

OPEN JOINT STOCK COMPANY TRANSCONTAINER

Consolidated Financial Statements

For the Year Ended 31 December 2013

OJSC TRANSCONTAINER

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of OJSC TransContainer (the "Company") and its subsidiaries (the "Group") as at 31 December 2013 and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective system of internal controls throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the companies of the Group operate;
- Taking necessary steps to safeguard the Group's assets;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2013 were approved on 28 March 2014 by:



P. V. Baskakov
General Director



K. S. Kalmykov
Chief Accountant



Independent Auditor's Report

To the Shareholders and Board of Directors of Open Joint Stock Company TransContainer

We have audited the accompanying consolidated financial statements of Open Joint Stock Company TransContainer and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.



Independent Auditor's Report (Continued)

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

31 March 2014

Moscow, Russian Federation



A.A. Okishev, Director (licence no. K002439),
ZAO PricewaterhouseCoopers Audit

Audited entity: OJSC TransContainer

Certificate of inclusion in the Unified State Register of Legal Entities issued on 4 March 2006 under registration № 1067746341024

Russian Federation, 125047, Moscow, Oruzheiny pereulok, 19

Independent auditor: ZAO PricewaterhouseCoopers Audit


State registration certificate № 008.890, issued by the Moscow Registration Chamber on 28 February 1992

Certificate of inclusion in the Unified State Register of Legal Entities issued on 22 August 2002 under registration № 1027700148431

Certificate of membership in self regulated organisation non-profit partnership "Audit Chamber of Russia" № 870. ORNZ 10201003683 in the register of auditors and audit organizations

OJSC TRANSCONTAINER
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
(Amounts in millions of Russian Roubles)

	Notes	2013	2012 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	8	36,326	34,233
Investment property		74	-
Advances for acquisition of non-current assets	8	243	358
Trade receivables	11	365	452
Intangible assets other than goodwill	9	150	592
Goodwill	10	-	216
Investments in associates and joint ventures	10	2,330	54
Other non-current assets		76	97
Total non-current assets		39,564	36,002
Current assets			
Inventory		358	334
Trade and other receivables	11	1,621	1,262
Prepayments and other current assets	12	3,435	4,434
Prepaid income tax		114	132
Short-term investments	13	1	1,339
Cash and cash equivalents	14	1,883	1,318
Total current assets		7,412	8,819
TOTAL ASSETS		46,976	44,821
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	13,895	13,895
Treasury shares	15	(484)	(490)
Reserve fund	15	697	478
Translation reserve		10	49
Equity-settled employee benefits reserve	19	221	188
Other reserves, including investment property's revaluation reserve	15	(2,165)	(2,221)
Retained earnings		19,305	14,725
Total equity attributable to equity holders of the parent		31,479	26,624
Non-controlling interest	10	-	937
Total equity		31,479	27,561
Non-current liabilities			
Long-term debt	16	6,194	2,731
Finance lease obligations, net of current maturities	17	485	668
Employee benefit liability	18	1,096	1,266
Deferred tax liability	27	1,445	1,700
Total non-current liabilities		9,220	6,365
Current liabilities			
Trade and other payables	20	3,216	3,773
Short-term debt and current portion of long-term debt	16	1,693	5,695
Income tax payable		77	167
Taxes other than income tax payable	21	372	367
Provisions		19	10
Finance lease obligations, current maturities	17	66	94
Accrued and other current liabilities	22	834	789
Total current liabilities		6,277	10,895
TOTAL EQUITY AND LIABILITIES		46,976	44,821



P. V. Baskakov
 General Director


K. S. Kalmykov
 Chief Accountant

28 March 2014

OJSC TRANSCONTAINER
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
(Amounts in millions of Russian Roubles, unless otherwise stated below)

	Notes	2013	2012 (restated)
Revenue	23	39,164	36,365
Other operating income	24	747	417
Operating expenses	25	(32,859)	(29,359)
Gain on disposal of controlling interest in subsidiary	7	757	-
Gain from disposal of associate	10	-	72
Gain from early termination of finance lease	17	32	-
Interest expense	26	(782)	(885)
Interest income		223	212
Foreign exchange gain/(loss), net		65	(1)
Share of result of associates and joint ventures	10	2	(19)
Profit before income tax		7,349	6,802
Income tax expense	27	(1,375)	(1,570)
Profit for the year		5,974	5,232
Attributable to:			
Equity holders of the parent		5,865	5,183
Non-controlling interest	10	109	49
Other comprehensive income			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of post-employment benefit plans		119	(104)
Remeasurements of investment property		70	-
Income tax effect		(20)	5
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translating foreign operations		9	(208)
Other comprehensive income for the year		178	(307)
Total comprehensive income for the year		6,152	4,925
Attributable to:			
Equity holders of the parent		5,995	4,940
Non-controlling interest		157	(15)
Earnings per share, basic and diluted (Russian Roubles)		422	374
Weighted average number of shares outstanding	15	13,896,193	13,863,408

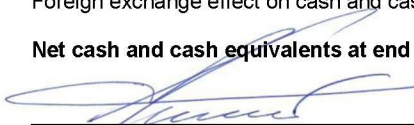

P. V. Baskakov
 General Director


K. S. Kalmykov
 Chief Accountant

28 March 2014

OJSC TRANSCONTAINER
CONSOLIDATED STATEMENT OF CASH FLOWS
(Amounts in millions of Russian Roubles)

	Notes	2013	2012 (restated)
Cash flows from operating activities:			
Profit before income tax		7,349	6,801
Adjustments for:			
Depreciation and amortisation	25	1,943	2,740
Change in provision for impairment of receivables	25	194	(11)
(Gain)/loss on disposal of property, plant and equipment		(166)	27
Loss on impairment of property, plant and equipment	8	123	1
Share of result of associates and joint ventures	10	(2)	19
Gain on disposal of controlling interest in subsidiary		(757)	-
Gain from disposal of associate	10	-	(72)
Interest expense, net		559	673
Equity-settled employee benefits reserve	19	41	87
Foreign exchange (gain)/loss, net		(65)	1
Gain from early termination of finance lease		(32)	-
Change in provisions		20	5
Other income and expenses		7	(3)
Operating profit before working capital changes, income tax paid and changes in other assets and liabilities		9,214	10,268
Working capital changes:			
Decrease in inventory		259	22
(Increase)/decrease in trade and other receivables		(1,097)	188
Decrease/(increase) in prepayments and other assets		847	(525)
Increase/(decrease) in trade and other payables		24	(697)
(Decrease)/increase in taxes other than income tax		(6)	65
Increase in accrued expenses and other current liabilities		67	202
(Decrease)/increase in employee benefit liabilities	18	(51)	19
Net cash from operating activities before income tax		9,257	9,542
Interest paid		(665)	(834)
Income tax paid		(1,367)	(1,466)
Net cash provided by operating activities		7,225	7,242
Cash flows from investing activities:			
Purchases of property, plant and equipment		(6,632)	(5,691)
Proceeds from disposal of property, plant and equipment		17	6
Acquisition of subsidiary, net of cash acquired		-	(103)
Proceeds from disposal of controlling interest in subsidiary, net of cash disposed	7	412	-
Sale of short-term investments		4,937	1,541
Sale of long-term investments		1	16
Purchases of short-term investments		(3,688)	(1,939)
Purchases of long-term investments		-	(3)
Purchases of intangible assets		(87)	(82)
Interest received		265	194
Net cash used in investing activities		(4,775)	(6,061)
Cash flows from financing activities:			
Proceeds from long-term bonds	16	4,988	-
Repayments of finance lease obligations		(166)	(491)
Dividends	15	(1,187)	(1,228)
Principal payments on long-term borrowings		(29)	(2)
Principal payments on short-term borrowings		(1,830)	-
Principal payments on short-term bonds		(3,750)	(346)
Net cash used in financing activities		(1,974)	(2,067)
Net increase / (decrease) in cash and cash equivalents		476	(886)
Cash and cash equivalents at beginning of the year		1,318	2,257
Foreign exchange effect on cash and cash equivalents		89	(53)
Net cash and cash equivalents at end of the year		1,883	1,318



P. V. Baskakov
 General Director


K. S. Kalmykov
 Chief Accountant

28 March 2014

OJSC TRANSCONTAINER
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
(Amounts in millions of Russian Roubles)

	Notes	Share capital	Treasury shares	Reserve fund	Translation reserve	Equity-settled employee benefits reserve	Other reserves, including investment property's revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012 (as previously reported)		13,895	(514)	304	193	148	(2,221)	11,161	22,966	962	23,928
Effect of changes in accounting policies	4	-	-	-	-	-	-	(141)	(141)	-	(141)
Balance at 1 January 2012 (restated)		13,895	(514)	304	193	148	(2,221)	11,020	22,825	962	23,787
Profit for the year (restated)		-	-	-	-	-	-	5,183	5,183	49	5,232
Other comprehensive income for the year		-	-	-	(144)	-	-	(99)	(243)	(64)	(307)
Total comprehensive income for the year		-	-	-	(144)	-	-	5,084	4,940	(15)	4,925
Equity-settled employee benefits reserve		-	-	-	-	87	-	-	87	-	87
Exercised options under option plan		-	24	-	-	(47)	-	13	(10)	-	(10)
Dividends		-	-	-	-	-	-	(1,218)	(1,218)	(10)	(1,228)
Transfer to reserve fund		-	-	174	-	-	-	(174)	-	-	-
Balance at 31 December 2012 (restated)		13,895	(490)	478	49	188	(2,221)	14,725	26,624	937	27,561
Balance at 31 December 2012 (as previously reported)		13,895	(490)	478	49	188	(2,221)	14,884	26,783	937	27,720
Effects of changes in accounting policies	4	-	-	-	-	-	-	(159)	(159)	-	(159)
Balance at 31 December 2012 (restated)		13,895	(490)	478	49	188	(2,221)	14,725	26,624	937	27,561
Profit for the year		-	-	-	-	-	-	5,865	5,865	109	5,974
Other comprehensive income for the year		-	-	-	(39)	-	56	113	130	48	178
Total comprehensive income for the year		-	-	-	(39)	-	56	5,978	5,995	157	6,152
Equity-settled employee benefits reserve	19	-	-	-	-	41	-	-	41	-	41
Disposal of controlling interest in subsidiary	7	-	-	-	-	-	-	-	-	(1,044)	(1,044)
Exercised options under option plan	19	-	6	-	-	(8)	-	8	6	-	6
Dividends	15	-	-	-	-	-	-	(1,187)	(1,187)	(50)	(1,237)
Transfer to reserve fund		-	-	219	-	-	-	(219)	-	-	-
Balance at 31 December 2013		13,895	(484)	697	10	221	(2,165)	19,305	31,479	-	31,479


P. V. Baskakov
 General Director
 28 March 2014


K. S. Kalmykov
 Chief Accountant

The accompanying notes are an integral part of these consolidated financial statements.

OJSC TRANSCONTAINER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts in millions of Russian Roubles, unless otherwise stated below)

1. NATURE OF THE BUSINESS

OJSC TransContainer (the “Company” or “TransContainer”) was incorporated as an open joint stock company in Moscow, Russian Federation on 4 March 2006.

The Company was formed as a result of a spin-off by OJSC “Russian Railways” (“RZD”), which is 100% owned by the Russian Federation, of some of its activities and certain assets and liabilities related to container transportation into a separate legal entity. In connection with this spin-off RZD contributed to the share capital of the Company containers, flatcars, buildings and constructions in the amount of RUR 13,057m, VAT receivable related to these assets of RUR 104m, and cash of RUR 991m, in exchange for the ordinary shares of the Company.

Furthermore, certain employees previously employed by RZD were hired by the Company. The Company assumed related employee benefit liabilities from RZD. Pursuant to this spin-off, RZD maintained the functions of the carrier, whilst the Company assumed the functions of a freight forwarding agent.

The Company’s principal activities include arrangement of rail-based container shipping and other logistics services including terminal services, freight forwarding and intermodal delivery using rolling stock and containers. The Company operates 46 container terminals along the Russian railway network. As at 31 December 2013, the Company operated 17 branches in Russia. The Company’s registered address is 19 Oruzheiny pereulok, Moscow, 125047, Russian Federation.

The Company has ownership in the following entities:

Name of Entity	Type	Country	Activity	% interest held		% voting rights	
				2013	2012	2013	2012
Oy ContainerTrans Scandinavia Ltd. (Note 10)	Joint venture	Finland	Container shipments	50	50	50	50
JSC TransContainer-Slovakia	Subsidiary	Slovakia	Container shipments	100	100	100	100
Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd. (Note 10)	Joint venture	China	Container shipments	49	49	50	50
TransContainer Europe GmbH	Subsidiary	Austria	Container shipments	100	100	100	100
TransContainer Asia Pacific Ltd.	Subsidiary	Korea	Container shipments	100	100	100	100
Trans-Eurasia Logistics GmbH (Note 10)	Associate	Germany	Container shipments	20	20	20	20
LLC TransContainer Finance (renamed LLC Prostor Invest Group) (Note 19)	Subsidiary	Russia	Share option programme operator	100	100	100	100
JSC Kedentransservice (Notes 7,10)	Joint venture	Kazakhstan	Container shipments	50	67	50	67
Helme’s Operation UK Limited (Notes 7,10)	Joint venture	Great Britain	Investment activity	50	100	50	100
Logistic Investment SARL	Subsidiary	Luxemburg	Investment activity	100	100	100	100
Logistic System Management B.V. (Notes 7,10)	Joint venture	Netherlands	Investment activity	50	100	50	100

The consolidated financial statements of OJSC TransContainer and its subsidiaries (the “Group”) as at 31 December 2013 and for the year then ended were authorised for issue by the General Director of the Company on 28 March 2014.

