

**PUBLIC JOINT STOCK COMPANY  
TRANSCONTAINER**

**Consolidated Financial Statements**

For the Year Ended 31 December 2014

# PJSC 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 2014**

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Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of PJSC TransContainer (the "Company") and its subsidiaries (the "Group") as at 31 December 2014 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 2014 were approved on 26 March 2015 by:

A handwritten signature in blue ink, appearing to read 'P. V. Baskakov', written over a horizontal line.

**P. V. Baskakov**  
General Director

A handwritten signature in blue ink, appearing to read 'K. S. Kalmykov', written over a horizontal line.

**K. S. Kalmykov**  
Chief Accountant



## ***Independent Auditor's Report***

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

We have audited the accompanying consolidated financial statements of Public Joint Stock Company TransContainer and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2014 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2014, 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 2014, and its financial performance and its cash flows for 2014 in accordance with International Financial Reporting Standards.

*ZAO PricewaterhouseCoopers Audit*

27 March 2015

Moscow, Russian Federation



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

Audited entity: PJSC TransContainer

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

Russian Federation, 125047, Moscow, Oruzheiniy 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

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

	Notes	<u>2014</u>	<u>2013</u>
<b>ASSETS</b>			
<b>Non-current assets</b>			
Property, plant and equipment	7	37,718	36,326
Advances for acquisition of non-current assets	7	206	243
Investment property		86	74
Intangible assets	8	210	150
Investments in associates and joint ventures	9	3,343	2,330
Trade and other receivables	10	353	365
Other non-current assets		96	76
<b>Total non-current assets</b>		<b><u>42,012</u></b>	<b><u>39,564</u></b>
<b>Current assets</b>			
Inventory		340	358
Trade and other receivables	10	1,542	1,621
Prepayments and other current assets	11	2,958	3,435
Prepaid income tax		113	114
Short-term investments		8	1
Cash and cash equivalents	12	1,904	1,883
		<u>6,865</u>	<u>7,412</u>
Non-current assets held for sale		100	-
<b>Total current assets</b>		<b><u>6,965</u></b>	<b><u>7,412</u></b>
<b>TOTAL ASSETS</b>		<b><u>48,977</u></b>	<b><u>46,976</u></b>
<b>EQUITY AND LIABILITIES</b>			
<b>Capital and reserves</b>			
Share capital	13	13,895	13,895
Treasury shares	13	(493)	(484)
Reserve fund	13	697	697
Translation reserve		1,081	10
Equity-settled employee benefits reserve	17	240	221
Other reserves, including investment property's revaluation reserve	13	(2,156)	(2,165)
Retained earnings		21,981	19,305
<b>Total equity</b>		<b><u>35,245</u></b>	<b><u>31,479</u></b>
<b>Non-current liabilities</b>			
Long-term debt	14	5,458	6,194
Finance lease obligations, net of current maturities	15	340	485
Employee benefit liability	16	939	1,096
Deferred tax liability	25	1,414	1,445
<b>Total non-current liabilities</b>		<b><u>8,151</u></b>	<b><u>9,220</u></b>
<b>Current liabilities</b>			
Trade and other payables	18	3,084	3,216
Current portion of long-term debt	14	919	1,693
Income tax payable		189	77
Taxes other than income tax payable	19	401	372
Provisions		16	19
Finance lease obligations, current maturities	15	60	66
Accruals and other current liabilities	20	912	834
<b>Total current liabilities</b>		<b><u>5,581</u></b>	<b><u>6,277</u></b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b><u>48,977</u></b>	<b><u>46,976</u></b>



**P. V. Baskakov**  
 General Director



**K. S. Kalmykov**  
 Chief Accountant

26 March 2015

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

	Notes	2014	2013
Revenue	21	36,565	39,164
Other operating income	22	715	747
Operating expenses	23	(33,197)	(32,859)
Foreign exchange gain, net		938	65
Gain on disposal of controlling interest in subsidiary	9	-	757
Gain from early termination of finance lease	15	18	32
Interest expense	24	(648)	(782)
Interest income		151	223
Share of result of associates and joint ventures	9	165	2
<b>Profit before income tax</b>		<b>4,707</b>	<b>7,349</b>
Income tax expense	25	(1,049)	(1,375)
<b>Profit for the year</b>		<b>3,658</b>	<b>5,974</b>
<b>Other comprehensive income (net of income tax)</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurements of post-employment benefit plans liabilities	16	135	113
Remeasurements of investment property		9	56
<i>Items that may be reclassified subsequently to profit or loss:</i>			
Share of translation of financial information of associates and joint ventures to presentation currency	9	970	(12)
Exchange differences on translating foreign operations		101	21
<b>Other comprehensive income for the year</b>		<b>1,215</b>	<b>178</b>
<b>Total comprehensive income for the year</b>		<b>4,873</b>	<b>6,152</b>
<b>Profit attributable to:</b>			
Equity holders of the parent		3,658	5,865
Non-controlling interest	9	-	109
<b>Comprehensive income attributable to:</b>			
Equity holders of the parent		4,873	5,995
Non-controlling interest		-	157
<b>Earnings per share, basic and diluted (in Russian Roubles)</b>		<b>267</b>	<b>422</b>
<b>Weighted average number of shares outstanding</b>	13	<b>13,696,127</b>	<b>13,896,193</b>



**P. V. Baskakov**  
 General Director



**K. S. Kalmykov**  
 Chief Accountant

26 March 2015

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

	Notes	2014	2013
<b>Cash flows from operating activities:</b>			
<b>Profit before income tax</b>		<b>4,707</b>	<b>7,349</b>
Adjustments for:			
Depreciation and amortisation	23	2,462	1,943
Change in provision for impairment of receivables	23	22	194
Gain on disposal of property, plant and equipment		(347)	(166)
Loss on impairment of property, plant and equipment	7	89	123
Share of result of associates and joint ventures	9	(165)	(2)
Gain on disposal of controlling interest in subsidiary	9	-	(757)
Interest expense, net		497	559
Equity-settled employee benefits reserve	17	19	41
Foreign exchange gain, net		(938)	(65)
Gain from early termination of finance lease	15	(18)	(32)
Change in provisions		-	20
Other income and expenses		-	7
<b>Operating profit before working capital changes, paid income tax and interest and changes in other assets and liabilities</b>		<b>6,328</b>	<b>9,214</b>
<b>Working capital changes:</b>			
Decrease in inventory		496	259
Decrease/(increase) in trade and other receivables		515	(1,097)
Decrease in prepayments and other assets		439	847
(Decrease)/increase in trade and other payables		(236)	24
Increase/(decrease) in taxes other than income tax		26	(6)
Increase in accrued expenses and other current liabilities		77	67
Decrease in employee benefit liabilities	16	(28)	(51)
<b>Net cash from operating activities before income tax and interest</b>		<b>7,617</b>	<b>9,257</b>
Interest paid		(655)	(665)
Income tax paid		(964)	(1,367)
<b>Net cash provided by operating activities</b>		<b>5,998</b>	<b>7,225</b>
<b>Cash flows from investing activities:</b>			
Purchases of property, plant and equipment		(4,212)	(6,632)
Proceeds from disposal of property, plant and equipment		76	17
Proceeds from disposal of controlling interest in subsidiary, net of cash disposed		-	412
Sale of short-term investments		751	4,937
Sale of long-term investments		25	1
Purchases of short-term investments		(758)	(3,688)
Purchases of intangible assets		(93)	(87)
Dividends received from joint ventures		199	-
Interest received		98	265
<b>Net cash used in investing activities</b>		<b>(3,914)</b>	<b>(4,775)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from long-term bonds	14	-	4,988
Repayments of finance lease obligations		(133)	(166)
Dividends	13	(1,117)	(1,187)
Principal payments on long-term borrowings		(2)	(29)
Principal payments on short-term borrowings		-	(1,830)
Principal payments on long-term bonds	14	(1,500)	(3,750)
<b>Net cash used in financing activities</b>		<b>(2,752)</b>	<b>(1,974)</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>		<b>(668)</b>	<b>476</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>1,883</b>	<b>1,318</b>
Foreign exchange effect on cash and cash equivalents		689	89
<b>Net cash and cash equivalents at end of the year</b>		<b>1,904</b>	<b>1,883</b>

