>	<u>(90)</u>
Net cash generated by operating activities	18	41,718	25,164
Cash Flow from Investing Activities			
Expenditure on assets under construction		(15,730)	(506)
Expenditure on other fixed assets		(1,482)	(1,697)
Proceeds on disposal:			
Fleet		423	-
Other fixed assets		1,874	127
Investments acquired		(2,830)	(229)
Proceeds on sale of investments		8,863	4,532
Interest and investment income		<u>1,397</u>	<u>1,104</u>
Net cash (used in) / generated by investing activities		<u>(7,485)</u>	<u>3,331</u>
Cash Flow from Financing Activities			
Loan repayments		(20,726)	(21,688)
Dividends paid		-	(382)
Finance charges		(2,320)	(3,649)
Loans drawn down		3,807	5,000
Net cash flow from transactions involving own shares		<u>-</u>	<u>1,689</u>
Net cash used in financing activities		(19,239)	(19,030)
Exchange Differences		<u>1,705</u>	<u>(1,130)</u>
Net increase in Cash and Cash equivalents		16,699	8,335
Cash and Cash equivalents at 1 January		<u>17,244</u>	<u>8,909</u>
Cash and Cash equivalents at 31 December	10	<u><u>33,943</u></u>	<u><u>17,244</u></u>

The attached notes on pages 7 to 23 form an integral part of these financial statements

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Notes to the Financial Statements – 31 December 2003

1. Accounting Policies

(a) Basis of accounting

These financial statements have been prepared in U.S. Dollars, under the historical cost convention as modified by the revaluation of the Group's fleet and fair valuing certain investments in accordance with applicable International Financial Reporting Standards ("IFRS").

(b) Basis of consolidation

These financial statements include the accounts of Far-Eastern Shipping Company PLC ("FESCO") and its principal subsidiaries as indicated in Note 2. Certain subsidiaries and associate companies 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 at fair value as estimated by management. Where it is not possible to accurately estimate fair value they are recorded at historical cost.

(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.

Other fixed assets depreciation

Other fixed assets are depreciated on a straight line basis at the following rates:

Buildings	7% per annum
Machinery, equipment and other fixed assets	5 - 20% per annum
Computers	33% per annum

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. If such indication exists, the asset's recoverable amount is estimated.

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

**Far-Eastern Shipping Company PLC
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Notes to the Financial Statements – 31 December 2003

Accounting Policies (Continued)

(d) Currency translation

The financial statements are presented in U.S. Dollars as this is the principal functional currency of the Group.

Liabilities and current assets in other currencies at the balance sheet date are translated into U.S. Dollars at the relevant rates ruling on that date. For the purposes of these financial statements, liabilities and current assets denominated in Roubles have been translated at a rate of 29.45 Roubles = U.S.\$1 (2002 – 31.78 Roubles = U.S.\$1).

Transactions during the year in Roubles have been translated into U.S. dollars at the actual rates ruling on the date of the transaction. Fixed assets purchases originally recorded in Roubles have been translated into U.S. dollars at estimated historic rates. Share capital issued at the date of the Company's privatisation has been translated at the rate of 455 old Roubles = U.S. \$1. Share capital issued since this date has been translated at the rate prevailing on the date of issue.

Differences on exchange arising on the application of the above policy are dealt with in the Income Statement.

The financial statements of non-Dollar subsidiaries are translated into U.S. Dollars at the rate ruling at 31 December 2003 for balance sheet items and at the average rate for the year for income statement items. For the purposes of these financial statements, liabilities and current assets denominated in Australian Dollars have been translated at a rate of AUS\$1.53 = U.S.\$1 (2002 – AUS\$1.77 = U.S.\$1). Differences on exchange arising on the application of this policy are dealt with in reserves

(e) Fleet revaluation reserve

Increases over historical cost book values arising from the revaluation of the fleet are transferred to a revaluation reserve. Subsequent decreases on revaluation 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.

(f) Dry-docking and special surveys

Dry-docking and special survey costs are expensed as incurred

(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 and spares.

(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.