OJSC TRANSCONTAINER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts in millions of Russian Roubles, unless otherwise stated below)

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

Statement of compliance – These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

Basis of preparation – These consolidated financial statements are prepared on the basis of standalone financial statements of the Company and its subsidiaries. The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered.

The Group’s consolidated financial statements have been prepared using the historical cost convention, except for the effects of assets acquired and liabilities assumed at the formation of the Company, which were recorded at the estimated fair value at the date of transfer and initial recognition of financial instruments based on fair value, revaluation of investment properties and available-for-sale financial assets.

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS.

The consolidated financial statements are presented in millions of Russian Roubles (hereinafter “RUR m”), except where specifically noted otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The accounting policies have been applied consistently by all consolidated operating entities.

Consolidated financial statements. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through 31 December each year. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries (other than those acquired from parties under common control). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest's proportionate share of the acquiree’s net assets. Which principle to

OJSC TRANSCONTAINER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts in millions of Russian Roubles, unless otherwise stated below)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

apply for measuring non-controlling interest is defined by the Group individually for each particular business combination.

Goodwill is measured by deducting the acquiree's net assets from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of the interest in the acquiree held immediately before the acquisition date. Any negative amount ("negative goodwill") is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt; and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group's equity.

Investments in associates and joint ventures. Joint venture is a joint activity which implies that the parties, that have joint control over the activity, have the rights to the net assets of the activity. Joint control occurs in the case when decisions relating to the relevant activities require the unanimous consent of the parties sharing joint control in accordance with the contract.

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. Dividends received from associates (joint ventures) reduce the carrying value of the investment in associates (joint ventures). Other post-acquisition changes in the Group's share of an associate's (joint ventures') net assets are recognised as follows: (i) the Group's share of profits or losses of associates (joint ventures) is recorded in the consolidated profit or loss for the period as the share of financial result of associates (joint ventures), (ii) the Group's share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group's share of the carrying value of net assets of associates (joint ventures) are recognised in consolidated profit or loss within the share of financial result of associates (joint ventures).

When the Group's share of losses in an associate (joint venture) equals or exceeds its interest in the associate (joint venture), including unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate (joint ventures).

Unrealised gains on transactions between the Group and its associates (joint ventures) are eliminated to the extent of the Group's interest in the associates (joint ventures); unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Disposals of subsidiaries, associates or joint ventures. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity, are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are recycled to profit or loss.

OJSC TRANSCONTAINER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED 31 DECEMBER 2013
(Amounts in millions of Russian Roubles, unless otherwise stated below)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

Foreign currency transactions and translation. Functional currency is the currency of the primary economic environment in which the entity operates. The Russian Rouble is the functional currency of the Company and is also the currency in which these consolidated financial statements are presented. Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the balance sheet date are translated into the functional currency at the year-end exchange rate. Exchange differences arising from such translation are included in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Russian Rouble at foreign exchange rates ruling at the dates the fair value was determined.

When the functional currency of an entity of the Group is not the presentation currency of the Company, the results and financial position of the entity are translated into the presentation currency using the following procedures:

- all assets and liabilities are translated at the closing rate at the date of each presented statement of financial position;
- income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates for the period if fluctuation of exchange rates during the period was insignificant. Otherwise exchange rates at the dates of the transactions are used for translation to the presentation currency;
- component of equity and reserves are translated at historical rates;
- all resulting exchange differences are recognised as other comprehensive income;
- in the statement of cash flows cash balances at the beginning and at the end of each presented period are translated at exchange rates effective at the corresponding dates. All cash flows are translated at average exchange rates for the presented periods.

When control over a foreign operation is lost, the exchange differences recognised previously in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal.

Property, plant and equipment. Property, plant and equipment are recorded at purchase or construction cost, less accumulated depreciation and accumulated impairment in value. The costs of day to day servicing of property, plant and equipment, including repairs and maintenance expenditure, is expensed as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Construction in progress

Construction in progress includes, principally, capital expenditure incurred in relation to the construction of new container terminals and the reconstruction of existing terminals. Construction in progress is carried at cost, less any recognised impairment loss. Cost includes capital expenditures directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads including capitalised borrowing costs on qualifying assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent costs

The cost of replacing a part of property, plant and equipment is recognised in the carrying amount when that cost is incurred, if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately. All other costs are recognised in the consolidated profit or loss for the year.

Depreciation

Depreciation is charged to the consolidated profit or loss so as to write off the cost of assets (other than land and construction in progress) less their estimated residual values, using the straight-line method over the estimated useful lives of each part of an item of property, plant and equipment. Owned land plots are not depreciated.

The estimated useful economic lives for property, plant and equipment are as follows:

	<u>Number of years</u>
Buildings	20-82
Constructions	5-50
Containers	10-20
Flatcars	28-38
Cranes and loaders	5-23
Vehicles	3-15
Other equipment	2-25

The assets' useful lives and amortisation methods are reviewed and adjusted as appropriate, at each financial year-end.

Leased assets

Capitalised leased assets and operating leasehold improvements are depreciated over the shorter of the estimated useful life of the asset and the lease term.

Gain or loss on disposal

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in the consolidated profit or loss.

Investment Property. Investment property is initially measured at cost, including costs directly attributable to the transaction, and subsequently remeasured at fair value, which reflects market conditions at the end of the reporting period.

Earned rental income is recorded in the consolidated profit or loss within other operating income. Income and expenses resulting from changes in the fair value of investment property are recorded in the consolidated statement of profit or loss and other comprehensive income and presented as income or expenses resulting from the revaluation of investment property.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation of property, plant and equipment. Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year as impairment.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment and its carrying value at the date of reclassification is regarded as the initial cost, which is subsequently amortised.

Goodwill. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least once a year and whenever there are indications that goodwill may be impaired. Goodwill is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on the disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

Intangible assets. Intangible assets that are acquired by the Group represent mainly purchased software and are stated at cost less accumulated amortisation and impairment losses.

Furthermore, five lease contracts were acquired as a result of the JSC Kedentransservice acquisition in 2011. The lease rights were identified as intangible assets that were recognised in the consolidated financial statements at fair value.

Amortisation is charged to the consolidated profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives for existing assets range from 3 to 7 years. The estimated useful live for lease contracts is 15 years.

Useful lives and amortisation methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for as changes in accounting estimates.

Impairment of non-current assets. At each balance sheet date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in-use. In assessing value in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the consolidated profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in the consolidated profit or loss.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Classification of financial assets. Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale 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. As at the reporting date the Group had financial assets classified as loans and receivables only.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in the consolidated profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process. Interest income is recognised by applying the effective interest rate except for short-term receivables when the recognition of interest would be immaterial.

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in consolidated profit or loss when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:

- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
- the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
- the counterparty considers bankruptcy or a financial reorganisation;
- there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
- the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset's carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the consolidated profit or loss for the year.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Financial instruments - key measurement terms. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm's length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. The Group uses such valuation techniques of fair value which are the most acceptable in the circumstances and as much as possible use the observable basic data.

Fair value measurements are analysed by level in the fair value hierarchy as follows:

- Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
- Level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

For disclosure of information on fair value the Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

Effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

Classification of financial liabilities. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. As at the reporting date the Group had financial liabilities classified as other financial liabilities only.

Initial recognition of financial instruments. All financial instruments of the Group are initially recorded at fair value. 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derecognition of financial assets. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

Inventories. Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Cash and cash equivalents. Cash and cash equivalents comprise cash on hand, balances with banks and short-term interest-bearing deposits with original maturities of not more than three months (not more than 91 days).

Employee benefits. Remuneration to employees in respect of services rendered during the reporting period is recognised as an expense in that reporting period.

Defined benefit plans

The Group operates defined benefit pension plans. The obligation and cost of benefits under the plans are determined separately for each plan using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing pensions is charged to the consolidated profit or loss, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation. Remeasurements of the net defined benefit liability are recognised in other comprehensive income in full as they arise.

In addition, the Group provides certain retirement benefits, other post-employment and other long-term benefits to its employees. These benefits are not funded.

The obligation and cost of benefits for the other long-term benefits are determined using the projected unit credit method. Remeasurements of the net defined benefit liability are recognised as income or expense in full as they arise.

Upon introduction of a new plan or improvement of an existing plan, past service costs are recognised in full as they arise.

Defined contribution plans

In addition to the defined benefit plans described above, the Group also sponsors a defined contribution plan for certain of its employees. The Group's contributions relating to the defined contribution plan are charged to the consolidated profit or loss in the year to which they relate.

State Plan

In addition, the Group is legally obliged to make contributions to the Pension Fund of the Russian Federation (a multi-employer defined contribution plan). The Group's only obligation is to pay the contributions as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group's contributions to the Pension Fund of

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

the Russian Federation, designated as a defined contribution plan, are charged to the consolidated profit or loss in the year to which they relate. Contributions for each employee to the Russian Federation State Pension Fund vary from 10% to 22%, depending on the annual gross remuneration of employee.

Value added tax. Output value added tax ("VAT") related to revenues is payable to tax authorities upon delivery of the goods or services to customers, as well as upon collection of prepayments from customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis (except for input VAT related to export services provided related input VAT which is reclaimable upon confirmation of export). VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Accounts payable and other financial liabilities. Accounts payable and other financial liabilities are initially recognised at cost, which is the fair value of the consideration received, taking into account transaction costs. After initial recognition, financial liabilities are carried at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis. As normally the expected term of accounts payable is short, the value is stated at the nominal amount without discounting, which corresponds with fair value.

Provisions. Provisions are recognised when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each balance sheet date and adjusted to reflect the current best estimate. Where the effect of the time value of money is significant, the amount of a provision is the present value of the cash flows required to settle the obligation.

Revenue recognition. Revenue is recognised at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from sales of inventories are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

Rail-based container shipping services

Rail-based transportation services provided by the Group primarily include arranging the transportation of its own and third-party containers by rail by means of provision of flatcars and/or containers or leasing of flatcars and containers to third parties. For the purposes of recognising revenue, the Group charges its customers for provision of its own rolling stock while rail infrastructure charges are born by the customers directly or passed through to a provider of rail infrastructure services. Revenues from these services are recognised in the accounting period in which the services are rendered, net of invoiced rail infrastructure charges. Revenues from operating lease of rolling stock are recognised on a straight-line basis over the term of operating lease agreements.

Integrated freight forwarding and logistics services

Integrated freight forwarding and logistics services are service packages including rail container transportation, terminal handling, truck deliveries, freight forwarding and logistic services. There are two types of integrated freight forwarding and logistic services: through-rate services and compound rate services. If the Company is responsible for the rendering of services throughout the entire logistic chain and such services are rendered under a single contract at a single price, they are treated as through-rate services. If services rendered by the Company at a single price represent only a part of the logistic chain while remaining services are provided on a stand-alone basis separately, the initial services are treated as "compound services". Revenue from integrated freight forwarding and logistics services is a combination of revenues

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

relating to various services, which, when provided under separate contracts, are shown in the corresponding revenue line items. Revenues from integrated freight forwarding and logistics services are recognised on a gross basis in the accounting period in which the services are rendered.

Terminal services and agency fees

Terminal services primarily include arrangements whereby the Group acts as a principal providing container handling services, such as loading and unloading operations, container storage and other terminal operations.

The Group acts as an agent on behalf of RZD in providing mandatory railroad services for all railway users at the Group's terminals, designated as the "sites of common use" by the legislation. In this capacity the Group provides some of its terminal services as a legal intermediary (agent) between clients and RZD and collects a commission. Commission fees collected from RZD for intermediary activities and revenue from other terminal operations are recognised in the accounting period in which the services are provided.

Bonded warehousing services

Bonded warehousing services are services related to storage of customers' containers in separate warehouses located at container terminals while pending customs clearance or payment of other applicable duties. Revenue from these services is recognised on the basis of the number of days during which the services are rendered.

Truck deliveries

Truck delivery services include transporting containers between the container terminals and client-designated sites using the Group's own truck fleet as well as third parties' trucks. The Group considers itself the principal in these arrangements, and therefore recognises revenue from truck deliveries in the accounting period in which the services are rendered.

Other freight forwarding services

The Group provides other freight forwarding services, such as:

- (i) preparation and ensuring of correctness of shipping documentation required for the delivery process to be effected;
- (ii) customs clearance brokerage by providing clients with customs documentation and services for Russian customs clearance;
- (iii) cargo tracking services by providing clients with information about cargo location;
- (iv) route optimisation and planning; and
- (v) cargo security services, including provision of insurance, special labels for hazardous cargo, special terms for transportation of hazardous cargo, and ensuring proper documentation for the transported cargo.

Revenue from other freight forwarding services is recognised in the accounting period in which the services are rendered.

Dividend and interest income

- i. Dividends from investments are recognised in consolidated profit or loss when the shareholder's right to receive payment has been established;
- ii. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

Leases. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Finance leases

Assets under finance leases are recognised as assets at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Contingent rentals are recognised as expenses in the periods in which they are incurred.

Operating leases

Payments made under operating leases are recognised in the consolidated profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as a liability and as a reduction in expense on a straight-line basis. Contingent rentals under operating leases are recognised as an expense in the period in which they are incurred.

Borrowing costs. For the periods beginning 1 January 2009, borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised and amortised over the useful life of the asset. Other borrowing costs are recognised as an expense in the period in which they are incurred. For periods prior to 1 January 2009 all borrowing costs were expensed in the period in which they were incurred.