  
P. V. Baskakov

General Director

26 March 2015

  
K. S. Kalmykov

Chief Accountant

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

**PJSC 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
<b>Balance at 1 January 2013</b>		<b>13,895</b>	<b>(490)</b>	<b>478</b>	<b>49</b>	<b>188</b>	<b>(2,221)</b>	<b>14,725</b>	<b>26,624</b>	<b>937</b>	<b>27,561</b>
Profit for the year		-	-	-	-	-	-	5,865	5,865	109	5,974
Other comprehensive income for the year		-	-	-	(39)	-	56	113	130	48	178
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>(39)</b>	<b>-</b>	<b>56</b>	<b>5,978</b>	<b>5,995</b>	<b>157</b>	<b>6,152</b>
Equity-settled employee benefits reserve	17	-	-	-	-	41	-	-	41	-	41
Disposal of controlling interest in subsidiary		-	-	-	-	-	-	-	-	(1,044)	(1,044)
Exercised options under option plan		-	6	-	-	(8)	-	8	6	-	6
Dividends	13	-	-	-	-	-	-	(1,187)	(1,187)	(50)	(1,237)
Transfer to reserve fund		-	-	219	-	-	-	(219)	-	-	-
<b>Balance at 31 December 2013</b>		<b>13,895</b>	<b>(484)</b>	<b>697</b>	<b>10</b>	<b>221</b>	<b>(2,165)</b>	<b>19,305</b>	<b>31,479</b>	<b>-</b>	<b>31,479</b>
Profit for the year		-	-	-	-	-	-	3,658	3,658	-	3,658
Other comprehensive income for the year		-	-	-	1,071	-	9	135	1,215	-	1,215
<b>Total comprehensive income for the year</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>1,071</b>	<b>-</b>	<b>9</b>	<b>3,793</b>	<b>4,873</b>	<b>-</b>	<b>4,873</b>
Equity-settled employee benefits reserve	17	-	-	-	-	19	-	-	19	-	19
Acquisition of treasury shares	13	-	(9)	-	-	-	-	-	(9)	-	(9)
Dividends	13	-	-	-	-	-	-	(1,117)	(1,117)	-	(1,117)
						240					
<b>Balance at 31 December 2014</b>		<b>13,895</b>	<b>(493)</b>	<b>697</b>	<b>1,081</b>	<b>-</b>	<b>(2,156)</b>	<b>21,981</b>	<b>35,245</b>	<b>-</b>	<b>35,245</b>



**P. V. Baskakov**  
 General Director  
 26 March 2015



**K. S. Kalmykov**  
 Chief Accountant

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



**PJSC TRANSCONTAINER**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**  
*(Amounts in millions of Russian Roubles, unless otherwise stated below)*

**1. NATURE OF THE BUSINESS**

PJSC TransContainer (the “Company” or “TransContainer”) was incorporated as an open joint stock company in Moscow, Russian Federation on 4 March 2006. On 20 November 2014 Open Joint Stock Company TransContainer was renamed as Public Joint Stock Company.

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 2014, the Company operated 15 branches in Russia. The Company’s registered address is 19 Oruzheiny pereulok, Moscow, 125047, Russian Federation.

The Company has ownership in the following major entities:

Name of Entity	Type	Country	Activity	Interest held, %		Voting rights, %	
				2014	2013	2014	2013
Oy ContainerTrans Scandinavia Ltd. (Note 9)	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 9)	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 9)	Associate	Germany	Container shipments	20	20	20	20
LLC TransContainer Finance (Note 17)	Subsidiary	Russia	Share option programme operator	100	100	100	100
JSC Kedentransservice (Note 9)	Joint venture	Kazakhstan	Container shipments	50	67	50	67
Helme’s Operation UK Limited (Note 9)	Joint venture	Great Britain	Investment activity	50	100	50	100
Logistic Investment S.a.r.l.	Subsidiary	Luxemburg	Investment activity	100	100	100	100
Logistic System Management B.V. (Note 9)	Joint venture	Netherlands	Investment activity	50	50	50	50

Significant impact on the financial indicators of the Group’s performance for the year ended 31 December 2014 compared to the same time period ended 31 December 2013 have been made by the change in the accounting method of investment in JSC Kedentransservice due to the loss of control over it in December 2013. As a result of loss of the control, JSC Kedentransservice was recognised as an investment in joint venture in accordance with IAS 28 Investments in Associates and Joint Ventures as at 31 December 2014 and 31 December 2013.

The consolidated financial statements of PJSC TransContainer and its subsidiaries (the “Group”) as at 31 December 2014 and for the year then ended were authorised for issue by the General Director of the Company on 26 March 2015.

**PJSC TRANSCONTAINER**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**  
***(Amounts in millions of Russian Roubles, unless otherwise stated below)***

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**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 that represents present ownership interest and entitles the holder to a proportionate share of net assets in the event of liquidation on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest’s proportionate share of net assets of the acquiree. Which principle to 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



**PJSC TRANSCONTAINER**  
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2014**  
***(Amounts in millions of Russian Roubles, unless otherwise stated below)***

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTUNUED)**

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 equity instruments 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, and the carrying amount is increased or decreased to recognise the investor's share of the profit or loss of the investee after the date of acquisition. 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 at the date when control is lost, 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.

If the ownership interest in an associate or joint venture 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

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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's consolidated financial statements, 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.

*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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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 reporting 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 property held by the Group to earn rental income or for capital appreciation, or both and which is not occupied by the Group. Investment property includes assets under construction for future use as investment property.

Investment property is initially recognised at cost, including transaction costs, and subsequently remeasured at fair value updated to reflect market conditions at the end of the reporting period. Fair value of investment property is the price that would be received from sale of the asset in an orderly transaction, without deduction of any transaction costs. The best evidence of fair value is given by current prices in an active market for similar property in the same location and condition.

Market value of the Group's investment property is determined based on reports of independent appraisers, who hold recognised and relevant professional qualifications and who have recent experience in the valuation of property in the same location and category.

Earned rental income is recorded in profit or loss for the year within other operating income. Gains and losses resulting from changes in the fair value of investment property are recorded in profit or loss for the year and presented separately.

If an investment property becomes owner-occupied, it is reclassified as property, plant and equipment, and its carrying amount at the date of reclassification becomes its deemed cost for accounting purposes.] [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.

Subsequent expenditure is capitalised to the asset's carrying amount only when it is probable that future economic benefits associated with the expenditure will flow to the Group and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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.

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 1 to 5 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.

**Non-current assets classified as held for sale.** Non-current assets and disposal groups (which may include both non-current and current assets) are classified in the statement of financial position as 'non-current assets held for sale' if their carrying amount will be recovered principally through a sale transaction (including loss of control of a subsidiary holding the assets) within twelve months after the reporting period. Assets are reclassified when all of the following conditions are met: (a) the assets are available for immediate sale in their present condition; (b) the Group's management approved and initiated an active programme to locate a buyer; (c) the assets are actively marketed for sale at a reasonable price; (d) the sale is expected within one year; and (e) it is unlikely that significant changes to the plan to sell will be made or that the plan will be withdrawn.

Non-current assets or disposal groups classified as held for sale in the current period's statement of financial position are not reclassified or re-presented in the comparative statement of financial position to reflect the classification at the end of the current period.

A disposal group is a group of assets (current or non-current) to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. Goodwill is included if the disposal group includes an operation within a cash-generating unit to which goodwill has been allocated on acquisition. Non-current assets are assets that include amounts expected to be recovered or collected more than twelve months after the reporting period. If reclassification is required, both the current and non-current portions of an asset are reclassified.

Held for sale disposal groups as a whole are measured at the lower of their carrying amount and fair value less costs to sell. Held for sale property, plant and equipment, investment properties and intangible assets are not depreciated or amortised. Reclassified non-current financial instruments, deferred taxes and investment properties held at fair value are not subject to write down to the lower of their carrying amount and fair value less costs to sell.

Liabilities directly associated with the disposal group that will be transferred in the disposal transaction are reclassified and presented separately in the consolidated statement of financial position.

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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.

**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

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

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 consolidated 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.

All purchases and sales of financial assets that require delivery within the time frame established by regulation or market convention ("regular way" purchases and sales) are recorded at trade date, which is the date on which the Group commits to deliver a financial asset. All other purchases are recognised when the entity becomes a party to the contractual provisions of the instrument.

**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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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.

**Offsetting financial instruments.** Financial assets and liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognised amounts, and there is an intention to either settle on a net basis, or to realise the asset and settle the liability simultaneously. Such a right of set off (a) must not be contingent on a future event and (b) must be legally enforceable in all of the following circumstances: (i) in the normal course of business, (ii) in the event of default and (iii) in the event of insolvency or bankruptcy.

**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 in the profit and loss 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 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.



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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

**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 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 discounts, returns and value added 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 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.

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

*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 on the gross basis 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;
- (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.