**Far-Eastern Shipping Company PLC
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Notes to the Financial Statements – 31 December 2003

1. Accounting Policies (Continued)

(i) Revenue recognition

The Group recognises trading income on an accruals basis. Grants in respect of operations performed on behalf of the State are set against voyage and running costs.

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.

(j) Investments and investment income

The Company's investment portfolio includes equity and fixed maturity investments, none of which are held for trading. In accordance with IAS 39, which the Company adopted at 1 January 2000, maturity investments are initially measured at amortised cost and equity investments not recorded at fair value are shown at historical cost. Subsequent to initial recognition investments are restated to fair value with the exception of fixed maturity investments, which the Company intends to hold to maturity and equity investments for which there is no readily available market price. Investments not carried at fair value are recorded at historical cost less impairment provisions where appropriate.

In light of the uncertainties associated with investments in Russia, for investments that are remeasured to fair value, the unreleased gain or loss is recognised in the Statement of Changes in Shareholders' Equity until such time as the investment is sold and the gain or loss crystallises. At this point, the cumulative gain or loss is recognised in the Income Statement.

Investment income is credited when received.

(k) 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.

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Notes to the Financial Statements – 31 December 2003

1. Accounting Policies (Continued)

(l) Pension scheme

The Company has no obligation to provide pensions to any of its employees and accordingly no provision for future cost is required. The Company, in the normal course of business, contributes to the Russian Federation's pension, social insurance and unemployment funds in respect of its sea and administration staff. The Company's pension fund contribution amounts to 28% (2002 - 28%) of employees' salaries, and is expensed as incurred.

(m) Segmental Reporting

The Group does not disclose separate segmental results as, in the view of management, the Group is involved in a single main activity on a global basis.

(n) Financial instruments

The carrying amounts of the Group's financial assets and liabilities (comprising cash and cash equivalents, accounts receivable and payable and long term debtors) approximate to their fair values at the balance sheet date. Where a fair value of a financial asset is materially below the carrying amount the carrying amount is written down to fair value.

(o) Comparative figures

Certain comparative figures have been restated to be consistent with the current year's presentation.

(p) Measurement and Presentation Currency

The national currency of the Russian Federation is the Russian rouble ("RUR"). The measurement and presentation currency used in the preparation of these financial statements is the U.S. Dollar ("USD"). Management has determined the USD to be the measurement currency as they consider that the USD reflects the economic substance of the underlying events and circumstances of the Group. In making this assessment, management has considered the following matters:

- A significant portion of the Group's revenues are invoiced and collected in USD;
- The Group's fixed assets are primarily acquired, settled and financed in USD;
- A significant portion of the Group's expenses are denominated and settled in USD;
- A significant portion of the Group's cash balances are retained in USD.

All financial information presented in USD has been rounded to the nearest thousand. The Russian rouble is not a convertible currency outside the Russian Federation and, accordingly, any conversion of Russian rouble amounts to US dollars should not be construed as a representation that Russian rouble amounts have been, could be, or will be in the future, convertible into US dollars at the exchange rate shown, or at any other exchange rate.

(q) Dividends

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

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Notes to the Financial Statements – 31 December 2003

2. 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 3rd December 1992. The Company’s registered office address is: 15 Aleutskaya Street, Vladivostok 690091, Russia. The Company’s shares are quoted on the over-the-counter market and are openly traded. FESCO’s principal place of business is Vladivostok, Russia.

The Group’s ultimate holding company is OOO “Industrial Investors Group”.

The Group’s principal activities are ship owning, ship management, chartering out and line operating. It has a number of ancillary activities including the management of certain assets, including a fleet of icebreakers on behalf of the State. Assets managed on behalf of the State are not included in the balance sheet.

During 2003 the Group had an average of 4,716 employees (2002 - 4,918).

Although FESCO’s main trading income is denominated in United States Dollars, it has a certain exposure to economic circumstances prevailing in the Russian Federation. These include legislation requiring the conversion of 25% of foreign currency earnings into Roubles.