Income tax. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in consolidated profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on initial recognition of goodwill. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. 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.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Uncertain tax positions. The Group's uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management's best estimate of the expenditure required to settle the obligations at the end of the reporting period.

Share capital and other reserves. Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. The difference between the fair value of consideration received and the par value of shares issued is recognised as other reserves. Similarly, any differences arising on transactions with shareholders which are treated as equity transactions are adjusted directly against other reserves.

Treasury shares. Where any Group company purchases the Company's equity instruments, the consideration paid, including any directly attributable incremental costs, and net of income taxes, is deducted from equity attributable to the Company's owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company's owners.

Earnings per share. Earnings per share are calculated by dividing the income for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period, except treasury shares. The Group does not have any potentially dilutive equity instruments.

Share-based payment transactions. The share option plan allows Group employees to acquire shares of the Company. The fair value of share-based payment awards is measured at the grant date based on the Black-Scholes-Merton model, which takes into account the terms and conditions upon which the instruments were granted. The fair value of the options is then expensed between the grant date and the vesting date written into the share option contract.

Dividends. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared and approved before or on the balance sheet date by the shareholders at a general meeting. Dividends are disclosed when they are declared after the balance sheet date but before the consolidated financial statements are authorised for issue.

Contractual commitments. Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future. The Group discloses significant contractual commitments in the notes to the consolidated financial statements.

Provisions for liabilities and charges. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

Contingencies. Contingent liabilities are not recognised in the financial statements unless they arise as a result of a business combination. Contingences attributed to specific events are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognised in the financial statements but are disclosed when an inflow of economic benefits is probable.

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4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRSs and IFRIC interpretations adopted in the current year

In the current year, the Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretation Committee (“IFRIC”) of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2013 and applicable for the Group’s activity. The effect from their adoption has not resulted in any significant changes to measurement and presentation of disclosures in the financial statements of the Group, except the following:

IAS 19 “Employee Benefits” (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013) - From 1 January 2013 the Group has applied the amendments to IAS 19 retrospectively in accordance with the transition provisions of the standard. Amended IAS 19 makes significant changes to the recognition and measurement of defined benefit pension expenses and to disclosures of all employee benefits. The material impacts of IAS 19 (revised) on the Group’s consolidated financial statements are as follows:

- “Actuarial gains and losses” are included to “remeasurements” and now are recognised immediately in other comprehensive income and thus, will no longer be recognised in profit or loss;
- Past-services costs are recognised immediately through profit and loss when they occur;
- The annual expense for the funded benefit plan now include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This replaces the interest costs and expected return on plan assets.

IFRS 11 “Joint Arrangements” (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013) – replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Ventures”. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The previous policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. As a result in the consolidated financial statements for 2013 the Company’s interest in joint ventures is accounted for using equity method and the comparative data was adjusted by the Group as at 1 January 2012, 31 December 2012, and for the year ended 31 December 2012.

The effect of the change in accounting policy due to adoption of IFRS 11 on the consolidated statement of financial position was immaterial and presented within total impact on the consolidated financial statement, presented below.

IAS 28 “Investments in Associates and Joint Ventures” – the amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

The third consolidated statement of financial position presented at the beginning of the preceding period is not provided as it was not materially impacted by a retrospective restatement.

Impact on the consolidated statement of financial position as at 1 January 2012:

	<u>Amount as originally presented</u>	<u>Restatement</u>	<u>Restated amount</u>
ASSETS			
Property, plant and equipment	29,216	(2)	29,214
Investments in associates and joint ventures	55	46	101
Total non-current assets	33,180	44	33,224
Trade and other receivables	1,152	(14)	1,138
Cash and cash equivalents	2,300	(43)	2,257
Total current assets	8,566	(57)	8,509
Total assets	41,746	(13)	41,733
EQUITY AND LIABILITIES			

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4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

	<u>Amount as originally presented</u>	<u>Restatement</u>	<u>Restated amount</u>
Retained earnings	11,161	(141)	11,020
Total equity attributable to equity holders of the parent	22,966	(141)	22,825
Total equity	23,928	(141)	23,787
Employee benefit liability	990	153	1,143
Deferred tax liabilities	1,742	(10)	1,732
Total non-current liabilities	11,049	143	11,192
Trade and other payables	4,593	(15)	4,578
Total current liabilities	6,769	(15)	6,754
Total assets and liabilities	41,746	(13)	41,733

Impact on the consolidated statement of financial position as at 31 December 2012:

	<u>Amount as originally presented</u>	<u>Restatement</u>	<u>Restated amount</u>
ASSETS			
Property, plant and equipment	34,234	(1)	34,233
Investments in associates and joint ventures	11	43	54
Deferred tax assets	1	(1)	-
Total non-current assets	35,961	41	36,002
Trade and other receivables	1,284	(22)	1,262
Prepayments and other current assets	4,435	(1)	4,434
Cash and cash equivalents	1,365	(47)	1,318
Total current assets	8,889	(70)	8,819
Total assets	44,850	(29)	44,821
EQUITY AND LIABILITIES			
Retained earnings	14,884	(159)	14,725
Total equity attributable to equity holders of the parent	26,783	(159)	26,624
Total equity	27,720	(159)	27,561
Employee benefit liability	1,093	173	1,266
Deferred tax liabilities	1,713	(13)	1,700
Total non-current liabilities	6,205	160	6,365
Trade and other payables	3,788	(15)	3,773
Income tax payable	169	(2)	167
Accrued and other current liabilities	802	(13)	789
Total current liabilities	10,925	(30)	10,895
Total equity and liabilities	44,850	(29)	44,821

Impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012:

	<u>Amount as originally presented</u>	<u>Restatement</u>	<u>Restated amount</u>
Revenue	36,396	(31)	36,365
Integrated freight forwarding and logistics services	19,277	30	19,307

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4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

	<u>Amount as originally presented</u>	<u>Restatement</u>	<u>Restated amount</u>
Rail-based container shipping services	10,014	(52)	9,962
Other freight forwarding services	833	(9)	824
Operating expenses	(29,472)	113	(29,359)
Cost of integrated freight forwarding and logistics services	(10,752)	(39)	(10,791)
Freight and transportation services	(4,920)	47	(4,873)
Payroll and related charges	(5,106)	97	(5,009)
Rent	(540)	2	(538)
Other expenses	(963)	6	(957)
Foreign exchange gain/(loss), net	(2)	1	(1)
Profit before income tax	6,719	83	6,802
Income tax expense	(1,568)	(2)	(1,570)
Profit for the year	5,151	81	5,232
Attributable to:			
Equity holders of the parent	5,102	81	5,183
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment benefit plans	-	(99)	(99)
Total comprehensive income for the year	4,943	(18)	4,925
Attributable to:			
Equity holders of the parent	4,958	(18)	4,940

Impact on the consolidated statement of cash flows for the year ended 31 December 2012:

	<u>Amount as originally presented</u>	<u>Restatement</u>	<u>Restated amount</u>
Cash flows from operating activities	7,246	(4)	7,242
Net increase in cash and cash equivalents	(882)	(4)	(886)

IAS 1 “Presentation of Financial Statements” (amendments issued in June 2011, effective for annual periods beginning on or after 1 July 2012) – changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to “statement of profit or loss and other comprehensive income”. The amended standard resulted in changed presentation of consolidated financial statements for the year ended 31 December 2012 when the Group adopted IAS 1 amended.

IFRS 10 “Consolidated Financial Statements” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) – replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation – special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The Standard did not have any material impact on the Group’s consolidated financial statements

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4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS 12 “Disclosure of Interest in Other Entities” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) – applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Standard resulted in additional disclosures in these consolidated financial statements (Notes 7, 10).

IFRS 13 “Fair value measurement” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) - aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. This standard had no impact on the recognition of the fair value of investments in JSC Kedentransservice and investment property in the Group’s consolidated financial statements, but resulted in additional disclosures (Note 10, 31).

“Disclosures - Offsetting Financial Assets and Financial Liabilities” - Amendments to IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013) - requires disclosures that enable users of an entity’s [consolidated] financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. These amendments resulted in additional disclosures in these consolidated financial statements (Note 31).

Improvements to International Financial Reporting Standards (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 “Borrowing costs”, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements. IAS 16 was amended to clarify that spare parts, stand-by and servicing equipment is classified as property, plant and equipment rather than inventory if it complies with definition of property, plant and equipment. The requirement to account for spare parts and servicing equipment as property, plant and equipment only if they were used in connection with an item of property, plant and equipment was removed because this requirement was too restrictive when compared with the definition of property, plant and equipment. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group’s consolidated financial statements.

“Transition Guidance Amendments to IFRS 10, IFRS 11 and IFRS 12” (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards did not have any material impact on the Group’s consolidated financial statements other than disclosed above

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4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

and application of the relief from disclosure of certain comparative information in the notes to the financial statements.

IFRS and IFRIC interpretations not yet effective

New standards and improvements those are mandatory for annual periods beginning on or after 1 January 2014 or later periods that are applicable for the Group's activity and approved for adoption in the Russian Federation and which the Group has not early adopted, are as follows:

Amendments to IAS 32 "Financial instruments: presentation" (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of 'currently has a legally enforceable right of set-off' and that some gross settlement systems may be considered equivalent to net settlement.

Amendments to IFRS 10, IFRS 12 and IAS 27 - Investment entities (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity's investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its financial statements.

IFRS 9 "Financial Instruments: Classification and Measurement". Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:

- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
- An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity's business model is to hold the asset to collect the contractual cash flows, and (ii) the asset's contractual cash flows represent payments of principal and interest only (that is, it has only "basic loan features"). All other debt instruments are to be measured at fair value through profit or loss.
- All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
- Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
- Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

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4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IAS 36 “Impairment of Assets” (issued in May 2013 and effective for annual periods beginning 1 January 2014) – The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on its financial statements.

New standards and improvements those are mandatory for annual periods beginning on or after 1 January 2014 or later periods that are applicable for the Group’s activity and not currently approved for applying in the Russian Federation and which the Group has not early adopted, are as follows:

Amended IAS 19 “Employee Benefits” (issued in November 2013, effective for periods beginning on 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

Annual Improvements to IFRSs (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a ‘vesting condition’ and to define separately ‘performance condition’ and ‘service condition’; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity’s assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (‘the management entity’), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

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5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting year, are discussed below.

Provision for impairment of receivables. Management of the Group maintains a provision for impairment of short-term receivables in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2013 and 31 December 2012, the provision for impairment of receivables was recognised in the amount of RUR 259m and RUR 184m, respectively (Note 11).

Depreciable lives of property, plant and equipment . The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate in accordance with IAS 8 "Accounting policies, changes in accounting estimates and errors". These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

As at 31 December 2012 the Group reassessed the remaining useful lives of items of property, plant and equipment (Note 4).

The estimated useful economic lives for property, plant and equipment are as follows (number of years):

	Revised starting from 1 January 2013	Used before 1 January 2013
Buildings	20-82	20-80
Constructions	5-50	5-45
Containers	10-20	10-15
Flatcars	28-38	28-32
Cranes and loaders	5-23	5-15
Vehicles	3-15	3-10
Other equipment	2-25	2-25

Impairment of property, plant and equipment and intangible assets. The Group reviews at each reporting date the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that assets are impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment exists.

Whenever such indications exist management makes an estimate of the asset's recoverable amount to ensure that it is not less than its carrying value. If the asset's fair value is not readily determinable or is less than the asset's carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value in-use calculation.

Estimated impairment of goodwill. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

Compliance with tax legislation. Compliance with tax legislation, particularly in the Russian Federation, is subject to significant degree of interpretation and can be routinely challenged by the tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued all applicable taxes. Management believes that it has adequately provided for tax liabilities

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5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

based on its interpretations of tax legislation. However, there exists a possibility that relevant tax authorities may have differing interpretations than those of the management, and the effect of such differences could be significant.

Pension obligations. The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary and benefits levels, etc.). In the event that further changes in the key assumptions are required, the amounts of the pension benefit costs may be materially affected (Note 18).

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 28.

Investment in joint venture. When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as joint venture. Thus the investment in JSC Kedentransservice was recognised at fair value determined on the basis of the independent appraiser's report (Note 10).

6. CRITICAL ACCOUNTING JUDGEMENTS

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Accounting for leases. A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form of a lease, all aspects and implications of an arrangements are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for longer than 75% of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset, the lease is classified by the Group as a finance lease, unless it is clearly demonstrated otherwise.

Revenue from integrated freight forwarding and logistics services. There are two types of the Group's services for which critical accounting judgments are involved in revenue recognition:

1) In case the Group provides integrated freight forwarding and logistic services the customers do not interact with other transportation organisations. A full service is charged by the Group to its customers for its services including rail-based container transportation, terminal handling, trucking, etc. and the full third-party charges, including railway tariff.

There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that railway tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by the transportation organisations.

However, the Group bears the credit risk as it controls the flow of receipts and payments and is independent in its own pricing policy.

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6. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)

Management believes that the Group acts as a principal in these arrangements and the Group accounts for receipts from customers as sales revenue. Third-party charges, including the railroad tariff is included in third-party charges relating to integrated freight forwarding and logistics services.

Had the railway tariff directly attributable to such services been excluded from revenue and expenses both would have decreased by RUR 13,836m for the year ended 31 December 2013 (RUR 10,791m for the year ended 31 December 2012).

2) In cases where Rail-based container shipping services are provided, the Group agrees with the customer the transport fee as above, excluding the railroad tariff which is paid by the Group and invoiced to the client as reimbursement of providing rail infrastructure and locomotive services. Management believes that railroad tariff should not be included in revenue and expenses, as any variation in the tariff will be borne by the client.