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 in the consolidated statement of financial position 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

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**3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

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

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 consolidated 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 consolidated 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 for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that the temporary difference will reverse in the future and there is sufficient future taxable profit available against which the deductions can be utilised.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities where there is an intention to settle the balances on a net basis. Deferred tax assets and liabilities are netted only within the individual companies of the Group.

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. Adjustments for uncertain income tax positions are recorded within the income tax charge.

***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.

***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 charged off during the period between the option grant date and the option vesting date specified in the option share acquisition 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.

***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.

***Reclassifications.*** In order to bring the statements data for the previous reporting period in accordance with the data presentation form adopted in the current reporting period, there have been made a number of reclassifications. All reclassifications are immaterial.

**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 2014 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 consolidated financial statements of the Group.

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

**“Offsetting Financial Assets and Financial Liabilities” - Amendments to IAS 32** (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. The standard clarified that a qualifying right of set off 1) must not be contingent on a future event and 2) must be legally enforceable in all of the following circumstances: (a) in the normal course of business, (b) the event of default and (c) the event of insolvency or bankruptcy.

**“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 is 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.

**IFRIC 21 – “Levies”** (issued on 20 May 2013 and effective for annual periods beginning 1 January 2014). The interpretation clarifies the accounting for an obligation to pay a levy that is not income tax. The obligating event that gives rise to a liability is the event identified by the legislation that triggers the obligation to pay the levy. The fact that an entity is economically compelled to continue operating in a future period, or prepares its financial statements under the going concern assumption, does not create an obligation. The same recognition principles apply in interim and annual financial statements. The application of the interpretation to liabilities arising from emissions trading schemes is optional.

**Amendments to IAS 36 – “Recoverable amount disclosures for non-financial assets”** (issued in May 2013 and effective for annual periods beginning 1 January 2014; earlier application is permitted if IFRS 13 is applied for the same accounting and comparative period). 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.

**Amendments to IAS 39 – “Novation of Derivatives and Continuation of Hedge Accounting”** (issued in June 2013 and effective for annual periods beginning 1 January 2014). The amendments allow hedge accounting to continue in a situation where a derivative, which has been designated as a hedging instrument, is novated (i.e parties have agreed to replace their original counterparty with a new one) to effect clearing with a central counterparty as a result of laws or regulation, if specific conditions are met.

**IFRS and IFRIC interpretations not yet effective**

New standards and improvements those are mandatory for annual periods beginning on or after 1 January 2015 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 (unless stated otherwise), are as follows:

**IFRS 9 “Financial Instruments”** (amended in July 2014 and effective for annual periods beginning on or after 1 January 2018). Key features of the new standard are:

- Financial assets are required to be classified into three measurement categories: those to be measured subsequently at amortised cost, those to be measured subsequently at fair value through other comprehensive income (FVOCI) and those to be measured subsequently at fair value through profit or loss (FVPL).
- Classification for debt instruments is driven by the entity's business model for managing the financial assets and whether the contractual cash flows represent solely payments of principal and interest (SPPI). If a debt instrument is held to collect, it may be carried at amortised cost if it also meets the SPPI requirement. Debt instruments that meet the SPPI requirement that are held in a portfolio where an entity both holds to collect assets' cash flows and sells assets may be classified as FVOCI. Financial assets that do not contain cash flows that are SPPI must be measured at



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

FVPL (for example, derivatives). Embedded derivatives are no longer separated from financial assets but will be included in assessing the SPPI condition.

- Investments in equity instruments are always measured at fair value. However, management can make an irrevocable election to present changes in fair value in other comprehensive income, provided the instrument is not held for trading. If the equity instrument is held for trading, changes in fair value are presented in profit or loss. 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.
- IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model. There is a ‘three stage’ approach which is based on the change in credit quality of financial assets since initial recognition. In practice, the new rules mean that entities will have to record an immediate loss equal to the 12-month ECL on initial recognition of financial assets that are not credit impaired (or lifetime ECL for trade receivables). Where there has been a significant increase in credit risk, impairment is measured using lifetime ECL rather than 12-month ECL. The model includes operational simplifications for lease and trade receivables (not approved for adoption in the Russian Federation).
- 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 Group is currently assessing the impact of the new standard on its consolidated financial statements.

***Amendments to IAS 19 – “Defined benefit plans: Employee contributions”*** (issued in November 2013 and effective for annual periods beginning 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 amendment is not expected to have any material impact on the Group’s financial statements.

***Annual Improvements to IFRSs 2012*** (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 judgements 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.

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

**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.

**Accounting for Acquisitions of Interests in Joint Operations - Amendments to IFRS 11** (issued on 6 May 2014 and effective for the periods beginning on or after 1 January 2016). This amendment adds new guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

**Clarification of Acceptable Methods of Depreciation and Amortisation - Amendments to IAS 16 and IAS 38** (issued on 12 May 2014 and effective for the periods beginning on or after 1 January 2016). In this amendment, the IASB has clarified that the use of revenue-based methods to calculate the depreciation of an asset is not appropriate because revenue generated by an activity that includes the use of an asset generally reflects factors other than the consumption of the economic benefits embodied in the asset. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

**IFRS 15, Revenue from Contracts with Customers** (issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2017). The new standard introduces the core principle that revenue must be recognised when the goods or services are transferred to the customer, at the transaction price. Any bundled goods or services that are distinct must be separately recognised, and any discounts or rebates on the contract price must generally be allocated to the separate elements. When the consideration varies for any reason, minimum amounts must be recognised if they are not at significant risk of reversal. Costs incurred to secure contracts with customers have to be capitalised and amortised over the period when the benefits of the contract are consumed. The Group is currently assessing the impact of the new standard on its consolidated financial statements.

New standards and improvements those are mandatory for annual periods beginning on or after 1 January 2015 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:

**Sale or Contribution of Assets between an Investor and its Associate or Joint Venture - Amendments to IFRS 10 and IAS 28** (issued on 11 September 2014 and effective for annual periods beginning on or after 1 January 2016). These amendments address an inconsistency between the requirements in IFRS 10 and those in IAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The main consequence of the amendments is that a full gain or loss is recognised when a transaction involves a business. A partial gain or loss is recognised when a transaction involves assets that do not constitute a business, even if these assets are held by a subsidiary. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

**Annual Improvements to IFRSs 2014** (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016). The amendments impact 4 standards. IFRS 5 was amended to clarify that change in the manner of disposal (reclassification from "held for sale" to "held for distribution" or vice versa) does not constitute a change to a plan of sale or distribution, and does not have to be accounted for as such. The amendment to IFRS 7 adds guidance to help management determine whether the terms of an arrangement to service a financial asset which has been transferred constitute continuing involvement, for the purposes of disclosures required by IFRS 7. The amendment also clarifies that the offsetting disclosures of IFRS 7 are not specifically required for all interim periods, unless required by IAS 34. The amendment to IAS 19 clarifies that for post-employment benefit obligations, the decisions



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

regarding discount rate, existence of deep market in high-quality corporate bonds, or which government bonds to use as a basis, should be based on the currency that the liabilities are denominated in, and not the country where they arise. IAS 34 will require a cross reference from the interim financial statements to the location of "information disclosed elsewhere in the interim financial report". The Group is currently assessing the impact of the amendments on its consolidated financial statements.

***Disclosure Initiative Amendments to IAS 1*** (issued in December 2014 and effective for annual periods on or after 1 January 2016). The Standard was amended to clarify the concept of materiality and explains that an entity need not provide a specific disclosure required by an IFRS if the information resulting from that disclosure is not material, even if the IFRS contains a list of specific requirements or describes them as minimum requirements. The Standard also provides new guidance on subtotals in financial statements, in particular, such subtotals (a) should be comprised of line items made up of amounts recognised and measured in accordance with IFRS; (b) be presented and labelled in a manner that makes the line items that constitute the subtotal clear and understandable; (c) be consistent from period to period; and (d) not be displayed with more prominence than the subtotals and totals required by IFRS standards.

Unless otherwise described above, the new standards and interpretations are not expected to affect significantly the Group's financial statements.

**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 2014 and 31 December 2013, the provision for impairment of receivables was recognised in the amount of RUR 336m and RUR 259m, respectively (Note 10).

***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 2013 the Group reassessed the remaining useful lives of items of property, plant and equipment (Note 7), the ranges of terms have not changed.

***Impairment of property, plant and equipment.*** The Group reviews at each reporting date the carrying amounts of its property, plant and equipment 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 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.