3. Fleet

	Valuation	Depreciation U.S.\$'000s	Net Book Value
At 1 January 2003	257,490	-	257,490
Depreciation charge for the year	-	(19,676)	(19,676)
Disposals	(346)	-	(346)
Revaluation	85,022	19,676	104,698
At 31 December 2003	<u>342,166</u>	<u>-</u>	<u>342,166</u>
Total deadweight tonnage			<u>951,475</u>

The fleet was revalued by the Group’s management as at 31 December 2003 supported by independent professional valuations carried out in January 2003 and calculations of value in use. The resulting adjustment of U.S. \$104.7 million has been dealt with through the Revaluation Reserve (U.S. \$ 25.6 million) and the Income Statement (U.S. \$ 79.1 million).

Value in use has been calculated based on the estimated future net earnings of each vessel to the end of its useful economic life discounted at a rate of 8%.

At 31 December 2003, 12 vessels in the Group’s fleet with a net book value of U.S.\$ 137.9 million were insured for hull and machinery risks with western underwriters. A further 61 vessels with a net book value of U.S.\$ 204.3 million were insured with Russian underwriters. The total insured value amounted to U.S.\$ 263.1 million.

Depreciated historical cost of the Group’s fleet at 31 December 2003 was U.S.\$313 million (2002 – U.S.\$328 million).

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Notes to the Financial Statements – 31 December 2003

4. Other Fixed Assets

	Buildings and Infrastructure	Plant, Machinery and Other U.S. \$'000s	Total
Cost			
At 1 January 2003	73,497	43,624	117,121
Additions in the year	449	1,033	1,482
Disposals during the year	(1,141)	(4,160)	(5,301)
Impairment adjustment	(4,618)	(2)	(4,620)
Translation difference	128	(496)	(368)
At 31 December 2003	<u>68,315</u>	<u>39,999</u>	<u>108,314</u>
Depreciation			
At 1 January 2003	37,065	31,027	68,092
Charge for the year	4,358	4,091	8,449
Eliminated on disposal	(726)	(3,343)	(4,069)
Impairment adjustment	(1,030)	-	(1,030)
Translation difference	36	(662)	(626)
At 31 December 2003	<u>39,703</u>	<u>31,113</u>	<u>70,816</u>
Net Book Value			
At 31 December 2003	<u>28,612</u>	<u>8,886</u>	<u>37,498</u>
At 31 December 2002	<u>36,432</u>	<u>12,597</u>	<u>49,029</u>

Due to the infrequency of sale transactions in Vladivostok for properties similar to those owned by the Company, management has not been able to carry out a comparison of carrying value against market value. As a consequence buildings and infrastructure are stated at depreciated historical cost which may be significantly different to the amount that would be realised should these properties be sold.

5. Assets Under Construction

Assets under construction comprise:

	2003	2002
	U.S. \$'000s	
Vessel under construction (see Note 19)	15,636	-
Industrial warehouses, residential and municipal buildings and other	1,960	1,930
	<u>17,596</u>	<u>1,930</u>

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Notes to the Financial Statements – 31 December 2003

6. Long Term Investments

	2003	2002
	U.S. \$'000s	
Subsidiary companies (not consolidated)	1,583	1,627
Joint ventures and associates	83	110
Trade loans and investments	813	942
	<u>2,479</u>	<u>2,679</u>

Subsidiaries comprise: -

	2003	2002
	U.S. \$'000s	
Versailles	2,655	2,655
Versailles – provision for impairment	(2,155)	(2,155)
Sental	384	384
Mormedstrakh	-	238
Slavyansky Ship Repair Company	674	444
Other	25	61
	<u>1,583</u>	<u>1,627</u>

Details of the principal subsidiaries are disclosed in Note 24.

Joint ventures and associates comprise:-

	2003	2002
	U.S. \$'000s	
Sea Terminal Nakhodka (ceased trading)	2,676	2,676
Sea Terminal Nakhodka – provision for impairment	(2,676)	(2,676)
AKZO-Nobel- FESCO Ltd	51	51
United Orient Shipping Agency Company Ltd.	21	21
Morservice	-	30
Other	11	8
	<u>83</u>	<u>110</u>

Details of the principal joint ventures and associates are disclosed in note 25.