7. CHANGES IN THE GROUP'S STRUCTURE

Logistic System Management B.V., Helme's Operation UK Limited, JSC Kedentransservice

As at 31 December 2012 the Group owned 100% of Logistic System Management B.V., 100% of Helme's Operation UK Limited and 67% of JSC Kedentransservice.

In May 2013 within the frame of additional issue of shares of Logistic System Management B.V. the Group transferred 100% of shares of Helme's Operation UK Limited (which owns 46.9% of shares of JSC Kedentransservice) and 20.1% of the shares of Kedentransservice and JSC National Company Kazakhstan Temir Zholy ("KTZ") transferred 33% of shares of JSC Kedentransservice in exchange for 67% of shares and 33% of shares of Logistic System Management B.V. respectively. As a result of this transaction the Group owned 67% of shares of Logistic System Management B.V. and 67% of shares of Kedentransservice.

On 23 December 2013 the Group sold KZT 17% of shares of Logistic System Management B.V., which owns only 100% of shares of JSC Kedentransservice (46.9% via Helme's Operation UK Limited and directly 20.1%).

As a result of linked transactions described above, the Group has lost control over Logistic System Management B.V., Helme's Operation UK Limited and JSC Kedentransservice and its ownership in these companies accounted for 50%. Accordingly, the assets and liabilities of JSC Kedentransservice were not included in the consolidated statement of financial position as at 31 December 2013, while the results of operations and cash flows of JSC Kedentransservice were consolidated up to date when control was lost (23 December 2013). Investment retained in JSC Kedentransservice was recognised at its fair value at the date when control was lost and accounted for as an investment in the joint venture in accordance with IAS 28 "Investments in Associates and Joint ventures".

The details of the disposed assets and liabilities and disposal consideration are as follows:

JSC Kedentransservice

	<u>23 December 2013</u>
Intangible assets	530
Property, plant and equipment	2,407
Investment property	29
Inventory	73
Trade accounts receivable	692
Prepayments	164
Cash and cash equivalents	253
Other assets	54
Total assets	<u>4 202</u>
Deferred tax liability	(353)
Trade and other payables	(642)

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7. CHANGES IN THE GROUP'S STRUCTURE (CONTINUED)

	<u>23 December 2013</u>
Tax payable	(20)
Finance lease obligations	(8)
Total liabilities	(1 023)
Goodwill	216
Net assets of subsidiary, including attributed goodwill	3,395
Less: non-controlling interest	(1,044)
Carrying amount of disposed net assets	2,351
Total disposal consideration	665
Less: cash and cash equivalents in disposed subsidiary	(253)
Cash inflow on disposal	412

Profit resulting from the loss of control over JSC Kedentransservice is:

	<u>23 December 2013</u>
Consideration for disposal of controlling interest in subsidiary	665
Fair value of investment in joint venture	2,287
Carrying amount of disposed net assets, net of non-controlling interest	(2,351)
Exchange differences on translating foreign operations recycled from other comprehensive income to profit or loss	156
Gain on disposal of controlling interest in subsidiary	757

8. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES FOR ACQUISITION OF NON-CURRENT ASSETS

	Land, buildings and constructions	Locomotives, containers and flatcars	Cranes and loaders	Vehicles and other equipment	Construction in-progress	Total
Cost						
1 January 2012	7,332	27,027	1,515	2,627	941	39,442
Additions	2,859	3,063	159	357	1,479	7,917
Transfers	418	510	23	28	(979)	-
Capitalised borrowing costs	-	-	-	-	45	45
Disposals	(26)	(338)	(4)	(64)	(1)	(433)
Exchange difference	(119)	(33)	(13)	(31)	(3)	(199)
31 December 2012	10,464	30,229	1,680	2,917	1,482	46,772
Additions	138	4,079	150	321	1,832	6,520
Transfers	1,997	409	126	40	(2,572)	-
Capitalised borrowing costs	-	-	-	-	87	87
Disposals	(94)	(559)	(38)	(203)	(6)	(900)
Disposal the of controlling interest in subsidiary	(1,887)	(561)	(280)	(561)	(31)	(3,320)
Exchange difference	93	28	14	28	-	163
31 December 2013	10,711	33,625	1,652	2,542	792	49,322
Accumulated depreciation						
1 January 2012	(1,447)	(6,775)	(770)	(1,230)	(4)	(10,226)
Depreciation charge for the year	(368)	(1,731)	(167)	(389)	-	(2,655)
Reversal of impairment / (impairment)	-	-	-	(1)	-	(1)
Disposals	14	241	3	59	-	317
Exchange difference	10	10	2	4	-	26
31 December 2012	(1,791)	(8,255)	(932)	(1,557)	(4)	(12,539)

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8. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES FOR ACQUISITION OF NON-CURRENT ASSETS (CONTINUED)

Accumulated depreciation (continued)

Depreciation charge for the year	(229)	(1,168)	(106)	(346)	-	(1,849)
Reversal of impairment / (impairment)	(18)	(92)	(3)	(13)	3	(123)
Disposals	59	377	33	170	-	639
Disposal the of controlling interest in subsidiary	261	356	120	175	1	913
Exchange difference	(13)	(14)	(4)	(6)	-	(37)
31 December 2013	(1,731)	(8,796)	(892)	(1,577)	-	(12,996)
Net book value						
31 December 2012	8,673	21,974	748	1,360	1,478	34,233
31 December 2013	8,980	24,829	760	965	792	36,326

Included under land, buildings and constructions are the amounts of RUR 109m and RUR 701m, which represent the value of land plots owned by the Group as at 31 December 2013 and 31 December 2012, respectively.

During the year ended 31 December 2013 container terminal in Novosibirsk was put into operation in the amount of RUR 723m.

The vehicles and other equipment category includes motor transport used for terminal services and truck deliveries with gross carrying amount of RUR 845m and RUR 1,105m as at 31 December 2013 and 31 December 2012, respectively.

As at 31 December 2012 the Group revised the useful lives of all fixed assets. As a result, the amount of depreciation charges for the year ended 31 December 2013 decreased by RUR 901m in comparison with the one that would have been charged under the previous useful life. The estimation of the effect on further periods is impracticable.

The gross carrying amount of fully depreciated property, plant and equipment that is still in use amounted to RUR 1,678m and RUR 1,930m as at 31 December 2013 and 31 December 2012, respectively.

The carrying amount of temporarily idle property, plant and equipment as at 31 December 2013 and 31 December 2012 comprised the following:

	<u>2013</u>	<u>2012</u>
Cost	792	431
Accumulated depreciation	<u>(285)</u>	<u>(191)</u>
Net book value	<u>507</u>	<u>240</u>

Included under construction in-progress as at 31 December 2013 are the capital expenditures incurred for the reconstructions and expansion of container terminals in Yekaterinburg, Khabarovsk and Moscow region amounting to RUR 143m, RUR 56m and RUR 57m, respectively, and containers acquired for the amount of RUR 367m.

Construction in-progress as at 31 December 2012 consisted mainly of the capital expenditures incurred for the reconstructions and expansion of container terminals in Novosibirsk, Krasnoyarsk, Yekaterinburg and Moscow region amounting to RUR 662m, RUR 152m, RUR 90m and RUR 100m, respectively, and containers acquired for the amount of RUR 218m.

Additions of construction in-progress include interest expenses on bonds and other related proceeds from borrowed funds in connection with the construction and reconstructions of property, plant and equipment items. The total amount of interest capitalised for the year ended 31 December 2013 was RUR 87m at a rate of capitalisation of 9.19% and RUR 45m capitalised for the year ended 31 December 2012 at a rate of capitalisation of 9.52%.

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8. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES FOR ACQUISITION OF NON-CURRENT ASSETS (CONTINUED)

Leased assets as at 31 December 2013 and 31 December 2012, for which the Group is a lessee under finance leases primarily related to land, buildings and constructions and comprised the following:

	<u>2013</u>	<u>2012</u>
Cost	575	778
Accumulated depreciation	<u>(12)</u>	<u>(8)</u>
Net book value	<u>563</u>	<u>770</u>

In 2013 the Group bought out a part of non-residential premises in a Moscow head office building, previously acquired under a finance lease agreement. The cost of the bought out building part was RUR 185m. The remaining premises at a value of RUR 575m continued to be used by the Group under the finance lease agreement. See Note 17 for further details regarding finance leases.

Advances for acquisition of non-current assets

As at 31 December 2013 and 31 December 2012, net amount of advances for the acquisition of non-current assets consisted of advances for the acquisition and modernisation of the rolling stock (nil and RUR 59m, respectively), advances for the acquisition of cranes and loaders (RUR 147m and RUR 146m, respectively), advances for the acquisition of containers (RUR 85m and RUR 45m, respectively), advances for construction-and-assembling operations (nil and RUR 38m, respectively) and advances for the acquisition of other non-current assets (RUR 11 and RUR 70m, respectively).

As at 31 December 2013 and 31 December 2012 provision was recognised for impairment of advances for acquisition of non-current assets in the amount of RUR 48m and RUR 11m, respectively (Note 11).

9. INTANGIBLE ASSETS OTHER THAN GOODWILL

	<u>Lease agreements</u>	<u>Software</u>	<u>Total</u>
Cost			
1 January 2012	618	178	796
Additions	-	25	25
Disposals	-	(34)	(34)
Exchange difference	(5)	-	(5)
31 December 2012	613	169	782
Additions	-	146	146
Disposals	-	(28)	(28)
Disposal of controlling interest in the subsidiary	(664)	-	(664)
Exchange difference	51	-	51
31 December 2013	-	287	287
Accumulated amortisation			
1 January 2012	(39)	(104)	(143)
Disposals	-	34	34
Amortisation charge for the year	(45)	(40)	(85)
Exchange difference	4	-	4
31 December 2012	(80)	(110)	(190)
Disposals	-	18	18
Amortisation charge for the year	(49)	(45)	(94)
Disposal of controlling interest in the subsidiary	134	-	134
Exchange difference	(5)	-	(5)
31 December 2013	-	(137)	(137)
Net book value			
31 December 2012	<u>533</u>	<u>59</u>	<u>592</u>
31 December 2013	<u>-</u>	<u>150</u>	<u>150</u>

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10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The table below summarises the movements in the carrying amount of the Group's investment in associates and joint ventures.

	Joint Venture JSC Kedentransservice	Other joint ventures	Associates	Total associates and joint ventures
Carrying amount as at 1 January 2012	-	46	55	101
Share of profit of associates and joint ventures	-	-	(19)	(19)
Disposals	-	-	(25)	(25)
Effect of translation to presentation currency	-	(3)	-	(3)
Carrying amount as at 31 December 2012	-	43	11	54
Share of profit of associates and joint ventures	-	3	(1)	2
Fair value of net assets of associates and joint ventures acquired	1,977	-	-	1,977
Goodwill arising on acquisition of associates and joint ventures	309	-	-	309
Effect of translation to presentation currency	(16)	4	-	(12)
Carrying amount as at 31 December 2013	2,270	50	10	2,330

Summarised financial information of each associate and joint venture is as follows as at 31 December 2013 and 31 December 2012:

	Joint Venture JSC Kedentransservice		Other joint ventures		Associates		Total associates and joint ventures	
	2013	2012	2013	2012	2013	2012	2013	2012
Current assets	1,078	-	185	182	210	164	1,473	346
Non-current assets	4,022	-	7	4	6	4	4,035	8
Current liabilities	544	-	92	99	163	117	799	216
Non-current liabilities	635	-	-	-	-	1	635	1
Net assets	3,921	-	100	87	53	50	4,074	137
Revenue	-	-	178	142	909	2,296	1,087	2,438
Profit/(loss)	-	-	4	2	(2)	(287)	2	(285)
Other comprehensive income	-	-	13	6	7	3	20	9

Additional financial information of joint venture JSC Kedentransservice is as follows:

	2013
Cash and cash equivalents	253
Current financial liabilities (excluding trade and other payables and provisions)	7

The only reconciling difference between the above amounts and the carrying amount of the investments in associates and joint ventures is elimination of the ownership interest held by the other investors in the associates and joint ventures.

As a result of JSC Kedentransservice deconsolidation in December 2013, described in Note 7, goodwill in amount of RUR 216m accounted as at 31 December 2012 was disposed.

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10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The following table provides information about JSC Kedentransservice that has non-controlling interest that is material to the Group. Information for the year ended 31 December 2013 concerning revenue, profit, comprehensive income and cash flows of the subsidiary presented until the date when control was lost.

	2013	2012
Proportion of non-controlling interest	33%	33%
Profit attributable to non-controlling interest	109	49
Accumulated non-controlling interest as at 31 December	-	937
Dividends paid to non-controlling interest	50	10
Current assets	-	668
Non-current assets	-	2,924
Current liabilities	-	362
Non-current liabilities	-	391
Revenue	6,613	3,916
Profit	329	148
Total comprehensive income	-	62
Cash flows	(19)	24

Joint venture fair value assessment

As at 31 December 2013 the consolidated financial statements present the amount of investment in JSC Kedentransservice at fair value in amount of RUR 2,270m determined on the basis of the independent appraiser's report, including fair value of net assets in amount of RUR 1,961m and RUR 309m of goodwill. While carrying out the evaluation of investment's fair value independent appraiser primarily used the income approach, considering the cost method approach results. In accordance with a conservative approach JSC Kedentransservice's business development plans, that involve high capital investments for business expansion, as well as revenue growth and operating profitability increase, are not included in the forecast. In addition the low capacity utilization rate of Dostyk Station and the terminals allows to increase the volume of cargo handling without providing additional capital investment. JSC Kedentransservice will extend the lease agreements on Dostyk Station's transshipment locations.