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**5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTUNUED)**

*Current year review of impairment of property, plant and equipment*

As at 31 December 2014 in connection with the recent economic downturn the Group has carried out a review of recoverable amount of its fixed assets. Key assumptions

The following key assumptions were made in carrying out the review:

- The Group represents one cash generating unit;
- The Group estimated its future cash flows on a nominal basis for the period from 2015 to 2029;
- The discount rate used in the calculations for the period from 2015 to 2016 was equal to 17.3%, for the period from 2017 to 2029 was equal to 14.6%, which is an estimate of the Group's weighted average cost of capital.

*Results of the review*

- As a result of the review no impairment loss was recognised in the consolidated financial statements, except for certain individually impaired assets as disclosed in Note 7;
- No impairment loss would result if the discount rate increased less than by 1.47% in each period. Similarly, the result is not sensitive to decrease in estimated future cash flows within 7.42%.

**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 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 16).

**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 26.

**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

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**6. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)**

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.

**Functional currencies of different entities of the Group.** Different entities within the Group have different functional currencies, based on the underlying economic conditions of their operations. This determination, of what the specific underlying economic conditions are, requires judgement. In making this judgement, the Group evaluates among other factors, the location of activities, the sources of revenue, risks associated with activities and denomination of currencies of operations of different entities.

**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.

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 16,027m for the year ended 31 December 2014 (RUR 13,836m for the year ended 31 December 2013).

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

	<b>Land, buildings and constructions</b>	<b>Locomotives, containers and flatcars</b>	<b>Cranes and loaders</b>	<b>Vehicles and other equipment</b>	<b>Construction in-progress</b>	<b>Total</b>
<b>Cost</b>						
<b>1 January 2013</b>	<b>10,464</b>	<b>30,229</b>	<b>1,680</b>	<b>2,917</b>	<b>1,482</b>	<b>46,772</b>
Additions	138	4,079	150	321	1,832	<b>6,520</b>
Transfers	1,997	409	126	40	(2,572)	-
Capitalised borrowing costs	-	-	-	-	87	<b>87</b>
Disposals	(94)	(559)	(38)	(203)	(6)	<b>(900)</b>
Disposal of the controlling interest in subsidiary	(1,887)	(561)	(280)	(561)	(31)	<b>(3,320)</b>
Foreign currency translation	93	28	14	28	-	<b>163</b>
<b>31 December 2013</b>	<b>10,711</b>	<b>33,625</b>	<b>1,652</b>	<b>2,542</b>	<b>792</b>	<b>49,322</b>
Additions	2	3,069	387	175	580	<b>4,213</b>
Transfers	536	430	10	11	(987)	-
Capitalised borrowing costs	-	-	-	-	20	<b>20</b>
Reclassification to non-current assets held for sale	(66)	-	(12)	(76)	-	<b>(154)</b>
Disposals	(19)	(716)	(12)	(124)	(72)	<b>(943)</b>
<b>31 December 2014</b>	<b>11,164</b>	<b>36,408</b>	<b>2,025</b>	<b>2,528</b>	<b>333</b>	<b>52,458</b>

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

	<u>Land, buildings and constructions</u>	<u>Locomotives, containers and flatcars</u>	<u>Cranes and loaders</u>	<u>Vehicles and other equipment</u>	<u>Constructi on in- progress</u>	<u>Total</u>
<b>Accumulated depreciation</b>						
<b>1 January 2013</b>	<b>(1,791)</b>	<b>(8,255)</b>	<b>(932)</b>	<b>(1,557)</b>	<b>(4)</b>	<b>(12,539)</b>
Depreciation charge for the year (Impairment) / reversal of impairment	(229)	(1,168)	(106)	(346)	-	(1,849)
Disposals	(18)	(92)	(3)	(13)	3	(123)
Disposal of the controlling interest in subsidiary	59	377	33	170	-	639
Foreign currency translation	261	356	120	175	1	913
	(13)	(14)	(4)	(6)	-	(37)
<b>31 December 2013</b>	<b>(1,731)</b>	<b>(8,796)</b>	<b>(892)</b>	<b>(1,577)</b>	<b>-</b>	<b>(12,996)</b>
Depreciation charge for the year (Impairment) / reversal of impairment	(248)	(1,796)	(80)	(297)	-	(2,421)
Reclassification to non-current assets held for sale	(86)	3	(8)	2	-	(89)
Disposals	9	-	6	33	-	48
	13	580	9	116	-	718
<b>31 December 2014</b>	<b>(2,043)</b>	<b>(10,009)</b>	<b>(965)</b>	<b>(1,723)</b>	<b>-</b>	<b>(14,740)</b>
<b>Net book value</b>						
<b>31 December 2013</b>	<b>8,980</b>	<b>24,829</b>	<b>760</b>	<b>965</b>	<b>792</b>	<b>36,326</b>
<b>31 December 2014</b>	<b>9,121</b>	<b>26,399</b>	<b>1,060</b>	<b>805</b>	<b>333</b>	<b>37,718</b>

Included under land, buildings and constructions are the amounts of RUR 109m and RUR 109m, which represent the value of land plots owned by the Group as at 31 December 2014 and 31 December 2013, respectively.

During the year ended 31 December 2014 container terminal in Yekaterinburg was put into operation under the group land, buildings and constructions in the amount of RUR 333m.

The vehicles and other equipment group includes motor transport used for terminal services and truck deliveries with gross carrying amount of RUR 814m and RUR 845m as at 31 December 2014 and 31 December 2013, respectively.

As at 31 December 2013 the Group revised the useful lives of individual fixed assets mainly within a group of flatcars. As a result, the amount of depreciation charges for the year ended 31 December 2014 increased by RUR 462m in comparison with the one that would have been charged under the previous useful life, ranges of economic useful lives for property, plant and equipment groups remain unchanged. 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 1,588m and RUR 1,678m as at 31 December 2014 and 31 December 2013, respectively.

The carrying amount of temporarily idle property, plant and equipment as at 31 December 2014 and 31 December 2013 comprised the following:

	<u>2014</u>	<u>2013</u>
Cost	224	792
Accumulated depreciation	(93)	(285)
<b>Net book value</b>	<b>131</b>	<b>507</b>

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

Construction in-progress as at 31 December 2014 consisted mainly of the capital expenditures incurred for the reconstructions and expansion of container terminals in Yekaterinburg and Irkutsk amounting to RUR 145m and RUR 88m, respectively, and containers acquired for the amount of RUR 8m.

Construction in-progress as at 31 December 2013 consisted mainly of 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.

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 2014 was RUR 20m at a rate of capitalisation of 8.96% and RUR 87m capitalised for the year ended 31 December 2013 at a rate of capitalisation of 9.19%.

Leased assets as at 31 December 2014 and 31 December 2013, for which the Group is a lessee under finance leases primarily related to land, buildings and constructions and comprised the following:

	<u>2014</u>	<u>2013</u>
Cost	431	575
Accumulated depreciation	<u>(15)</u>	<u>(12)</u>
<b>Net book value</b>	<b><u>416</u></b>	<b><u>563</u></b>

During the year ended 31 December 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 144m. The remaining premises are owned by the Group and included in the group land, buildings and constructions. See Note 15 for further details regarding finance leases.

*Advances for acquisition of non-current assets*

As at 31 December 2014 and 31 December 2013, advances for the acquisition of non-current assets, net of VAT and impairment provisions, consisted of advances for the acquisition of cranes and loaders (RUR 155m and RUR 147m, respectively), advances for the acquisition of containers (RUR 41m and RUR 85m, respectively) and advances for the acquisition of other non-current assets (RUR 10 and RUR 11m, respectively).

As at 31 December 2014 and 31 December 2013 provision was recognised for impairment of advances for acquisition of non-current assets in the amount of RUR 43m and RUR 48m, respectively (Note 10).