7. Inventories

	2003	2002
	U.S. \$'000s	
Bunkers	3,492	3,536
Stores and spares	261	324
Victualling	331	266
Other stocks and raw materials	137	104
	<u>4,221</u>	<u>4,230</u>

**Far-Eastern Shipping Company PLC
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Notes to the Financial Statements – 31 December 2003

8. Accounts Receivable

	2003	2002
	U.S. \$'000s	
Trade debtors	36,180	25,562
Due from associates	1,365	1,333
Profit tax receivable	81	125
VAT receivable	9,867	15,500
Other debtors and prepayments	12,675	8,364
Bad debt provision	(23,502)	(24,235)
	<u>36,666</u>	<u>26,649</u>

Included in trade debtors are amounts due from agents used to settle liabilities on behalf of the Group.

U.S.\$19.4 million (2002 – U.S.\$21 million) of Accounts Receivable is Rouble denominated.

Under Russian Fiscal legislation the Company is required to charge VAT on export freight. The Company may only reclaim or offset these amounts if its customers provide it with certain specified documents which must be shown to the authorities. During the year management undertook active steps to collect the specified documents and was able to reduce the outstanding balance in this category to U.S.\$9.9 million (2002 -U.S.\$15.5 million). Due to continuing difficulty obtaining the required documents management has taken the decision to retain a 60% (2002 - 75%) provision against all such amounts. As a result the provision has decreased from U.S.\$11.6 million against a balance of U.S.\$15.5 million at 31 December 2002 to U.S.\$5.9 million against a balance of U.S.\$9.9 million at 31 December 2003.

9. Investments available for sale

	2003	2002
	U.S. \$'000s	
Fair value at 1 January	7,205	13,174
Additions	2,271	-
Disposals	(7,437)	(2,732)
Fair value adjustment	(1,292)	(3,237)
Fair value at 31 December	<u>747</u>	<u>7,205</u>

The investments included above represent investments in equity securities and loans that present the Company with opportunity for return through dividend income and trading gains.

**Far-Eastern Shipping Company PLC
and its subsidiaries**

Notes to the Financial Statements – 31 December 2003

10. Bank and cash balances

	2003	2002
	U.S. \$'000s	
Bank accounts and cash in hand	24,964	12,237
Restricted deposits	6,045	4,555
Short dated promissory notes	3,339	498
	<u>34,348</u>	<u>17,290</u>
Bank overdraft	(405)	(46)
	<u>33,943</u>	<u>17,244</u>

11. Accounts Payable

	2003	2002
	U.S. \$'000s	
Trade creditors	17,879	21,400
Due to non consolidated subsidiaries	685	-
Due to associates	167	1,577
Profit taxes payable	947	734
Non-profit taxes payable	305	6,706
Other creditors and accruals	16,662	15,395
Dividends payable	126	118
	<u>36,771</u>	<u>45,930</u>

U.S.\$8.7 million (2002 – U.S.\$9 million) of Accounts Payable is Rouble denominated.

12. Loans and Other Obligations

	2003	2002
	U.S. \$'000s	
Loans and other obligations comprise:		
EBRD	43,000	51,000
HSH Nordbank – Loan 1	2,500	5,500
HSH Nordbank – Loan 2	5,625	7,875
Others	617	4,286
	<u>51,742</u>	<u>68,661</u>
Repayable within the next twelve months	13,367	17,536
Long term balance	38,375	51,125
	<u>51,742</u>	<u>68,661</u>

**Far-Eastern Shipping Company PLC
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Notes to the Financial Statements – 31 December 2003

12. Loans and Other Obligations (continued)

(a) EBRD

A loan of U.S. \$93.5 million was provided to the Group on 22 December 1997, under agreements dated 12 and 22 December 1997.

The purpose of the loan, which is a joint and several loan, was to refinance an existing EBRD loan and to provide funds to finance the construction of the new buildings delivered in 1998.

The outstanding balance of U.S.\$43 million is repayable in quarterly instalments of U.S.\$2 million each and a final balloon payment on 31 December 2006. Interest is payable at LIBOR + 1.4375%, reducing to LIBOR + 1.1875% if various loan covenants are met.

The loan is secured by first mortgages on seven vessels in the Group's fleet with an aggregate book value of U.S.\$106 million, pledges of shares of the subsidiaries concerned, assignments of the bareboat charters and bank accounts, and by a guarantee from FESCO.