During carrying out of the evaluation of fair value of investment in JSC Kedentransservice the following key assumptions were used in the income approach:

- The growth rate of gross domestic product in Europe was used as Dostyk Station's volume growth rates and growth rate of gross domestic product in Kazakhstan was used as terminal activity's growth rates.
- Since the revenue from transshipment at Dostyk Station was formed in Swiss francs, the prices were forecasted under growth rate of producer price index (PPI) for Switzerland.
- Prices on cargo handling at the terminals were forecasted under PPI in Kazakhstan.
- The fixed discount rate of 18.1% was used for the all forecast period from 23 December 2013 to 31 December 2018. The discount rate was calculated as weighted average cost of capital (RWACC).

The following table shows sensitivity of fair value of investment in JSC Kedentransservice to reasonably possible changes in the abovementioned factors, with all other variables remain unchanged:

	Price for terminal cargo handling		Price for transshipment at Dostyk Station		Discount rate		Volume of the transshipment at Dostyk Station	
	+5%	-5%	+5%	-5%	+5%	-5%	+5%	-5%
Change of the assumptions on interest points								
Deviation from the baseline, RUR thousand	364	(290)	222	(222)	(84)	95	(44)	44
Change in value, %	+8%	-6.3%	+4.9%	-4.9%	-1.8%	+2.1%	-1%	+1%

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11. TRADE AND OTHER RECEIVABLES

	<u>Outstanding balance, gross</u>	<u>Provision for impairment</u>	<u>Outstanding balance, net</u>
31 December 2013			
Trade receivables	1,365	(162)	1,203
Other receivables	<u>427</u>	<u>(9)</u>	<u>418</u>
Total trade and other receivables, classified as financial assets	<u>1,792</u>	<u>(171)</u>	<u>1,621</u>
31 December 2012			
Trade receivables	1,228	(87)	1,141
Other receivables	<u>137</u>	<u>(16)</u>	<u>121</u>
Total trade and other receivables, classified as financial assets	<u>1,365</u>	<u>(103)</u>	<u>1,262</u>

Included in the Group's total trade and other receivables are debtors with a carrying amount of RUR 223m and RUR 293m as at 31 December 2013 and 31 December 2012, respectively, which are past due at the respective reporting date and which the Group considers to be not impaired. The Group does not hold any collateral over these outstanding balances.

Long-term trade receivables are represented mainly by accounts receivable of OJSC RZD Logistics, which expected to be fully repaid till December 2018. A discount rate of 8.6% has been used for the receivables' fair value determination. As at 31 December 2013 the fair value of long-term accounts receivable of OJSC RZD Logistics amounted to RUR 364m (RUR 452m as at 31 December 2012). As at 31 December 2013 a part of trade receivables of OJSC RZD Logistics in the amount of RUR 207m, was recognised as a part of short-term trade receivables.

The ageing of past due but not impaired trade and other receivables is as follows:

	<u>2013</u>	<u>2012</u>
Less than 90 days	132	141
90-180 days	49	20
More than 180 days	<u>42</u>	<u>132</u>
Total past due but not impaired	<u>223</u>	<u>293</u>

Movement in the impairment provision for accounts receivable is as follows:

	<u>2013</u>	<u>2012</u>
Balance at beginning of the year	<u>(184)</u>	<u>(283)</u>
Additional provision, recognised in the current year	(201)	(22)
Release of provision	7	33
Utilisation of provision	17	80
Disposal of controlling interest in subsidiary	104	-
Exchange differences on translating foreign operations	<u>(2)</u>	<u>8</u>
Balance at end of the year	<u>(259)</u>	<u>(184)</u>

As at 31 December 2013 and 31 December 2012 provision for impairment of accounts receivable was recognised in respect of trade and other receivables balances (RUR 171m and RUR 103m, respectively), advances to suppliers (RUR 40m and RUR 65m, respectively, Note 8), advances for acquisition of non-current assets (RUR 48m and RUR 11m, respectively) and other non-current assets (RUR 5m as at 31 December 2012).

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12. PREPAYMENTS AND OTHER CURRENT ASSETS

	<u>2013</u>	<u>2012</u>
VAT receivable	1,674	2,577
Advances to suppliers	1,633	1,674
Other current assets	128	183
Total prepayments and other current assets	<u>3,435</u>	<u>4,434</u>

13. SHORT-TERM INVESTMENTS

	<u>2013</u>	<u>2012</u>
Russian Rouble denominated bank deposits	1	1,293
Foreign currency denominated bank deposits	-	46
Total short-term investments	<u>1</u>	<u>1,339</u>

Short-term investments of the Group are presented by deposits with banks with an original maturity over three months.

Russian Rouble-denominated short-term bank deposit in the amount of RUR 1m bearing interest at an annual rate of 6% was placed by the Group with OJSC Alfa Bank, as at 31 December 2013. The deposit matured on 27 March 2014.

As at 31 December 2012 short-term investments of the Group are presented by following investments in the Russian banks:

- Russian Rouble-denominated short-term bank deposit in the amount of RUR 300m bearing interest at an annual rate of 8.05% in OJSC Bank VTB, a related party (Note 28). The deposit matured on 21 January 2013. The amount of accrued interest is RUR 11m and has been included as the portion of short-term investments in the consolidated statement of financial position.
- Russian Rouble-denominated short-term bank deposit in the amount of RUR 250m bearing interest at an annual rate of 8.85% in OJSC Gazprombank, a related party. The deposit matured on 4 February 2013. The amount of accrued interest is RUR 20m and has been included as the portion of short-term investments in the consolidated statement of financial position.
- Russian Rouble-denominated short-term bank deposit in the amount of RUR 200m bearing interest at an annual rate of 8.22% in JSC TransCreditBank, a related party (Note 28). The deposit matured on 22 February 2013. The amount of accrued interest is RUR 5m and has been included as the portion of short-term investments in the consolidated statement of financial position.
- Russian Rouble-denominated short-term bank deposit in the amount of RUR 500m bearing interest at an annual rate of 8.50% in JSC TransCreditBank, a related party (Note 28). The deposit matured on 22 February 2013. The amount of accrued interest is RUR 7m and has been included as the portion of short-term investments in the consolidated statement of financial position.

Also USD-denominated short-term bank deposit in the amount of USD 1.5m (RUR 46m at the Central Bank of Russia exchange rate as at 31 December 2012) bearing interest at an annual rate of 0.25% was placed by the Group with JSC Nurbank, as at 31 December 2012. The deposit matured on 8 April 2013.

14. CASH AND CASH EQUIVALENTS

	<u>2013</u>	<u>2012</u>
Cash and Russian Rouble denominated current accounts with banks	742	770
Foreign currency denominated current accounts with banks	1,141	433
Foreign currency denominated bank deposits	-	112
Russian Rouble denominated letter of credit	-	3
Total cash and cash equivalents	<u>1,883</u>	<u>1,318</u>

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14. CASH AND CASH EQUIVALENTS (CONTINUED)

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's long-term ratings as follows as at 31 December 2013 and 31 December 2012:

	2013			2012		
	Bank balances payable on demand	Term deposits	Letter of credit	Bank balances payable on demand	Term deposits	Letter of credit
- A- to A+ rated	65	-	-	45	-	-
- BBB to A- rated	1,814	-	-	1,042	-	3
- Lower than BBB rated	1	-	-	114	112	-
- Unrated	3	-	-	2	-	-
Total	1,883	-	-	1,203	112	3

15. EQUITY

Share Capital

Authorised, issued and fully paid capital as at 31 December 2013 and 31 December 2012 comprises:

	Number of ordinary shares	Value
Ordinary shares (par value: RUR 1,000)	13,894,778	13,895

RZD is the controlling shareholder of the Company, holding 50%+2 of its ordinary shares.

During the year ended 31 December 2013 the weighted average number of outstanding ordinary shares, excluding treasury shares and including the number of shares earned in accordance with the option plan amounted to 13,896,193 shares. (13,863,408 during the year ended 31 December 2012).

Treasury shares

In relation to the Share Option Plan for the Company's management (Note 19), the Group purchased 208,421 treasury shares in 2011. Their purchase cost was RUR 514m. During the year ended 31 December 2013 and 2012 exercised options amounted to RUR 24m and RUR 6m, respectively.

Other Reserves, including investment property's revaluation reserve

As discussed in Note 1, the Company was formed as a result of a spin-off by RZD which involved the contribution by RZD of containers, flatcars, buildings and constructions, VAT receivable related to these assets, and cash, in exchange for ordinary shares of the Company.

The difference between the fair value of net assets contributed and the nominal value of the shares issued by the Company, as well as differences arising from transactions with shareholders, of RUR 2,221m were recorded as other reserves as at 31 December 2012.

During the year ended 31 December 2013 the investment property's revaluation reserve was recognised for the amount of RUR 56m.

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15. EQUITY (CONTINUED)

Retained Earnings, Dividends

In accordance with the Russian legislation, dividends may only be declared from the Company's accumulated undistributed and unreserved earnings as shown in the Company's statutory financial statements, which are prepared in accordance with Russian Accounting Rules and Reporting of the Russian Federation. The Company had RUR 14,678m and RUR 11,570m of undistributed and unreserved earnings as at 31 December 2013 and 31 December 2012, respectively.

Dividends of RUR 87.68 per share (RUR 1,218m in total) were approved at the annual shareholders' meeting of the Company on 26 June 2012 relating to the Group's results for the year ended 31 December 2011. In July 2012 the dividends have been fully paid.

Dividends of RUR 86.67 per share (RUR 1,187m in total) were approved at the annual shareholders' meeting on 26 June 2013 relating to the Group's results for the year ended 31 December 2012. In August 2013 the dividends have been fully paid.

Dividends of KZT 102.22 per share were approved at the annual shareholders' meeting of JSC Kedentransservice on 29 June 2012 relating to the results for the year ended 31 December 2011. Dividends for the total amount of KZT 42m (RUR 10m at the Central Bank of Russia exchange rate as at 29 June 2012) were accrued to the shareholder of JSC Kedentransservice JSC National Company Kazakh Temir Zholy. In August 2012 the dividends have been fully paid.

Dividends of KZT 561.31 per share were approved at the annual shareholders' meeting of JSC Kedentransservice on 27 June 2013 relating to the results for the year ended 31 December 2012. Dividends for the total amount of KZT 233m (RUR 50m at the Central Bank of Russia exchange rate as at 27 June 2013) were accrued to the shareholder of JSC Kedentransservice JSC National Company "Kazakh Temir Zholy".

Reserve Fund

According to its charter, the Company is required to establish a legal reserve fund through the allocation of 5 percent of net profit as computed under the Russian Accounting Rules. The total amount of the reserve fund is limited to 5 percent of the nominal registered amount of the Company's issued share capital. The reserve fund may only be used to offset losses of the Company as well as to redeem issued bonds or purchase treasury shares and cannot be distributed to shareholders. As at 31 December 2013 and 31 December 2012 the Company's reserve fund is RUR 697m and RUR 478m, respectively.

16. LONG-TERM AND SHORT-TERM DEBT

Long-term debt

	Effective interest rate	2013	2012
Bonds	8.35-8.8%	5,724	2,232
Bank loans	9.5%	470	499
Total		6,194	2,731

Long-term borrowings of the Group are denominated in Russian Rubles.

During the year ended 31 December 2011 the Group obtained borrowed funds from LLC TrustUnion Asset Management for the amount of RUR 514m to finance the acquisition of ordinary shares in OJSC TransContainer in order to carry out a Share Option Plan for the Company's management (Note 19). The loan matures in five years. As at 31 December 2013 the amount of loan was RUR 470m.

Five-year RUR bonds, series 2 – On 10 June 2010, the Company issued non-convertible five-year bonds for a total amount of RUR 3,000m at a par value of RUR 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUR 2,975m. The annual coupon rate of the bonds for five years is 8.8% with interest paid semi-annually.

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16. LONG-TERM AND SHORT-TERM DEBT (CONTINUED)

Long-term debt (continued)

The series 2 bonds should be redeemed in four equal semi-annual installments within the fourth and fifth years. As a result, these bonds were classified as long-term borrowings as at 31 December 2012, except the first principal repayment made in December 2013 in amount of RUR 750m.

As at 31 December 2013 the carrying value of the bonds amounted to RUR 2,236m (RUR 2,982m as at 31 December 2012).

As at 31 December 2013 short-term portion of long-term bonds equals RUR 1,500m (RUR 750m as at 31 December 2012) and this amount was included as short-term debt in the consolidated statement of financial position.

The amount of accrued interest is RUR 18m (RUR 22m as at 31 December 2012), and was included as short-term debt in the consolidated statement of financial position.

Five-year RUR bonds, series 4 – On 1 February 2013, the Company issued non-convertible five-year bonds for a total amount of RUR 5,000m at a par value of RUR 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUR 4,988m. The annual coupon rate of the bonds for five years is 8.35% with interest paid semi-annually.

The series 4 bonds will be redeemed in four equal semi-annual installments within the fourth and fifth years. As a result, these bonds are classified as long-term borrowings as at the reporting date.

As at 31 December 2013 the carrying value of the bonds amounted to RUR 4,988m. The amount of accrued interest is RUR 175m and has been included as short-term debt in the consolidated statement of financial position.

Short-term debt and current portion of long-term debt

	Effective interest rate	2013	2012
Bonds	9.5%	-	3,098
Short-term portion of long-term bonds	-	1,693	772
Bank loans	9.5-9.75%	-	1,825
Total		1,693	5,695

Short-term borrowings of the Group denominated in Russian Rubles.