**8. INTANGIBLE ASSETS**

	<u>Lease agreements</u>	<u>Software</u>	<u>Total</u>
<b>Cost</b>			
<b>1 January 2013</b>	<b><u>613</u></b>	<b><u>169</u></b>	<b><u>782</u></b>
Additions	-	146	<b>146</b>
Disposals	-	(28)	<b>(28)</b>
Disposal of the controlling interest in the subsidiary	(664)	-	<b>(664)</b>
Foreign currency translation	51	-	<b>51</b>
<b>31 December 2013</b>	<b><u>-</u></b>	<b><u>287</u></b>	<b><u>287</u></b>
Additions	-	100	<b>100</b>
Disposals	-	(138)	<b>(138)</b>
<b>31 December 2014</b>	<b><u>-</u></b>	<b><u>249</u></b>	<b><u>249</u></b>

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**8. INTANGIBLE ASSETS (CONTINUED)**

	<u>Lease agreements</u>	<u>Software</u>	<u>Total</u>
<b>Accumulated amortisation</b>			
<b>1 January 2013</b>	<b>(80)</b>	<b>(110)</b>	<b>(190)</b>
Disposals	-	18	18
Amortisation charge for the year	(49)	(45)	(94)
Disposal of the controlling interest in the subsidiary	134	-	134
Foreign currency translation	(5)	-	(5)
<b>31 December 2013</b>	<b>-</b>	<b>(137)</b>	<b>(137)</b>
Disposals	-	138	138
Amortisation charge for the year	-	(40)	(40)
<b>31 December 2014</b>	<b>-</b>	<b>(39)</b>	<b>(39)</b>
<b>Net book value</b>			
<b>31 December 2013</b>	<b>-</b>	<b>150</b>	<b>150</b>
<b>31 December 2014</b>	<b>-</b>	<b>210</b>	<b>210</b>

**9. 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.

	<u>Joint Venture JSC Kedentransservice</u>	<u>Other joint ventures</u>	<u>Associates</u>	<u>Total associates and joint ventures</u>
<b>Carrying amount as at 1 January 2013</b>	<b>-</b>	<b>43</b>	<b>11</b>	<b>54</b>
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)
<b>Carrying amount as at 31 December 2013</b>	<b>2,270</b>	<b>50</b>	<b>10</b>	<b>2,330</b>
Share of profit of associates and joint ventures	163	1	1	165
Dividends received from joint ventures	(120)	(2)	-	(122)
Effect of translation to presentation currency	933	31	6	970
<b>Carrying amount as at 31 December 2014</b>	<b>3,246</b>	<b>80</b>	<b>17</b>	<b>3,343</b>

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

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**9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTUNUED)**

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%. As the result of losing control over JSC Kedentransservice the Group recognised income in the amount of RUR 757m in the consolidated profit and loss.

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 (level 3 in the fair value hierarchy). 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).

Summarised financial information of each associate and joint venture is as follows as at 31 December 2014 and 31 December 2013:

	Joint Venture JSC Kedentransservice		Other joint ventures		Associates		Total associates and joint ventures	
	2014	2013	2014	2013	2014	2013	2014	2013
Current assets	1,526	1,078	243	185	567	210	2,336	1,473
Non-current assets	6,171	4,022	9	7	7	6	6,187	4,035
Current liabilities	1,203	544	92	92	488	163	1,783	799
Non-current liabilities	887	635	-	-	1	-	888	635
Net assets	5,607	3,921	160	100	85	53	5,852	4,074
Revenue	9,282	-	137	178	996	909	10,415	1,087
Profit/(loss)	326	-	2	4	3	(2)	331	2

The 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 and goodwill arising on acquisition of associates and joint ventures.

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

	2014	2013
Cash and cash equivalents	347	253
Current financial liabilities (excluding trade and other payables and provisions)	50	7
Non-current financial liabilities (excluding trade and other payables and provisions)	220	-



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**9. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)**

The following table provides information about JSC Kedentransservice that had non-controlling interest that was 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.

	<u>2014</u>	<u>2013</u>
Proportion of non-controlling interest	-	33%
Profit attributable to non-controlling interest	-	109
Dividends paid to non-controlling interest	-	50
Revenue	-	6,613
Profit	-	329
Cash flows	-	(19)

**10. TRADE AND OTHER RECEIVABLES**

	<u>Outstanding balance, gross</u>	<u>Provision for impairment</u>	<u>Outstanding balance, net</u>
<b>31 December 2014</b>			
Trade receivables	1,650	(239)	1,411
Other receivables	<u>142</u>	<u>(11)</u>	<u>131</u>
<b>Total trade and other receivables, classified as financial assets</b>	<b><u>1,792</u></b>	<b><u>(250)</u></b>	<b><u>1,542</u></b>
<b>31 December 2013</b>			
Trade receivables	1,365	(162)	1,203
Other receivables	<u>427</u>	<u>(9)</u>	<u>418</u>
<b>Total trade and other receivables, classified as financial assets</b>	<b><u>1,792</u></b>	<b><u>(171)</u></b>	<b><u>1,621</u></b>

Included in the Group's total trade and other receivables are debtors with a carrying amount of RUR 322m and RUR 231m as at 31 December 2014 and 31 December 2013, 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 receivables are represented mainly by accounts receivable of OJSC RZD Logistics, which is expected to be fully repaid till December 2018. A discount rate of 8.6% has been used for the receivables' present value determination. As at 31 December 2014 the present value of long-term accounts receivable of OJSC RZD Logistics amounted to RUR 313m (RUR 364m as at 31 December 2013). As at 31 December 2014 a part of trade receivables of OJSC RZD Logistics in the amount of RUR 119m (RUR 207m as at 31 December 2013), was recognised as a part of short-term trade receivables.

As at 31 December 2014 long-term accounts receivable of OJSC RZD Logistics under the contract of purchase of Far East Land Bridge Ltd. shares accounted for RUR 40m (RUR 0m as at 31 December 2013).

Analysis by credit quality of trade and other receivables is as follows:

	<u>31 December 2014</u>		<u>31 December 2013</u>	
	<u>Trade receivables</u>	<u>Other receivables</u>	<u>Trade receivables</u>	<u>Other receivables</u>
Neither past due nor impaired	1,137	83	1,025	365
<b>Total neither past due nor impaired</b>	<b><u>1,137</u></b>	<b><u>83</u></b>	<b><u>1,025</u></b>	<b><u>365</u></b>
Past due but not impaired				
- less than 90 days	240	12	113	18
- 90-180 days	11	18	37	13
- more than 180 days	<u>23</u>	<u>18</u>	<u>28</u>	<u>22</u>
<b>Total past due but not impaired</b>	<b><u>274</u></b>	<b><u>48</u></b>	<b><u>178</u></b>	<b><u>53</u></b>

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**10. TRADE AND OTHER RECEIVABLES (CONTINUED)**

	31 December 2014		31 December 2013	
	Trade receivables	Other receivables	Trade receivables	Other receivables
Individually determined to be impaired				
- less than 90 days	65	-	3	7
- 90-180 days	22	-	5	-
- more than 180 days	152	11	155	2
<b>Total individually impaired</b>	<b>239</b>	<b>11</b>	<b>162</b>	<b>9</b>
<b>Less impairment provision</b>	<b>(239)</b>	<b>(11)</b>	<b>(162)</b>	<b>(9)</b>
<b>Total</b>	<b>1,411</b>	<b>131</b>	<b>1,203</b>	<b>418</b>

Movement in the impairment provision for trade and other receivables and prepayments is as follows:

	2014	2013
<b>Balance at beginning of the year</b>	<b>(259)</b>	<b>(184)</b>
Additional provision, recognised in the current year	(31)	(201)
Release of provision	9	7
Utilisation of provision	23	17
Disposal of controlling interest in subsidiary	-	104
Foreign currency translation	(78)	(2)
<b>Balance at end of the year</b>	<b>(336)</b>	<b>(259)</b>

As at 31 December 2014 and 31 December 2013 provision for impairment of accounts receivable was recognised in respect of trade and other receivables balances (RUR 250m and RUR 171m, respectively), advances to suppliers (RUR 43m and RUR 40m, respectively, Note 11), advances for acquisition of non-current assets (RUR 43m and RUR 48m, respectively, Note 7).

**11. PREPAYMENTS AND OTHER CURRENT ASSETS**

	2014	2013
VAT receivable	1,428	1,674
Advances to suppliers	1,383	1,633
Other current assets	147	128
<b>Total prepayments and other current assets</b>	<b>2,958</b>	<b>3,435</b>

**12. CASH**

	2014	2013
Cash and Russian Rouble denominated current accounts with banks	392	742
Foreign currency denominated current accounts with banks	1,512	1,141
<b>Total cash</b>	<b>1,904</b>	<b>1,883</b>

The credit quality of cash balances may be summarised based on Standard and Poor's long-term ratings as follows as at 31 December 2014 and 31 December 2013:

	2014	2013
- A- to A+ rated	136	65
- BBB to A- rated	1,763	1,814
- Lower than BBB rated	1	1
- Unrated	4	3
<b>Total</b>	<b>1,904</b>	<b>1,883</b>

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**13. EQUITY**

***Share Capital***

The Company's authorised, issued and paid share capital as at 31 December 2014 and 31 December 2013 comprises:

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

As at 31 December 2013 RZD was the controlling shareholder of the Company, holding 50%+2 of its ordinary shares.

On 24 November 2014 Russian Railways transferred its full shareholding of 50%+2 shares in the Company to the share capital of the JSC United Transportation and Logistics Company (JSC "UTLC"), a newly created subsidiary of OJSC RZD. As a result JSC UTLC became the parent company of PJSC TransContainer. As at 31 December 2014 ownership of JSC UTLK in the Company accounts for 50%+2 shares.

