

FINANCIAL STATEMENTS

Consolidated financial statements for the year ended 31 December 2019 and Independent Auditor's Report



Independent Auditors' Report

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

Opinion

We have audited the consolidated financial statements of FAR-EASTERN SHIPPING COMPANY PLC. (FESCO) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2019, the consolidated statements of profit or loss, comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at 31 December 2019, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRS).

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the independence requirements that are relevant to our audit of the consolidated financial statements in the Russian Federation and with the International Code of Ethics for Professional Accountants (including International Independence Standards), and we have fulfilled our other ethical responsibilities in accordance with the requirements in the Russian Federation and the International Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Audited entity: FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)

Registration No. in the Unified State Register of Legal Entities
1022502256127.

Moscow, Russia

Independent auditor: JSC "KPMG", a company incorporated under the Laws of the Russian Federation, a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

Registration No. in the Unified State Register of Legal Entities 1027700125628.

Member of the Self-regulatory Organization of Auditors Association "Sodruzhestvo" (SRO AAS). The Principal Registration Number of the Entry in the Register of Auditors and Audit Organisations: No. 12006020351.



Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Valuation of goodwill

Please refer to the Note 4 in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group has significant goodwill which is material to the consolidated financial statements as at 31 December 2019. Due to current market conditions and continuing market volatility, volatility of import and export volumes and exchange rates there is a risk that the above may be not recoverable in full. The risk is associated with goodwill of Vladivostok Sea Trade Port ("VMTP") cash generating unit ("CGU").</p> <p>As at the reporting date management determines the recoverable amount of the Group's assets and cash generating units as their value in use.</p> <p>Due to the inherent uncertainty involved in forecasting and discounting future cash flows, which are the basis of the assessment of recoverability, this is one of the key judgmental areas that our audit is concentrated on.</p>	<p>We evaluated the reasonableness of the expected cash flow forecasts by comparing them with externally derived data as well as our own assessments in relation to key inputs such as forecasts for volumes of containers throughput and other cargoes, forecasted container charge out and general cargo rates, costs projections, discount and terminal growth rates.</p> <p>We challenged:</p> <ul style="list-style-type: none"> - the key assumptions for short and long term growth rates in the forecasts by comparing them with economic and industry forecasts; - the discount rates used. Specifically, we recalculated the Group's weighted average cost of capital using market comparable information. <p>We used our own valuation specialist to assist us in evaluating the assumptions and methodologies used by the Group.</p>

Going concern considerations related to the COVID-19 outbreak

Please refer to the Note 2(d) in the consolidated financial statements.

The key audit matter	How the matter was addressed in our audit
<p>The Group's consolidated financial statements are prepared on a going concern basis.</p> <p>The World Health Organization declared in March 2020 the coronavirus (COVID-19) outbreak a pandemic. The</p>	<p>We analysed management's assessment of the going concern basis of accounting, including their evaluation of business and liquidity risks arising from the COVID-19 outbreak, and plans for further actions in response to the risks identified. As part of the procedure we also made corroborating</p>



The key audit matter	How the matter was addressed in our audit
<p>Russian government authorities has taken a number of measures to counter the effects of the outbreak, including border closures, quarantine, limitations imposed on cross-border and domestic transportation. As a result, during February and March 2020, the Group experienced a reduction in transportation volumes to and from China partially counterbalanced by increase in the volumes of internal transportation and goods loading services.</p> <p>The Group's going concern assessment was based on cash flow forecasts which in management's view support the assertion that the Group will have sufficient resources to continue in operational existence for the foreseeable future. The forecasts reflected a number of scenarios, considered by management to be plausible, such as prolonged transportation volumes decrease for import and export directions. As part of the assessment, management also considered a number of actions aimed at alleviating the potential disruption to the Group's business and liquidity position as discussed in Note 2.</p> <p>The Group's use of the going concern basis of accounting is a key audit matter due to high level of management judgment required and inherent uncertainty involved in forecasting and evaluating financial impact of current economic environment and measures planned by the Group.</p>	<p>inquiries of the Group's president and vice-president on finance and CFO.</p> <p>We tested the reasonableness expected cash flow forecasts by performing the following:</p> <ul style="list-style-type: none"> - Challenging the key assumptions used in the determination of the forecast financial information under various scenarios. This primarily included challenging the forecast sales volumes, charge-out rates and costs projections based on our understanding of the Group's activities and by reference to publicly available industry/market reports; - Performing an analysis of the going concern conclusion's sensitivity to changes in the aforementioned key assumptions adopted in the going concern assessment, and considering whether there were any indicators of management bias in the assessment. <p>We evaluated the adequacy of the Group's disclosures in respect of the going concern assessment and any related uncertainties in the consolidated financial statements.</p>



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Other Information

Management is responsible for the other information. The other information comprises the information included in the Group's Annual Report but does not include the consolidated financial statements and our auditors' report thereon. The Group's Annual Report is expected to be made available to us after the date of this auditors' report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

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As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditors' report is:


Ludmila Klimanova
JSC "KPMG"
Moscow, Russia
20 May 2020