In February 2013 the Company fully prepaid its loans to OJSC Alfa Bank and also redeemed its short-term obligations on bonds series 1.

17. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	2013	2012
Due within one year	69	99	66	94
Due after one year but not more than five years	703	369	485	279
More than five years	-	659	-	389
	772	1,127	551	762
Less future finance charges	(221)	(365)	-	-
Present value of minimum lease payments	551	762	551	762

During the year ended 31 December 2012 the Group entered into a finance lease agreement on the acquisition of non-residential premises in a Moscow office building. The lease agreement is for a six-year period with an effective interest rate of 9.65%.

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17. FINANCE LEASE OBLIGATIONS (CONTINUED)

During the year ended 31 December 2013, the Group bought back part of the non-residential premises of the building and redeemed its obligation in the amount of RUR 185m in advance that resulted in recognition of income from early termination of finance lease obligations for a total amount of RUR 32m in the consolidated profit or loss.

In accordance with the lease agreement if the Group does not use the right to acquire the leased premises during the lease period or does not entitle third parties to use the right to acquire the leased premises, the Group is obliged to acquire the leased premises for the amount of RUR 465m at the end of lease period.

All leases are denominated in Russian Roubles. The Group's obligations under finance leases are secured by the lessors' title to the leased assets.

18. EMPLOYEE BENEFIT LIABILITY

The employees of the Group are members of a state-managed pension plan operated by the government of the Russian Federation. The Group is required to contribute a specified percentage of payroll costs as part of the contributions to the Pension Fund of the Russian Federation to fund the benefits.

The Group also provides supplementary defined benefit and defined contribution retirement benefit plans covering about a quarter substantially all of its employees, requiring contributions to be made to a separately administered non-state pension fund "Blagosostoyanie" ("Fund Blagosostoyanie"). The not-for-profit fund "Pochet" ("Fund Pochet") provides pensions to the Group's employees that retired before the defined benefit plans provided through the Fund Blagosostoyanie were introduced.

Benefits accrued through Fund Blagosostoyanie are partially funded, whilst benefits administered by the Fund Pochet are not funded. In addition, the Group provides other retirement and post employment benefits to its employees, covering compensation for transportation costs on long-distance trains, a one-time bonus on retirement ranging from one to six monthly salaries, depending on the duration of the service period, a benefit for dedication to the company and certain other requirements. These benefits are not funded.

In 2013, the Group has changed some conditions of the defined benefit pension plans administered non-state pension fund "Blagosostoyanie". One of the plans was eliminated. The number of payments on the other plan was increased. The total gain of RUR 32m recognised in the past service cost.

Defined contribution plans

The total amount recognised as an expense in respect of payments to defined contribution plans for the years ended 31 December 2013 and 31 December 2012 consisted of the following:

	<u>2013</u>	<u>2012</u>
Pension Fund of the Russian Federation	553	558
Defined contribution plan "Blagosostoyanie"	<u>18</u>	<u>19</u>
Total expense for defined contribution plans	<u>571</u>	<u>577</u>

Defined benefit plans

There were 274 employees as at 31 December 2013 (as at 31 December 2012: 372) eligible for defined benefit pension plan with benefits depended on salary and years of service. In addition, there were 85 and 88 retired employees eligible for the post-retirement benefit program of the Group through Fund Pochet as at 31 December 2013 and 31 December 2012, respectively. Other retirement and post-employment defined benefit plans cover substantially all employees of the Group.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2013 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method.

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18. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

The amounts recognised in the consolidated statement of profit or loss in Payroll and related charges for the year ended 31 December 2013 and 31 December 2012, respectively, in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2013	2012	2013	2012	2013	2012
Service cost	2	41	118	130	120	171
Net interest on obligation	58	61	13	19	71	80
Remeasurements of the net defined benefit	-	-	9	(65)	9	(65)
Net expense recognised in the consolidated profit or loss	60	102	140	84	200	186

Net (income)/expenses recognised in the other comprehensive income for post-employment benefits related mainly to remeasurements of the net defined benefit constitute RUR (119m) and 104m for the year ended 31 December 2013 and 31 December 2012, respectively.

The amounts recognised in the consolidated statement of financial position as at 31 December 2013 and 31 December 2012, respectively, in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2013	2012	2013	2012	2013	2012
Present value of defined benefit obligation	837	1,013	321	311	1,158	1,324
Fair value of plan assets	(62)	(58)	-	-	(62)	(58)
Net employee benefit liability	775	955	321	311	1,096	1,266

Movements in the present value of defined benefit obligation are as follows:

	Post-employment benefits	Other long-term benefits	Total
Present value of defined benefit obligation as at 1 January 2012	884	305	1,189
Service cost:	41	130	171
<i>Current service cost</i>	41	130	171
Interest on the defined benefit liability	65	19	84
Actuarial (gain)/losses:	98	(65)	33
<i>from changes in demographic assumptions</i>	3	1	4
<i>from changes in financial assumptions</i>	74	(64)	10
<i>other</i>	21	(2)	19
Losses arising on transfer of employees*	13	-	13
Settlement of liability	(88)	(78)	(166)
Present value of defined benefit obligation as at 31 December 2012	1,013	311	1,324
Service cost:	2	118	120
<i>Current service cost</i>	44	118	162
<i>Past service cost</i>	(42)	-	(42)
Interest on the defined benefit liability	62	13	75
Actuarial (gain)/losses:	(123)	9	(114)
<i>from changes in demographic assumptions</i>	15	-	15
<i>from changes in financial assumptions</i>	(54)	(13)	(67)
<i>other</i>	(84)	22	(62)
Losses arising on transfer of employees*	3	-	3
Settlement of liability	(120)	(130)	(250)
Present value of defined benefit obligation as at 31 December 2013	837	321	1,158

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18. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

Movements in the fair value of defined benefit pension plan assets are as follows:

	<u>2013</u>	<u>2012</u>
Fair value of plan assets as at 1 January	(58)	(47)
Income on plan assets:		
<i>interest on the plan assets</i>	(3)	(2)
<i>the return on plan assets, excluding amounts included in net interest on the net defined benefit liability</i>	(4)	(4)
<i>Assets arising on transfer of employees*</i>	1	2
Contributions from the employer	–	(8)
Settlement of liability	(251)	(167)
	<u>250</u>	<u>166</u>
Fair value of plan assets as at 31 December	<u>(62)</u>	<u>(58)</u>

* The losses arising from transfer of employees represent the transfer of obligations on post-retirement benefits, which originated from the movement of employees from, as well as back to, the parent company.

Net losses are the difference between the losses arising from transfer of employees and the assets arising from transfer of employees.

The major categories of plan assets administered by Fund Blagosostoyanie as a percentage of the fair value of total plan assets as at the balance sheet date were as follows:

	<u>Share in total plan assets</u>	
	<u>2013</u>	<u>2012</u>
Corporate bonds and stock of Russian legal entities	57%	45%
Shares in closed investment funds	26%	33%
Bank deposits	14%	16%
Other	3%	6%
	<u>100%</u>	<u>100%</u>

Most benefits to employees and retired employees depend on wage growth and rising consumer prices. Besides inflation risk, post-employment benefits are also subject to demographic risk due to the dependence of payment duration to changes in life expectancy of retired employees.

Plan assets under the supplementary defined benefit pension plan are subject to investment risks. To reduce the risks in accordance with local laws Fund Blagosostoyanie places the assets in a diversified portfolio with a statutory structure. Since retirement of a participant Fund Blagosostoyanie carries out all the risks of the plan with respect to this participant.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	<u>2013</u>	<u>2012</u>
Discount rate	7.8%	7.2%
Average rate of employee turnover	Based on the industry average	Based on the industry average
Projected average annual growth of consumer prices	5.0%	5.2%
Life expectancy table	Russia, 2012, with probability corrected to 83% of the initial level	Russia, 2011

As at 31 December 2013 the Group assumed that the growth of salary and benefits will be in line with the growth of consumer prices.

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18. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

The change in the discount rate and in the assumptions for salary growth in general resulted in the recognition of an actuarial gains for the current period.

Results of sensitivity analysis of defined benefit obligation at 31 December 2013:

	<u>Change in assumption</u>	<u>Change in liabilities</u>
Discount rate	-1%	65
	+1%	(56)
Rate of employee turnover	-1%	23
	+1%	(22)
Projected average growth of benefits and	-1%	(66)
	+1%	74
Average life expectancy after retirement	-1 year	(3)
	+1 year	3

Weighted average duration of the defined benefit obligation is 6.2 years.

The maturity profile of the defined benefit obligation as at 31 December 2013:

	<u>Before year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>
Post-employment benefits	103	98	274
Other long-term benefits	134	87	130
	<u>237</u>	<u>185</u>	<u>404</u>

19. EMPLOYEE SHARE OPTION PLAN

In October 2010, the Board of Directors approved a Share Option Plan for the Company's management (the "Plan"). In general, 1.5% of the Company's outstanding ordinary shares may be allocated under this Plan, which has been in effect since 20 May 2011. Management participation in the Plan and the number of shares in individual manager's share option agreements are determined by the Board of Directors.

The Plan provides for granting share options to the members of the Group's management (the "Plan Participants"). All Plan Participants had signed relevant agreements by the end of June 2011.

The options are to be vested in four annual installments at the end of each of four next years after June 2011. Each Plan Participant obtains the right to a certain quantity of share options for each year of service with the Company.

Under certain circumstances, including breach of specific labour agreement provisions, Plan Participants can forfeit their right to purchase shares.

Ordinary shares will be allocated from treasury shares purchased by the Group for this purpose on the open market by a special-purpose entity, by LLC TransContainer Finance, which is fully controlled by the Group.

The exercise price will be RUR 2,464 per share plus certain costs and expenses related to Plan implementation. Plan Participants will have up until June 2016 to exercise their share options.

In relation to the Plan, the Group had purchased 208,421 treasury shares. Their purchase cost was RUR 514m. The shares were purchased by LLC TransContainer Finance.

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19. EMPLOYEE SHARE OPTION PLAN (CONTINUED)

The following number of share options is outstanding:

	<u>2013</u>	<u>2012</u>
Options outstanding at 1 January	171,873	208,421
Options exercised during the year	(6,696)	(36,548)
Options outstanding at 31 December	<u>165,177</u>	<u>171,873</u>

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The Black-Scholes-Merton model is used to estimate the fair value of the share option granted.

	<u>Options granted as at 20 May 2011</u>
Share price (in Russian Roubles)	3,116
Exercise price (in Russian Roubles) (including expenses related to implementation of the Plan)	2,464-3,145
Expected volatility	37%
Option life	1-5 years
Risk-free interest rate	4.6%-7.4%
Fair value at measurement date (in Russian Roubles)	1,308 – 1,462

The measure of volatility used in the Black-Scholes-Merton model is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility has been determined on the basis of the historical volatility of the share price over the most recent period (last six months before grant date).

During the year ended 31 December 2013, the Group recognised expenses of RUR 41m related to the options. These expenses were included into payroll.

Also during the year ended 31 December 2013 6,696 options in respect of shares were exercised, the weighted average exercise price was RUR 2,721 and the weighted average share price at the date of exercise was RUR 3,894.

Movements in the reserve held for Share-based option plan during the year:

	<u>2013</u>	<u>2012</u>
Reserve as at 1 January	188	148
Expense recognised for the period	41	87
Exercised options under option plan during the period	(8)	(47)
Reserve as at 31 December	<u>221</u>	<u>188</u>

20. TRADE AND OTHER PAYABLES

	<u>2013</u>	<u>2012</u>
Trade payables	505	601
Amounts payable for the acquisition of property, plant and equipment	90	153
Total financial liabilities within trade and other payable	595	754
Liabilities to customers (advances)	2,621	3,019
Total trade and other payables	<u>3,216</u>	<u>3,773</u>

21. TAXES OTHER THAN INCOME TAX PAYABLE

	<u>2013</u>	<u>2012</u>
Social insurance contribution	171	144
Property tax	148	144
Personal income tax	26	29
VAT	22	40
Other taxes	5	10
Total taxes other than income tax payable	<u>372</u>	<u>367</u>

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22. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	<u>2013</u>	<u>2012</u>
Settlements with employees	740	704
Other liabilities (financial liabilities)	94	85
Total accrued expenses and other current liabilities	<u>834</u>	<u>789</u>

Settlements with employees as at 31 December 2013 and 31 December 2012 comprised accrued salaries and bonuses of RUR 580m and RUR 516m, respectively, and accruals for unused vacation of RUR 160m and RUR 188m, respectively.

23. SEGMENT INFORMATION

The Company's General Director is its chief operating decision-maker. The Group's business activities are interdependent in providing customers with rail-based container shipping and other logistics services. As such, the Group's internal reporting, as reviewed by the General Director to assess performance and allocate resources, is prepared on a consolidated basis as a single reportable segment. The Group's internal management reports are prepared on the same basis as these consolidated financial statements.

Analysis of revenue by category

	<u>2013</u>	<u>2012</u>
Integrated freight forwarding and logistics services	24,273	19,307
Rail-based container shipping services	8,154	9,962
Terminal services and agency fees	4,181	4,031
Truck deliveries	1,367	1,631
Other freight forwarding services	571	824
Bonded warehousing services	317	388
Other	301	222
Total revenue	<u>39,164</u>	<u>36,365</u>

Analysis of revenue by location of customers

	<u>2013</u>	<u>2012</u>
Revenue from external customers		
Russia	28,598	28,961
Kazakhstan	5,465	2,641
Korea	1,829	1,493
Germany	1,367	954
China	550	579
Estonia	230	521
Cyprus	193	227
Uzbekistan	189	319
Great Britain	161	73
Latvia	154	116
Switzerland	99	194
Other	329	287
Total revenue	<u>39,164</u>	<u>36,365</u>

During the year ended 31 December 2013, OJSC "RZD" and its subsidiaries accounted for RUR 2,683m or 7% of the Group's total revenue. During the year ended 31 December 2012, OJSC "RZD" and its subsidiaries accounted for RUR 2,954m or 8% of the Group's total revenue.