During the year ended 31 December 2014 the weighted average number of outstanding ordinary shares, excluding treasury shares and including the number of shares acquired in accordance with the option plan amounted to 13,696,127 shares (13,896,193 during the year ended 31 December 2013).

***Treasury shares***

In relation to the Share Option Plan for the Company's management (Note 17), the Group purchased 208,421 treasury shares in 2011. Their purchase cost was RUR 514m. During the year ended 31 December 2013 exercised options amounted to RUR 6m. During the year ended 31 December 2014 the Group acquired treasury shares in the amount of RUR 9m.

***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.

Due to the transfer of the part of property, plant and equipment to the investment property during the year ended 31 December 2014 the investment property's revaluation reserve was recognised for the amount of RUR 9m (RUR 56m during the year ended 31 December 2013).

***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 17,499m and RUR 14,678m of undistributed and unreserved earnings as at 31 December 2014 and 31 December 2013, respectively.

Dividends of RUR 81.47 per share (RUR 1,117m in total) were approved at the annual shareholders' meeting on 24 June 2014 relating to the Group's results for the year ended 31 December 2013. In July 2014 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 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". In June 2014 the dividends have been fully paid.

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**13. EQUITY (CONTINUED)**

**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 2014 and 31 December 2013 the Company's reserve fund was RUR 697m.

**14. LONG-TERM DEBT**

**Long-term debt**

	Effective interest rate	2014	2013
Bonds	8.35%-8.8%	4,990	5,724
Other borrowings	9.5%	468	470
<b>Total</b>		<b>5,458</b>	<b>6,194</b>

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 PJSC TransContainer in order to carry out a Share Option Plan for the Company's management (Note 17). The loan matures in five years. As at 31 December 2014 the amount of loan was RUR 468m (RUR 470m as at 31 December 2013).

**Five-year RUR bonds, series 2**

In accordance with the terms of issue the Company made a partial principal repayment on bonds, series 2 in December 2013, June 2014 and December 2014, respectively, for the total amount of RUR 2,250m.

As at 31 December 2014 the carrying value of the bonds amounted to RUR 740m and this amount was included as current portion of long-term debt in the consolidated statement of financial position.

As at 31 December 2013 the carrying value of the bonds amounted to RUR 2,236m. Current portion of long-term bonds was RUR 1,500m as at 31 December 2013 and this amount was included as current portion of long-term debt in the consolidated statement of financial position.

The amount of accrued interest as at 31 December 2014 was RUR 5m (RUR 18m as at 31 December 2013), and was included as current portion of long-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 2014 the carrying value of the bonds amounted to RUR 4,990m (RUR 4,988m as at 31 December 2013). The amount of accrued interest is RUR 174m (RUR 175m as at 31 December 2013) and has been included as current portion of long-term debt in the consolidated statement of financial position. The fair value of Company's bond is disclosed in Note 29.

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**14. LONG-TERM DEBT (CONTINUED)**

*Current portion of long-term debt*

	Effective interest rate	2014	2013
Current portion of long-term bonds	8.8%	919	1,693
<b>Total</b>		<b>919</b>	<b>1,693</b>

**15. FINANCE LEASE OBLIGATIONS**

	Minimum lease payments		Present value of minimum lease payments	
	2014	2013	2014	2013
Due within one year	64	69	60	66
Due after one year but not more than five years	463	703	340	485
	527	772	400	551
Less future finance charges	(127)	(221)	-	-
<b>Present value of minimum lease payments</b>	<b>400</b>	<b>551</b>	<b>400</b>	<b>551</b>

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%.

During the year ended 31 December 2014, the Group bought back part of the non-residential premises of the building and redeemed its obligation in the amount of RUR 144m in advance that resulted in recognition of income from early termination of finance lease obligations for a total amount of RUR 18m in the consolidated profit or loss.

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 349m 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.

**16. 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.

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**16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)**

*Defined contribution plans*

The total amount recognised as an expense in respect of payments to defined contribution plans for the years ended 31 December 2014 and 31 December 2013 consisted of the following:

	<u>2014</u>	<u>2013</u>
Pension Fund of the Russian Federation	573	553
Defined contribution plan "Blagosostoyanie"	<u>19</u>	<u>18</u>
<b>Total expense for defined contribution plans</b>	<b><u>592</u></b>	<b><u>571</u></b>

*Defined benefit plans*

There were 223 employees as at 31 December 2014 (as at 31 December 2013: 274) eligible for defined benefit pension plan with benefits depended on salary and years of service. In addition, there were 83 and 85 retired employees eligible for the post-retirement benefit program of the Group through Fund Pochet as at 31 December 2014 and 31 December 2013, 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 2014 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.

The amounts recognised in the consolidated statement of profit or loss and other comprehensive income in Payroll and related charges for the year ended 31 December 2014 and 31 December 2013, respectively, in respect of these defined benefit plans are as follows:

	<u>Post-employment benefits</u>		<u>Other long-term benefits</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Service cost	27	2	115	118	142	120
Net interest on obligation	51	58	14	13	65	71
Remeasurements of the net defined benefit	-	-	13	9	13	9
<b>Net expense recognised in the consolidated profit or loss</b>	<b><u>78</u></b>	<b><u>60</u></b>	<b><u>142</u></b>	<b><u>140</u></b>	<b><u>220</u></b>	<b><u>200</u></b>

Net income recognised in the other comprehensive income for post-employment benefits related mainly to remeasurements of the net defined benefit constitute RUR 135m and 113m for the year ended 31 December 2014 and 31 December 2013, respectively.

The amounts recognised in the consolidated statement of financial position as at 31 December 2014 and 31 December 2013, respectively, in respect of these defined benefit plans are as follows:

	<u>Post-employment benefits</u>		<u>Other long-term benefits</u>		<u>Total</u>	
	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>	<u>2014</u>	<u>2013</u>
Present value of defined benefit obligation	670	837	328	321	998	1,158
Fair value of plan assets	(61)	(62)	-	-	(61)	(62)
<b>Net employee benefit liability</b>	<b><u>609</u></b>	<b><u>775</u></b>	<b><u>328</u></b>	<b><u>321</u></b>	<b><u>937</u></b>	<b><u>1,096</u></b>

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**16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)**

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

	<u>Post-employment benefits</u>	<u>Other long-term benefits</u>	<u>Total</u>
<b>Present value of defined benefit obligation as at 1 January 2013</b>	<b>1,013</b>	<b>311</b>	<b>1,324</b>
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)
<b>Present value of defined benefit obligation as at 31 December 2013</b>	<b>837</b>	<b>321</b>	<b>1,158</b>
Service cost:	28	115	143
<i>Current service cost</i>	36	121	157
<i>Past service cost</i>	(9)	(6)	(15)
Interest on the defined benefit liability	56	14	70
Actuarial (gain)/losses:	(136)	13	(123)
<i>from changes in financial assumptions</i>	(196)	2	(194)
<i>other</i>	60	11	71
Losses arising on transfer of employees*	1	-	1
Settlement of liability	(116)	(135)	(251)
<b>Present value of defined benefit obligation as at 31 December 2014</b>	<b>670</b>	<b>328</b>	<b>998</b>

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

	<u>2014</u>	<u>2013</u>
<b>Fair value of plan assets as at 1 January</b>	<b>(62)</b>	<b>(58)</b>
Income on plan assets:	(3)	(3)
<i>interest on the plan assets</i>	(5)	(4)
<i>the return on plan assets, excluding amounts included in net interest on the net defined benefit liability</i>	2	1
Assets arising on transfer of employees*	1	-
Contributions from the employer (funded plans)	(80)	(76)
Settlement of liability (funded plans)	83	75
<b>Fair value of plan assets as at 31 December</b>	<b>(61)</b>	<b>(62)</b>

\* 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.