(b) Hamburgische Landesbank

A U.S.\$16 million syndicated facility from Hamburgische Landesbank (since 2 June 2003 merged with LB Kiel to form HSH Nordbank AG) was advanced to the Group in December 1998.

The final payment of U.S.\$2.5 million is due in June 2004 with interest at LIBOR plus 1.25%.

The loan is joint and several and is secured by mortgages on three vessels in the Group's fleet with an aggregate book value of U.S.\$13.5 million, assignments of earnings and insurances, pledges of shares in the vessel owning companies of the Group and a guarantee from FESCO.

In April 1998, U.S.\$18 million was drawn down from Hamburgische Landesbank (now HSH Nordbank).

The outstanding balance of the loan, amounting to U.S.\$5.625 million, is repayable in equal half yearly instalments of U.S.\$1.125 million each with interest at LIBOR plus 1.25%.

The loan is secured by first mortgages on two vessels in the Group's fleet with an aggregate book value of U.S.\$18 million, pledges of shares of the vessel owning companies of the Group, assignments of bareboat charters and bank accounts and by a guarantee from the Company.

(c) Black Gold Trading and Finance Corporation

In June, 2003 the Company received a loan from Black Gold Trading and Finance Corp. for working capital needs. The outstanding balance of the loan at 31 December 2003 amounted to U.S.\$617 thousand. This loan is interest free with no fixed terms of repayment.

Where applicable, licences have been issued by the Central Bank of Russia in respect of all foreign borrowings.

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13. Deferred Taxation

Deferred taxation is provided for in full on all temporary timing differences between the carrying values of assets and liabilities reported for tax purposes and for accounting purposes. The provision is based on the Company's anticipated effective profit tax rate of 24% (2002 – 24%).

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following items:

	Assets		Liabilities		Net	
	2003	2002	2003	2002	2003	2002
	USD'000s					
Vessels	-	-	(28,728)	-	(28,728)	-
Other fixed assets	-	-	(6,345)	(8,709)	(6,345)	(8,709)
Assets under construction	-	-	(3,994)	(290)	(3,994)	(290)
Investments	778	-	-	(1,758)	778	(1,758)
Inventory	416	227	-	-	416	227
Accounts receivable	7,930	271	-	-	7,930	271
Accounts payable	108	2,173	-	-	108	2,173
Provisions, accruals and deferred income	4,634	4,039	-	-	4,634	4,039
Foreign deferred tax	86	157	-	-	86	157
Net tax (assets) / liabilities	13,952	6,867	(39,067)	(10,757)	(25,115)	(3,890)

Movement in temporary differences during the year

	Balance 31 December 2002	(Charge) / release to income for the year	Charge to equity for the year	Balance 31 December 2003
Vessels	-	(22,306)	(6,422)	(28,728)
Other fixed assets	(8,709)	2,364	-	(6,345)
Assets under construction	(290)	(3,704)	-	(3,994)
Investments	(1,758)	2,536	-	778
Inventories	227	189	-	416
Accounts receivable	271	7,659	-	7,930
Accounts payable	2,173	(2,065)	-	108
Provisions, accruals and deferred income	4,039	595	-	4,634
Foreign deferred tax	157	(71)	-	86
	(3,890)	(14,803)	(6,422)	(25,115)

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14. Share Capital

	2003	2002
Authorised number of shares (1 Rouble per share)	2,000,000,000	2,000,000,000
Issued number of shares	1,643,593,000	1,643,593,000
Share capital (U.S.\$'000)	4,130	4,130

Upon privatisation of the Company on 3 December 1992, 1,626,855 shares of 1,000 old Roubles each were issued at par by a capitalisation of reserves of an equivalent amount. During 1994 a further 16,738 shares of 1,000 old Roubles each were issued for a consideration equivalent to U.S. \$556,000 giving rise to a share premium of U.S. \$548,000. In May 1995, the shares were split, reducing the nominal value from 1,000 old Roubles to 100 old Roubles and a further 147,923,370 shares issued by a transfer from reserves. In May 1996, the nominal value of the shares was increased from 100 old Roubles to 1,000 old Roubles, increasing the share capital to old Roubles 1,643,593 million, by a further transfer from reserves. In 1998 the nominal value was redenominated to 1 new Rouble. No value has been attributed to the share capital increases in 1995 and 1996, as the Company's statutory revaluation reserve out of which the transfers were made has effectively already been reflected in the U.S. Dollar value of the share capital calculated at the date of the Company's privatisation.