24. OTHER OPERATING INCOME

For the year ended 31 December 2013 the Group received income from the sale of inventory and from the reuse of spare parts for the amount of RUR 370m (for the year ended 31 December 2012: RUR 256m), income from the sale and disposal of containers and flatcars for the amount of RUR 166m (for the year ended 31 December 2012: RUR nil), refund of VAT on the sale of services by applying the tax rate 0% for the amount of RUR 100m (for the year ended 31 December 2012: RUR 37m) and other operating income for the amount of RUR 111m (for the year ended 31 December 2012: RUR 124m).

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25. OPERATING EXPENSES

	<u>2013</u>	<u>2012</u>
Cost of integrated freight forwarding and logistics services	13,836	10,791
Payroll and related charges	5,048	5,009
Freight and transportation services	4,315	4,873
Materials, repair and maintenance	2,985	2,806
Depreciation and amortisation	1,943	2,740
Rent	1,869	538
Taxes other than income tax	724	591
Security	288	293
License and software	227	140
Fuel costs	211	200
Change in provision for impairment of receivables	194	-
Consulting services	147	178
Charity	130	144
Change in provision for impairment of property, plant and equipment	123	1
Communication costs	88	99
Other expenses	731	956
Total operating expenses	<u>32,859</u>	<u>29,359</u>

26. INTEREST EXPENSE

	<u>2013</u>	<u>2012</u>
Interest expense on RUR bonds	614	509
Interest expense on bank loans and borrowings	65	236
Interest expense on finance lease obligations	61	78
Discounting of accounts receivables	42	62
Total interest expense	<u>782</u>	<u>885</u>

27. INCOME TAX

	<u>2013</u>	<u>2012</u>
Current income tax charge	(1,317)	(1,564)
Deferred income tax (expense) / benefit	(58)	(6)
Income tax	<u>(1,375)</u>	<u>(1,570)</u>

The statutory tax rate effective in the Russian Federation was 20% for the years ended 31 December 2013 and 31 December 2012.

Profit before income tax for financial reporting purposes is reconciled to income tax expense for as follows:

	<u>2013</u>	<u>2012</u>
Profit before income tax	<u>7,349</u>	<u>6,802</u>
Theoretical tax charge at statutory rate of 20%	(1,470)	(1,360)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Benefits in-kind and other non-deductible payments to employees	(39)	(39)
Non-deductible post-employment benefits	(12)	(17)
Non-deductible charitable donations	(24)	(28)
Income tax adjustments for prior periods	50	-
Disposal of controlling interest in subsidiary	155	-
Other non-deductible expenses	(35)	(126)
Income tax	<u>(1,375)</u>	<u>(1,570)</u>

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27. INCOME TAX (CONTINUED)

Total accumulated temporary differences that arise between the Russian statutory tax base of assets and liabilities and their carrying amounts in the accompanying consolidated statements of financial position give rise to the following deferred tax effects:

	1 January 2013	Charged to profit or loss	Charged to other comprehensive income	Disposal of controlling interest in subsidiary	Exchange difference	31 December 2013
Investment property	-	1	14	-	-	15
Loans and borrowings	4	-	-	-	-	4
Intangible assets	105	(19)	-	(94)	5	(3)
Finance lease obligations	(150)	40	-	-	-	(110)
Property, plant and equipment	2,100	99	-	(302)	17	1,914
Employee benefits liability	(140)	17	6	-	-	(117)
Trade and other receivables	(45)	(51)	-	19	(1)	(78)
Trade and other payables	(143)	(16)	-	6	-	(153)
Other	(31)	(14)	-	18	-	(27)
Total net deferred tax liability	1,700	57	20	(353)	21	1,445
Total net deferred tax asset	(1)	1	-	-	-	-

	1 January 2012	Charged to profit or loss	Charged to other comprehensive income	Exchange difference	31 December 2012
Deferred income	(3)	3	-	-	-
Loans and borrowings	5	(1)	-	-	4
Intangible assets	126	(14)	-	(7)	105
Finance lease obligations	(95)	(55)	-	-	(150)
Property, plant and equipment	2,067	56	-	(23)	2,100
Employee benefits liability	(125)	(10)	(5)	-	(140)
Trade and other receivables	(55)	10	-	-	(45)
Trade and other payables	(146)	3	-	-	(143)
Other	(42)	11	-	-	(31)
Total net deferred tax liability	1,732	3	(5)	(30)	1,700
Total net deferred tax asset	(4)	3	-	-	(1)

The Group did not recognise a deferred tax liability concerning temporary differences of RUR 113m (2012: RUR 180m) in respect of investments in subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in the foreseeable future.

Management has performed an analysis of the dividend policies at the Group's associates and joint ventures with regards to the Group's potential deferred tax liabilities where the Group does not control reversal of the temporary difference or expects the reversal to occur in the foreseeable future. For all associates and joint ventures, management expects that the carrying value of the investments would be recovered primarily through a sale and partially through dividends. No deferred taxes related to a future sale are recognised in respect of all associates and joint ventures because any sale would occur in a tax free jurisdiction.

In the context of the Group's current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

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27. INCOME TAX (CONTINUED)

Management estimates that deferred tax liabilities of RUR 1,692m (31 December 2012: RUR 1,928m) are recoverable after more than twelve months after the end of the reporting period.

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 "Related party disclosures", parties are considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The nature of the related-party relationships for those related parties with which the Group has entered into significant transactions, or had significant balances outstanding as at 31 December 2013, are disclosed below:

Related party	Nature of relationship
OJSC Russian Railways (RZD)	Parent company
JSC Kedentransservice	Joint venture of the Company
Oy ContainerTrans ScandinaviaLtd	Joint venture of the Company
Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co. Ltd.	Joint venture of the Company
Trans-Eurasia Logistics GmbH	Associate of the Company
Far East Land Bridge Ltd.	Associate of the RZD
CJSC Torgovy'y dom TMH	Associate of the RZD
JSC Wagon Repair Company - 1	Subsidiary of RZD
JSC Wagon Repair Company - 2	Subsidiary of RZD
JSC Wagon Repair Company - 3	Subsidiary of RZD
OJSC RZD Logistics	Subsidiary of RZD
OJSC Bank VTB	State-controlled entity
Fund Blagosostoyanie	Post-employment benefit plan for Company employees
FAR-EASTERN SHIPPING COMPANY PLC.	Significant shareholder

The Group's ultimate controlling party is the Russian Federation Government and, therefore, all companies controlled by the Russian Federation Government are also treated as related parties of the Group for the purposes of these consolidated financial statements.

As a part of its ordinary course of business, the Group enters into various transactions and has outstanding balances with state-controlled entities and governmental bodies, which are shown as "other" in the tables below. The Group also enters in transactions with government entities for goods and services like electricity, taxes and post services. These transactions are conducted on commercial terms. The majority of related-party transactions are with OJSC Russian Railways, its subsidiaries, joint ventures and associates (shown as "Other RZD group entites" in the table below), and OJSC Bank VTB, which are also state-controlled.

Relationships with RZD, its subsidiaries, joint ventures and associates

The Group carries out various transactions with RZD, which is the sole owner and provider of railroad infrastructure and locomotive services in Russia. Furthermore, RZD owns the vast majority of rail-car repair facilities in Russia, which the Group uses to maintain its rolling stock in operating condition.

Under current Russian regulations, only RZD can perform certain functions associated with arranging the container transportation process. As the assets required for performing such functions were transferred to the Company, RZD engaged the Company to act as its agent in the performance of these functions. Company's revenues generated from such transactions with RZD is reported as agency fees in the consolidated profit or loss.

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28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and balances with related parties as at and for the year ended 31 December 2013 are shown below:

	Parent company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties	Total
ASSETS						
Non-current assets						
Trade receivables	-	364	-	-	-	364
Current assets						
Cash and cash equivalents	-	-	-	-	1,811	1,811
Trade receivables	228	400	21	85	2	736
Other receivables	65	94	-	2	96	257
Advances to suppliers	1,475	59	2	-	1	1,537
	1,768	553	23	87	1,910	4,341
Total assets	1,768	917	23	87	1,910	4,705
LIABILITIES						
Current liabilities						
Trade payables	12	5	1	156	9	183
Liabilities to customers	2	28	1	8	69	108
Other payables	-	-	-	-	73	73
Total liabilities	14	33	2	164	151	364
Revenue						
Rail-based container shipping services	143	136	8	31	120	438
Terminal services and agency fees	1,706	11	2	-	15	1,734
Integrated freight forwarding and logistics services	6	698	133	317	137	1,291
Other services	30	67	21	6	35	159
	1,885	912	164	354	307	3,622
Interest income on deposits	-	-	-	-	180	180
Other interest income	-	-	-	-	14	14
Other operating income	140	27	2	-	3	172
	140	27	2	-	197	366
Total income	2,025	939	166	354	504	3,988
Operating Expenses						
Freight and transportation services	3,113	5	-	5	6	3,129
Third-party charges relating to integrated freight forwarding and logistics services	9,030	4	4	214	34	9,286
Repair services	381	1,059	-	-	3	1,443
Rent of property and equipment	39	1	-	-	4	44
Other expenses	124	198	-	-	182	504
Total expenses	12,687	1,267	4	219	229	14,406
Acquisition of property, plant and equipment	6	834	-	-	77	917
Contributions to non-state pension funds	-	-	-	-	100	100
Total other transactions	6	834	-	-	177	1,017

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28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and balances with related parties as at and for the year ended 31 December 2012 are shown below:

	Parent company (RZD)	ther RZD group entities	Group's associates	roup's joint ventures	Other related parties	Total
ASSETS						
Non-current assets						
Advances for acquisition of non-current assets	-	3	-	-	37	40
Trade receivables	-	453	-	-	-	453
	-	456	-	-	37	493
Current assets						
Short-term investments	-	-	-	-	1,293	1,293
Cash and cash equivalents	-	-	-	-	948	948
Trade receivables	210	358	11	12	2	593
Other receivables	7	81	-	-	3	91
Advances to suppliers	1,431	23	1	-	3	1,458
	1,648	462	12	12	2,249	4,383
Total assets	1,648	918	12	12	2,286	4,876
LIABILITIES						
Current liabilities						
Trade payables	52	7	2	16	27	104
Liabilities to customers	1	30	1	2	34	68
Other payables	1	-	-	-	43	44
Total liabilities	54	37	3	18	104	216
Revenue						
Rail-based container shipping services	225	158	100	5	66	554
Terminal services and agency fees	1,833	6	2	-	5	1,846
Integrated freight forwarding and logistics services	5	663	90	24	71	853
Other services	48	72	58	1	30	209
	2,111	899	250	30	172	3,462
Interest income on deposits	-	95	-	-	73	168
Other interest income	-	12	-	-	3	15
Gain recognised on disposal of interest in former associate	-	72	-	-	-	72
Other operating income	76	9	-	-	6	91
	76	188	-	-	82	346
Total income	2,187	1,087	250	30	254	3,808
Operating Expenses						
Freight and transportation services	3,461	3	2	-	5	3,471
Third-party charges relating to integrated freight forwarding and logistics services	7,061	6	37	6	33	7,143
Repair services	260	1,202	-	-	3	1,465
Rent of property and equipment	38	1	-	-	2	41
Other expenses	110	75	4	-	121	310
	10,930	1,287	43	6	164	12,430
Interest expense on finance lease obligations	-	-	-	-	29	29
Discounting of accounts receivables	-	98	-	-	-	98
	-	98	-	-	29	127
Total expenses	10,930	1,385	43	6	193	12,557
Acquisition of property, plant and equipment	-	166	-	-	43	209
Purchase of materials	-	-	-	-	2	2
Contributions to non-state pension funds	-	-	-	-	67	67
Total other transactions	-	166	-	-	112	278

The amounts outstanding to and from related parties are unsecured and expected to be settled by cash or supplies of goods or services (in respect of advances to suppliers and liabilities to customers) in the normal course of business.

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28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Dividends

During the year ended 31 December 2013 RUR 602m and RUR 270m of dividends were paid to RZD and the Group FAR-EASTERN SHIPPING COMPANY PLC., accordingly (as at 31 December 2012 RUR 609m and RUR 257m, respectively).

Compensation of key management personnel

Key management personnel consist of members of the Company's Board of Directors, as well as the General Director and his deputies, and comprised 20 persons as at 31 December 2013 and 31 December 2012, respectively. Total gross compensation (including insurance contributions and before withholding of personal income tax) to key management personnel amounted to RUR 280m (including total insurance contributions of RUR 22m) and RUR 309m (including total insurance contributions of RUR 25m) for the years ended 31 December 2013 and 31 December 2012, respectively. This compensation is included under payroll and related charges and other expenses in the consolidated profit and loss. Major part of compensation for Key management personnel is generally sort-term excluding future payments under pension plans with defined benefits. Defined benefit payments to Key management of the Group are calculated based on the same terms as for the other employees.