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**16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)**

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:

	<b>Share in total plan assets</b>	
	<b>2014</b>	<b>2013</b>
Corporate bonds and stock of Russian legal entities	53%	57%
Shares in closed investment funds	22%	26%
Bank deposits	16%	14%
Other	9%	3%
	<b>100%</b>	<b>100%</b>

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:

	<b>2014</b>	<b>2013</b>
Discount rate	13.0%	7.8%
Average rate of employee turnover	Based on the industry average	Based on the industry average
Projected average annual growth of consumer prices	6.7%	5.0%
Life expectancy table	Russia, 2013, with probability corrected to 90% of the initial level	Russia, 2012, with probability corrected to 83% of the initial level

As at 31 December 2014 the Group assumed that wage growth in 2015 will be 5% in average and in subsequent periods the growth of salary and benefits will be in line with the growth of consumer prices

The change in the discount rate 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 2014 and 31 December 2013:

	<b>Change in assumption</b>	<b>Change in liabilities</b>	
		<b>2014</b>	<b>2013</b>
Discount rate	-1%	36	65
	+1%	(32)	(56)
Rate of employee turnover	-1%	14	23
	+1%	(14)	(22)
Projected average growth of benefits and	-1%	(39)	(66)
	+1%	44	74
Average life expectancy after retirement	-1 year	(1)	(3)
	+1 year	1	3

Weighted average duration of the defined benefit obligation is 4.4 years (2013: 6.2 years).

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**16. EMPLOYEE BENEFIT LIABILITY (CONTINUED)**

The maturity profile of the defined benefit obligation as at 31 December 2014:

	<u>Before year</u>	<u>1 to 2 years</u>	<u>2 to 5 years</u>
Post-employment benefits	98	92	266
Other long-term benefits	126	112	143
	<u>224</u>	<u>204</u>	<u>409</u>

**17. 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").

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, LLC TransContainer Finance, which is fully controlled by the Group.

Plan participants may be entitled to sell the shares acquired through exercise of options to the Group by market price. Options related to the shares repurchased under the Plan from participants and shares in respect of which the participants forfeited their right to purchase, could be granted to other or new Plan participants.

Active Participants of the Plan will have up until June 2016 to exercise their share options.

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

On 13 May 2014 the Board of Directors amended the list of Plan Participants and the number of share options for some Plan Participants. These changes are disclosed as granted and cancelled options.

The following number of share options is outstanding:

	<u>2014</u>	<u>2013</u>
<b>Options outstanding at 1 January</b>	<b>165,177</b>	<b>171,873</b>
Options granted during the year	11,708	–
Options exercised during the year	–	(6,696)
Options cancelled during the year	(1,953)	–
<b>Options outstanding at 31 December</b>	<b><u>174,932</u></b>	<b><u>165,177</u></b>

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.

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**17. EMPLOYEE SHARE OPTION PLAN (CONTINUED)**

The Black-Scholes-Merton model is used to estimate the fair value of the share option granted.

	<u>Options granted as at 13 May 2014</u>	<u>Options granted as at 20 May 2011</u>
Share price (in Russian Roubles)	2,878	3,116
Exercise price (in Russian Roubles) (including expenses related to implementation of the Plan)	2,367-2,853	2,464-3,145
Expected volatility	47%	37%
Option life	1-2 years	1-5 years
Risk-free interest rate	7.9%-8.4%	4.6%-7.4%
<b>Fair value at measurement date (in Russian Roubles)</b>	<b>845-938</b>	<b>1,308 – 1,462</b>

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 last six months before grant date.

During the year ended 31 December 2014, the Group recognised expenses of RUR 19m related to the options. These expenses were included into payroll.

During the year ended 31 December 2014 no options were exercised.

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

	<u>2014</u>	<u>2013</u>
<b>Reserve as at 1 January</b>	<b>221</b>	<b>188</b>
Expense recognised for the period	19	41
Exercised options under option plan	-	(8)
<b>Reserve as at 31 December</b>	<b>240</b>	<b>221</b>

**18. TRADE AND OTHER PAYABLES**

	<u>2014</u>	<u>2013</u>
Trade payables	662	505
Amounts payable for the acquisition of property, plant and equipment	34	90
Amounts payable for the intangible assets	17	-
<b>Total financial liabilities within trade and other payable</b>	<b>713</b>	<b>595</b>
Liabilities to customers (advances)	2,371	2,621
<b>Total trade and other payables</b>	<b>3,084</b>	<b>3,216</b>

**19. TAXES OTHER THAN INCOME TAX PAYABLE**

	<u>2014</u>	<u>2013</u>
Social insurance contribution	197	171
Property tax	127	148
VAT	42	22
Personal income tax	29	26
Other taxes	6	5
<b>Total taxes other than income tax payable</b>	<b>401</b>	<b>372</b>

**20. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES**

	<u>2014</u>	<u>2013</u>
Settlements with employees	812	740
Other liabilities (financial liabilities)	100	94
<b>Total accrued expenses and other current liabilities</b>	<b>912</b>	<b>834</b>

Settlements with employees as at 31 December 2014 and 31 December 2013 comprised accrued salaries and bonuses of RUR 628m and RUR 580m, respectively, and accruals for unused vacation of RUR 184m and RUR 160m, respectively.

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**21. 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>2014</u>	<u>2013</u>
Integrated freight forwarding and logistics services	27,379	24,273
Rail-based container shipping services	5,405	8,154
Terminal services and agency fees	2,167	4,181
Truck deliveries	978	1,367
Other freight forwarding services	283	571
Bonded warehousing services	234	317
Other	119	301
<b>Total revenue</b>	<b><u>36,565</u></b>	<b><u>39,164</u></b>

***Analysis of revenue by location of customers***

	<u>2014</u>	<u>2013</u>
<b>Revenue from external customers</b>		
Russia	28,785	28,598
Korea	3,633	1,829
Germany	1,716	1,367
Kazakhstan	898	5,465
Latvia	493	154
China	396	550
Cyprus	105	193
Switzerland	105	99
Other	434	909
<b>Total revenue</b>	<b><u>36,565</u></b>	<b><u>39,164</u></b>

During the year 31 December 2014, UNICO LOGISTICS CO. LTD accounted for RUR 3,259m or 9% of the Group's total revenue (for the year ended 31 December 2013: RUR 1,374m or 4% of the Group's total revenue).

During the year 31 December 2014, OJSC RZD and its subsidiaries accounted for RUR 2,692m or 7% of the Group's total revenue (for the year ended 31 December 2013: RUR 2,683m or 7% of the Group's total revenue).

**22. OTHER OPERATING INCOME**

	<u>2014</u>	<u>2013</u>
Income from the sale and disposal of property, plant and equipment	347	166
Income from the sale of inventory and from the reuse of spare parts	212	370
Refund of VAT on the sale of services by applying the tax rate 0%	-	100
Other operating income	156	111
<b>Total operating income</b>	<b><u>715</u></b>	<b><u>747</u></b>

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**23. OPERATING EXPENSES**

	<u>2014</u>	<u>2013</u>
Cost of integrated freight forwarding and logistics services	16,027	13,836
Freight and transportation services	4,979	4,315
Payroll and related charges	4,609	5,048
Depreciation and amortisation	2,461	1,943
Materials, repair and maintenance	2,419	2,985
Taxes other than income tax	631	724
Rent	443	1,869
Consulting and information services	212	243
Security	206	288
Charity	195	130
Fuel costs	172	211
License and software	107	131
Change in provision for impairment of property, plant and equipment	89	123
Communication costs	68	88
Change in provision for impairment of receivables	22	194
Other expenses	557	731
<b>Total operating expenses</b>	<b><u>33,197</u></b>	<b><u>32,859</u></b>

**24. INTEREST EXPENSE**

	<u>2014</u>	<u>2013</u>
Interest expense on RUR bonds	555	614
Interest expense on finance lease obligations	48	61
Interest expense on bank loans and borrowings	45	65
Discounting of accounts receivables	-	42
<b>Total interest expense</b>	<b><u>648</u></b>	<b><u>782</u></b>

**25. INCOME TAX**

	<u>2014</u>	<u>2013</u>
Current income tax charge	(1,077)	(1,317)
Deferred income tax benefit/ (expense)	28	(58)
<b>Income tax</b>	<b><u>(1,049)</u></b>	<b><u>(1,375)</u></b>

The statutory tax rate effective in the Russian Federation was 20% for the years ended 31 December 2014 and 31 December 2013.