15. Other Reserves

	Investment Fair Value Reserve U.S.\$'000s	Fleet Revaluation Reserve U.S.\$'000s	Other Reserves U.S.\$'000s	Total U.S.\$'000s
Balance 1 January 2002	(2,035)	-	1,405	(630)
Revaluation of investments to fair value	644	-	-	644
Release on investment reserve on disposal	1,129	-	-	1,129
Revaluation of fleet	-	1,648	-	1,648
Translation difference	-	-	222	222
	(262)	1,648	1,627	3,013
Balance 1 January 2003	(262)	1,648	1,627	3,013
Deferred tax liability arising on revaluation of fleet	-	(6,422)	-	(6,422)
Release of investment reserve on disposal	262	-	-	262
Revaluation of fleet	-	25,608	-	25,608
Release from revaluation reserve – annual release	-	(498)	-	(498)
Translation difference (Note 4)	-	-	258	258
	-	20,336	1,885	22,221
Balance 31 December 2003	-	20,336	1,885	22,221

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Notes to the Financial Statements – 31 December 2003

16. Taxation

Profit tax is calculated at an average rate of 24% (2002 –24 %), based on profit as computed under Russian accounting regulations and adjusted for fiscal purposes.

	2003	2002
	U.S.\$'000s	
Charge for the year	3,997	780
Overseas taxation	1,111	296
Deferred taxation	14,803	4,027
	<u>19,911</u>	<u>5,103</u>

The Group's accounting profit / (loss) can be reconciled to taxable profit as follows: -

	2003	2002
	U.S.\$'000s	
Accounting profit / (loss)	95,656	(18,537)
Adjustment for foreign subsidiaries not subject to Russian tax	(15,951)	(11,559)
Adjustments to comply with IAS	(60,893)	31,061
Accounting profit in accordance with Russian standards	18,812	965
Adjustment for (allowable deductions)/disallowable items	(2,158)	2,285
Taxable profit	<u>16,654</u>	<u>3,250</u>

Other significant domestic taxes borne by the company include:

	2003	2002
	U.S.\$'000s	
Property tax	938	983
Road tax (2003 – abolished)	-	2,413
Others	267	469
	<u>1,205</u>	<u>3,865</u>

Property tax is calculated at a rate of 2% (2002 – 2%) on the value of assets as computed under Russian accounting regulations. Road tax was abolished in 2003 (2002 – 1% on turnover).

17. Dividends Paid

	2003	2002
	U.S.\$'000s	
Dividends declared during 2003 - nil (2002 – 0.0045 Roubles per share)	-	236

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Notes to the Financial Statements – 31 December 2003

18. Reconciliation of Operating Profit/(Loss) to Operating Cash Flows

	2003	2002
	U.S.\$'000s	
Profit / (Loss) before Taxation, Asset Disposals and Revaluations	40,053	(19,921)
Taxation	(19,911)	(5,103)
Adjusted for:		
Deferred taxation	14,803	4,027
Finance charges	2,320	3,649
Interest received and investment income	(1,397)	(1,104)
Depreciation	28,125	29,483
Amortisation of intangible assets	-	306
Exchange differences	(2,418)	1,141
Movements in working capital:		
(Increase) / Decrease in accounts receivable	(10,017)	2,970
Decrease in inventories	9	1,508
(Decrease) / Increase in accounts payable	(9,167)	6,328
(Increase) / Decrease in voyages in progress	(928)	902
Non cash movements:		
Vessel equipment expensed	246	978
Net cash from operating activities	<u>41,718</u>	<u>25,164</u>

19. Contingencies and Capital Commitments

At 31 December 2003, the Company had outstanding commitments under non-cancellable operating leases, which fall due as follows:

	2003	2002
	U.S.\$'000s	
Due with in one year	1,571	1,656
Due in one to five years	16,155	16,635
More than five years	508	2,952
Outstanding commitment	<u>18,234</u>	<u>21,243</u>

Included in the above are lease payments where the option to purchase containers exists. The total commitment in respect of these payments is U.S.\$10.4 million (2002 - U.S.\$14.8 million). Also included above is rentals payable by the Company for certain of its office properties.