As stated in Note 19, during the year ended 31 December 2013, the Group recognised expenses of RUR 41m (87m as at 31 December 2012) related to the Share Option Plan approved by the Board of Directors in October 2010. Expenses related to options provided to the General Director and his deputies comprised RUR 22m (46m as at 31 December 2012).

29. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2013, the Group leases container terminal Dobra in Slovakia. The remaining period of agreements validity is 11 years.

The Group leases certain production buildings and office premises in Russia. The relevant lease agreements have terms varying from one to six years. Additionally, the Group leases the land on which its container terminals are located.

Future minimum lease payments under contracted operating leases are as follows:

	<u>2013</u>	<u>2012</u>
Within one year	179	359
Within two to five years	176	381
After five years	196	614
Total minimum lease payments	<u>551</u>	<u>1,354</u>

Decrease of minimum lease payments under contracted operating leases relates to deconsolidation of JSC Kedentransservice.

30. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group's capital commitments as at 31 December 2013 and 31 December 2012 consisted of the following, including VAT:

	<u>2013</u>	<u>2012</u>
Acquisition of containers and flatcars	961	853
Construction of container terminal complexes and modernisation of existing assets	230	715
Acquisition of lifting machines and other equipment	234	52
Total capital commitments	<u>1,425</u>	<u>1,620</u>

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30. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations. The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of the Rouble and making it harder to raise international funding. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are at this stage difficult to determine. The financial markets are uncertain and volatile. These and other events may have a significant impact on the Group's operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation may differ from management's current expectations.

Transfer pricing. The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm's length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

Legal proceedings. During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which management believes could have a material effect on the result of operations or financial position of the Group, beyond those already recognised in these financial statements.

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30. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

Insurance. The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies that partially cover its vehicles, flatcars and buildings, Directors and Officers liability insurance policy and a carrier's liability insurance policy. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group's operations and financial position.

31. RISK MANAGEMENT ACTIVITIES

Capital Risk Management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as at 31 December 2013 was RUR 31,479m (as at 31 December 2012: RUR 26,624m).

The capital structure of the Group consists of issued capital, reserves and retained earnings as disclosed in Note 15.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

Major Categories of Financial Instruments

The Group's financial assets include trade and other receivables, cash and cash equivalents, other non-current assets. All financial assets fall into the loans and receivables category under IAS 39 "Financial instruments: recognition and measurement".

	<u>2013</u>	<u>2012</u>
Financial assets		
Loans and receivables		
Cash and cash equivalents	1,883	1,318
Trade and other receivables	1,986	1,714
Short-term investments	-	758
Other non-current assets	7	14
Held-to-maturity investments		
Short-term investments	-	581
Total financial assets	<u><u>3,876</u></u>	<u><u>4,385</u></u>

The Group's principal financial liabilities are trade and other payables, finance lease obligations, and debt (which includes bonds and long-term borrowings). All financial liabilities are carried at amortised cost.

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31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Major Categories of Financial Instruments (continued)

	<u>2013</u>	<u>2012</u>
Financial liabilities		
Trade and other payables	595	754
Other liabilities	94	85
Long-term debt	6,194	2,731
Short-term debt and current portion of long-term debt	1,693	5,695
Finance lease obligations	551	762
Total financial liabilities	<u>9,127</u>	<u>10,027</u>

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment obligations as they fall due. Management controls current liquidity based on expected cash flows and expected revenue receipts. In the long-term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit, loan or lease agreements and by budgeting procedures. In February 2013 the Company placed five-year RUR bonds series 4 therefore loans from OJSC Alfa Bank classified as short-term as at 31 December 2012 were repaid (Note 16) which affected current liquidity ratio of the Group.

The Group has both interest bearing and non-interest bearing financial liabilities. The interest bearing liabilities consist of finance lease obligations, debt and bond obligations. The non-interest bearing liabilities include trade and other payables and amounts payable to employees.

The following table details the Group's remaining contractual maturity for financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay or expect to make the payment.

	<u>Effective interest rate</u>	<u>Less than 1 month</u>	<u>1-3 months</u>	<u>3 months- 1 year</u>	<u>1-5 years</u>	<u>More than 5 years</u>	<u>Total</u>
2013							
Non-interest bearing liabilities (including trade and other payables and other liabilities)		442	181	66	-	-	689
Long-term debt	9.5%	4	7	33	532	-	576
Bonds	8.35%-8.8%	208	-	1,873	6,928	-	9,009
Finance lease liabilities	9.65%	6	12	52	703	-	773
Total		<u>660</u>	<u>200</u>	<u>2,024</u>	<u>8,163</u>	<u>-</u>	<u>11,047</u>
2012							
Non-interest bearing liabilities (including trade and other payables and other liabilities)		388	138	313	-	-	839
Long-term debt	9.5%	4	8	36	612	-	660
Bonds	8.8%-9.5%	-	3,142	1,013	2,448	-	6,603
Short-term debt and current portion of long-term debt	9.5%-9.75%	3	1,822	-	-	-	1,825
Finance lease liabilities	9.65%-9.97%	8	15	77	369	659	1,128
Total		<u>403</u>	<u>5,125</u>	<u>1,439</u>	<u>3,429</u>	<u>659</u>	<u>11,055</u>

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31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Liquidity Risk (continued)

The following table details the Group's expected maturity for its financial assets, with the exception of cash. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets, including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Effective interest rate	Less than 1 month	1-3 months	3 months- 1 year	1-5 years	Total
2013						
Loans and receivables						
Trade and other receivables		904	547	170	504	2,125
Other non-current assets		-	-	-	7	7
Total		904	547	170	511	2,132
2012						
Loans and receivables						
Trade and other receivables		523	138	646	504	1,811
Short-term investments	8.22-8.5%	-	712	46	-	758
Other non-current assets		-	-	-	14	14
Held-to-maturity investments						
Short-term investments	8.05-8.85%	311	270	-	-	581
Total		834	1,120	692	518	3,164

Currency Risk

Currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. The Group has export revenue, and purchases third party transportation services, which are denominated in foreign currencies. Certain receivable and payable balances, related primarily to settlements with customers, are denominated in currencies other than the Russian Rouble, the functional currency of the Company.

During 2013 and 2012 the Group's financial assets denominated in foreign currency have exceeded its foreign currency financial liabilities.

For the year ended 31 December 2013 the Russian Rouble depreciated against the US Dollar by 8%, and against EURO by 12% (appreciated against the US Dollar by 6% and against the EURO by 3% for the year ended 31 December 2012). The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk exposure.

The carrying amounts of the Group's foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

	USD		EUR		Other	
	2013	2012	2013	2012	2013	2012
Assets						
Cash and cash equivalents	981	250	159	141	1	72
Trade and other receivables	162	219	251	193	1	5
Total assets	1,143	469	410	334	2	77
Liabilities						
Trade and other payables	273	169	34	46	2	2
Total liabilities	273	169	34	46	2	2

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31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Currency Risk (continued)

The table below details the Group's sensitivity to strengthening of the Russian Rouble against the US Dollar and EURO by 20%, all other variables being held constant. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	USD – impact		EUR – impact	
	2013	2012	2013	2012
Loss	<u>(174)</u>	<u>(60)</u>	<u>(75)</u>	<u>(58)</u>

The weakening of the Russian Rouble in relation to the same currencies by the same percentage will produce an equal and opposite effect on the consolidated financial statements of the Group to that shown above.

Interest rate risk

Interest rate risk is the risk that movement in interest rates for borrowed funds will have an adverse effect on the Group's financial performance. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring the Group has financial liabilities with both floating and fixed interest rates, and maintaining an appropriate mix between debt and equity.

As at 31 December 2013 the Group's borrowed funds consist of long-term and short-term bonds (Note 16), long-term debt (Note 16) and finance lease liabilities (Note 17).

The annual coupon rate for RUR bonds, series 2 has been set at 8.8% for the entire five-year maturity period of the bonds, with no subsequent changes. The effective interest rate for these bonds is 9.01%.

The annual coupon rate of the five-year RUR bonds, series 4 issued on 1 February 2014 was set at 8.35% for five years without any further changes. The effective interest rate of the bonds, series 4 is 8.4%.

As at 31 December 2013, loan from LLC TrustUnion Asset Management were recognised by the Group. This loan was granted at fixed interest rates, therefore the Group did not have an additional interest risk.

In 2012, the Group entered into the lease agreement of premises in a Moscow office building for a six-year period. The rent under the agreement includes a fixed fee for the possession and use of leased premises, as well as compensation of utility expenses. The effective interest rate under the agreement is 9.65% (Note 17). As these finance lease obligations are financial instruments bearing a fixed interest rate, therefore, they do not subject the Group to an additional interest risk.

Credit risk

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not hedge its credit risk.

The Group's exposure to credit risk arises primarily with respect to receivables in connection with container shipping activities.

Credit exposure is managed by establishing credit limits for the most significant customers that are reviewed and approved by management. Deferred payment terms are offered only to the most significant customers of the Group with proven credit history. Sales to other customers are made on a prepayment basis.

The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

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31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Credit Risk (continued)

The Group's concentration of credit risk is dependent on a few large key customers. As at 31 December 2013 62% of the total net amount of trade and other receivables related to the seven largest counterparties of the Group (as at 31 December 2012: 75%).

The largest receivables outstanding as at the balance sheet date are as follows:

	Outstanding balance, net	
	2013	2012
OJSC RZD Logistics	638	705
RZD	294	212
Schenker Rail Automotive GmbH	146	84
UNICO LOGISTICS	70	56
Rail-Container (Beiging) Go., LTD	51	23
LLC Unico Logistics Rus	31	23
LLC Volkswagen Group Rus	7	88
Far East Land Bridge Ltd.	-	93
Total	1,237	1,284

As at 31 December 2013 and 31 December 2012 no impairment of accounts receivable has been identified for all these customers, except for OJSC RZD Logistics. Accounts receivable of OJSC RZD Logistics was discounted in accordance with confirmed schedule for the repayment of debts (Note 11).

Financial assets neither past due nor impaired are the primarily receivables from related parties (Note 28) and receivables from other companies. Accounts receivable from related parties are characterised by a high degree of creditworthiness and the likelihood of recovery. Accounts receivable from other companies have similar rates of credit capacity and analysed on a regular basis by the Group for reliability and collectibility.

There is no independent rating for the Group's customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection and to minimize losses.

The Group's management monitors past due balances of receivables and provides ageing analysis as disclosed in Note 11.

Credit risk on liquid funds is limited because these funds are placed only with financial institutions well known to the Group. 96% of total cash and cash equivalents as at 31 December 2013 (as at 31 December 2012: 69%), were held with one bank which is related to the Group.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the consolidated statement of financial position, described above.

Fair value of financial assets and liabilities

Management uses its judgment to the assessment and classification of financial instruments by category using the fair value measurement hierarchy.

Fair value of financial assets and liabilities is analysed and distributed by level in the fair value hierarchy as described in Note 3. As at the reporting date the Group had financial assets and liabilities classified as Level 1 and Level 3 only.

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31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

For assets and liabilities not measured at fair value but for which fair value is disclosed, management believes that the fair value of the following assets and liabilities approximates their carrying value: investment property, trade and other receivables, cash and cash equivalents, other financial assets, trade and other payables. These financial assets and liabilities relate to Level 3 in the fair value hierarchy. Investments in associates and joint ventures fair value, determined at the date of recognition as non-recurring measurement approximates their carrying value and refer to the Level 3 in the fair value hierarchy.

Company's bonds are placed on the Moscow Stock Exchange and quoted on the market, thus they refer to the Level 1 in the fair value hierarchy.

The following table details the fair value of the Company's bonds:

	<u>2013</u>	<u>2012</u>
Financial liabilities		
Bonds	<u>7,308</u>	<u>6,026</u>
Total	<u><u>7,308</u></u>	<u><u>6,026</u></u>

Financial assets carried at amortised cost. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

Liabilities carried at amortised cost. The fair value of bonds is based on quoted market prices. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and maturity.

Offsetting Financial Assets and Financial Liabilities. As at 31 December 2013 and 31 December 2012 the Group does not have any financial instruments subject to offsetting, enforceable master netting and similar arrangements. As at 31 December 2013 corresponding accounts receivable and accounts payable under various contracts with the same counterparties had amounted to RUR 118m (RUR 331m as of 31 December 2012) and accounts payable had amounted to RUR 190m, respectively (RUR 62m as of 31 December 2012). As at 31 December 2013 if there are such master netting agreements the offsetting amount will account for RUR 118m as at 31 December 2013 (as at 31 December 2013 will account for RUR 62m).

32. SUBSEQUENT EVENTS

Acquisition of real estate. In February 2014 the Company entered into a preliminary purchase-and-sale agreement with CJSC RWM Capital Asset Management for the acquisition of premises in a Moscow office building at 19 Oruzheiniy pereulok for a total amount of RUR 116m (plus VAT in the amount of RUR 21m).

Agreement on acquisition of flatcars. In March 2014 the Group has signed the following agreements:

- with LLC Spetscompany for the purchase of 300 flatcars for the total amount of RUR 547m (plus VAT in the amount of RUR 99m) and obtained 54 flatcars for the total amount of RUR 98m (plus VAT in the amount of RUR 18m);
- with LLC SpetsTransServis for the purchase of 200 flatcars for the total amount of RUR 365m (plus VAT in the amount of RUR 66m) and obtained 35 flatcars for the total amount of RUR 64m (plus VAT in the amount of RUR 11m);
- with CJSC Torgovy'y dom TMH for the purchase of 300 flatcars for the total amount of RUR 547m (plus VAT in the amount of RUR 99m) and obtained 36 flatcars for the total amount of RUR 66m (plus VAT in the amount of RUR 12m).