The Company entered into a shipbuilding contract for the construction of an Ice breaking supply and stand-by vessel at a cost of EUR63 million, scheduled for delivery not later than 31 May 2005. The first two instalments of 10% each were paid to the shipyard during the financial year. The third instalment of 10% is payable in 2004, and the remaining 70% (EUR44.1m) is to be paid in 2005.

During the reporting period, a customer of the Company instigated proceedings against it for alleged violation of discharging procedures. The losses to the customer have been estimated at U.S.\$4.5 million. The lawyers of the Company have advised that they do not consider the suit has merit, and they have recommended that it can be contested. To cover a potential judgment rendered against FESCO to allow appeal, the Group has issued an irrevocable stand by letter of credit, collateralised by a certificate of deposit in favour of a Turkish bank for U.S.\$ 2.32 million.

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20. Profit/(Loss) On Disposal Of Fixed Assets and Investments

	2003	2002
	U.S.\$'000s	
Profit/(Loss) on sale of vessels	77	(667)
Profit/(Loss) on disposal of other fixed assets	823	(411)
Profit on disposal of Government bonds	259	813
Morbank bonds written off	-	(3,237)
Profit/(Loss) on disposal of other investments	146	(510)
	<u>1,305</u>	<u>(4,012)</u>

21. Fair Value and Impairment Adjustments

	2003	2002
	U.S.\$'000s	
Fleet revaluation	-	(6,367)
Fleet – reversal of prior year impairment	79,090	19,515
Investments fair value adjustments	(1,292)	(828)
Release of fair value reserve on Morbank bonds written off	-	(1,129)
Fixed assets write down	(3,589)	(692)
	<u>74,209</u>	<u>10,499</u>

22. Profit/(Loss) per share

	2003	2002
	U.S.\$	
Profit / (Loss) for the year	95,656,000	(18,537,000)
Weighted average number of shares	<u>1,639,788,314</u>	<u>1,506,812,694</u>
Profit / (Loss) per share	<u>0.058</u>	<u>(0.01)</u>

23. Post balance sheet events

During April 2004, the Company entered into a shipbuilding contract for the construction of two 1,730 TEU container vessels at a cost of U.S.\$ 27 million each with an option for the construction of a third vessel. Delivery is scheduled in the fourth quarter of 2007.

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24. Subsidiary Companies

The principal subsidiary companies of Far-Eastern Shipping Company PLC are:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Percentage Holding</u>	<u>Activity</u>
FESCO Agencies (UK) Ltd (Group)	United Kingdom	100%	Shipping agency and operations
FESCO Lines Australia Pty Ltd (Group)	Australia	100%	Shipping agency
Roselau Shipping Co. Ltd (Group)	Cyprus	100%	Ship owning
Tryfield Shipping Co. Ltd (Group)	Cyprus	100%	Ship owning
FESCO Agencies NA Inc. (Group)	USA	100%	Shipping agency
* Sental	Russia	100%	Bricks production
* Versailles	Russia	59%	Hotel operator
* Fesinvest	Russia	100%	Investment company
* Slavyansky Ship Repair Company	Russia	50%	Ship repair yard
* FESCO Logistik	Russia	100%	Shipping agency
* Dalrefrans	Russia	100%	Shipping agency
* FESCO Intermodal	Russia	100%	Shipping agency
* Not consolidated			

**Far-Eastern Shipping Company PLC
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The principal joint ventures and associates of Far-Eastern Shipping Company PLC are:

<u>Name</u>	<u>Country of Incorporation</u>	<u>Percentage Holding</u>	<u>Activity</u>
AKZO-Nobel- FESCO Ltd	Hong Kong	49%	Supply of paint in Far East Russia
Sea Terminal Nakhodka (ceased trading)	Russia	25%	Port facility
United Orient Shipping Agency Company Limited	Japan	25%	Shipping agency
Vostochnii express service	Russia	34%	Shipping agency