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

	<u>2014</u>	<u>2013</u>
<b>Profit before income tax</b>	<b><u>4,707</u></b>	<b><u>7,349</u></b>
Theoretical tax charge at statutory rate of 20%	(941)	(1,470)
<b>Tax effect of items which are not deductible or assessable for taxation purposes:</b>		
Benefits in-kind and other non-deductible payments to employees	(19)	(39)
Non-deductible post-employment benefits	(11)	(12)
Non-deductible charitable donations	(39)	(24)
Income tax adjustments for prior periods	-	50
Disposal of controlling interest in subsidiary	-	155
Other non-deductible expenses	(39)	(35)
<b>Income tax</b>	<b><u>(1,049)</u></b>	<b><u>(1,375)</u></b>

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:

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**25. INCOME TAX (CONTINUED)**

	1 January 2014	Charged to profit or loss	Charged to other comprehensive income	31 December 2014
Investment property	15	-	2	17
Loans and borrowings	4	-	-	4
Intangible assets	(3)	1	-	(2)
Finance lease obligations	(110)	30	-	(80)
Property, plant and equipment	1,914	(43)	-	1,871
Employee benefits liability	(117)	9	(5)	(113)
Trade and other receivables	(78)	4	-	(74)
Trade and other payables	(153)	(46)	-	(199)
Other	(27)	17	-	(10)
<b>Total net deferred tax liability</b>	<b>1,445</b>	<b>(28)</b>	<b>(3)</b>	<b>1,414</b>

	1 January 2013	Charged to profit or loss	Charged to other comprehensive income	Disposal of controlling interest in subsidiary	Foreign currency translation	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)
<b>Total net deferred tax liability</b>	<b>1,700</b>	<b>57</b>	<b>20</b>	<b>(353)</b>	<b>21</b>	<b>1,445</b>
<b>Total net deferred tax liability</b>	<b>(1)</b>	<b>1</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

The Group did not recognise a deferred tax liability concerning temporary differences of RUR 413m (2013: RUR 113m) 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.

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**25. INCOME TAX (CONTINUED)**

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 and there is a legally enforceable right to offset current tax assets against current tax liabilities.

Management estimates that deferred tax liabilities of RUR 1,567m (31 December 2013: RUR 1,692m) are recoverable after more than twelve months after the end of the reporting period.

**26. 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 2014, are disclosed below:

<b>Related party</b>	<b>Nature of relationship</b>
OJSC Russian Railways	Ultimate controlling company
JSC UTLC (Note 13)	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
CJSC Torgovy'y dom TMH	Associate of the RZD
Far East Land Bridge Ltd.	Subsidiary of RZD
OJSC Wagon Repair Company - 1	Subsidiary of RZD
OJSC Wagon Repair Company - 2	Subsidiary of RZD
OJSC 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



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**26. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

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:

<b>Related party</b>	<b>Nature of relationship</b>
OJSC Russian Railways	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 Torgov'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 related parties" in the tables below. The Group also enters in transactions with government entities for equisition of goods and providing 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. OJSC Bank VTB provides settlement and cash servicing of Company's bank accounts and carries out depository operations for free funds placement. Services are provided on market terms.

*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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**26. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

Transactions and outstanding balances with related parties as at and for the year ended 31 December 2014 are shown below:

	Ultimate controlling company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties	Total
<b>ASSETS</b>						
<b>Non-current assets</b>						
Trade receivables	-	313	-	-	-	<b>313</b>
<b>Current assets</b>						
Cash and cash equivalents	-	-	-	-	1,638	<b>1,638</b>
Trade receivables	241	430	26	83	1	<b>781</b>
Other receivables	40	123	-	7	24	<b>193</b>
Advances to suppliers	1,239	10	-	-	1	<b>1,250</b>
	1,520	563	26	90	1,664	<b>3,862</b>
<b>Total assets</b>	<b>1,520</b>	<b>876</b>	<b>26</b>	<b>90</b>	<b>1,664</b>	<b>4,175</b>
<b>LIABILITIES</b>						
<b>Current liabilities</b>						
Trade payables	16	27	3	62	16	<b>124</b>
Liabilities to customers	-	32	5	-	47	<b>84</b>
Other payables	1	-	-	1	20	<b>22</b>
<b>Total liabilities</b>	<b>17</b>	<b>59</b>	<b>8</b>	<b>63</b>	<b>83</b>	<b>230</b>
<b>Revenue</b>						
Rail-based container shipping services	131	37	4	88	62	<b>322</b>
Terminal services and agency fees	1,679	6	-	-	5	<b>1,690</b>
Integrated freight forwarding and logistics services	3	846	156	328	206	<b>1,539</b>
Other services	19	16	4	3	18	<b>60</b>
	1,832	905	164	419	291	<b>3,611</b>
Interest income on deposits	-	-	-	-	90	<b>90</b>
Other interest income	-	-	-	-	6	<b>6</b>
Other operating income	104	88	-	2	2	<b>196</b>
	104	88	-	2	98	<b>292</b>
<b>Total income</b>	<b>1,936</b>	<b>993</b>	<b>164</b>	<b>421</b>	<b>389</b>	<b>3,903</b>
<b>Operating Expenses</b>						
Freight and transportation services	3,218	1	-	651	14	<b>3,884</b>
Third-party charges relating to integrated freight forwarding and logistics services	12,258	2	23	1,524	73	<b>13,880</b>
Repair services	346	883	-	-	3	<b>1,232</b>
Rent of property and equipment	30	1	-	-	3	<b>34</b>
Other expenses	93	122	1	2	104	<b>322</b>
<b>Total expenses</b>	<b>15,945</b>	<b>1,009</b>	<b>24</b>	<b>2,177</b>	<b>197</b>	<b>19,352</b>
Purchases of property, plant and equipment	29	861	-	-	64	<b>954</b>
Purchases of inventory	-	6	-	-	-	<b>6</b>
Contributions to non-state pension funds	-	-	-	-	111	<b>111</b>
<b>Total other transactions</b>	<b>29</b>	<b>867</b>	<b>-</b>	<b>-</b>	<b>175</b>	<b>1,071</b>

As at 31 December 2014 provision for impairment of accounts receivable of Far East Land Bridge Ltd., subsidiary of RZD, was recognised in respect of trade receivables balance in the amount of RUR 175m.

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**26. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

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

As at 31 December 2013 provision for impairment of accounts receivable of Far East Land Bridge Ltd., associate of RZD, was recognised in respect of trade receivables balance in the amount of RUR 100m.

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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**26. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)**

***Dividends***

Dividends payable to RZD and FAR-EASTERN SHIPPING COMPANY PLC. amounted to RUR 566m and RUR 232m, respectively, and were paid in July 2014.

Dividends payable to RZD and FAR-EASTERN SHIPPING COMPANY PLC. amounted to RUR 602m and RUR 270m, respectively, and were paid in August 2013.

***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 and 20 persons as at 31 December 2014 and 31 December 2013, respectively. Total gross compensation, including insurance contributions and before withholding of personal income tax, to key management personnel amounted to RUR 355m (including total insurance contributions of RUR 38m) and RUR 280m (including total insurance contributions of RUR 22m) for the years ended 31 December 2014 and 31 December 2013, respectively. This compensation is included under payroll and related charges in the consolidated profit and loss and comprises primarily short-term benefits. Major part of compensation for Key management personnel is generally short-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 17, during the year ended 31 December 2014, the Group recognised expenses of RUR 19m (41m as at 31 December 2013) 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 7m (22m as at 31 December 2013).

**27. COMMITMENTS UNDER OPERATING LEASES**

As at 31 December 2014, the Group leases container terminal Dobra in Slovakia. The remaining period of agreements validity is 10 years.

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

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

	<u>2014</u>	<u>2013</u>
Within one year	362	199
Within two to five years	753	195
After five years	259	221
<b>Total minimum lease payments</b>	<b><u>1,374</u></b>	<b><u>615</u></b>

Increase of minimum lease payments under contracted operating leases relates to the conclusion of new lease agreements.

**28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS**

The Group's capital commitments as at 31 December 2014 and 31 December 2013 consisted of the following, including VAT:

	<u>2014</u>	<u>2013</u>
Acquisition of containers and flatcars	1,453	961
Acquisition of lifting machines and other equipment	317	234
Construction of container terminal complexes and modernisation of existing assets	5	230
<b>Total capital commitments</b>	<b><u>1,775</u></b>	<b><u>1,425</u></b>

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**28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)**

***Operating environment of the Group.*** The Russian Federation displays certain characteristics of an emerging market. Its economy has a high sensitivity to oil, gas and other raw materials prices. The legal, tax and regulatory frameworks continue to develop and therefore are subject to changes and varying interpretations. During 2014 the Russian economy was negatively impacted by a decline in oil prices and ongoing political tension in the border regions and international sanctions against certain Russian companies and individuals. As a result during 2014:

- there was the weakening of the Russian Rouble against major foreign currencies while the CBRF exchange rate fluctuated between RUR 32.7292 and RR 56.2584 per USD as at 31 December 2013 and 31 December 2014, respectively;
- the CBRF key refinancing interest rate was increased from 5.5% p.a. to 17.0% p.a. including an increase from 12.0% p.a. to 17.0% p.a. on 16 December 2014;
- the RTS stock exchange index ranged between 1 445 and 791;
- access to international financial markets to raise funding was limited for certain russian entities; and
- capital outflows from the Russian Federation increased compared to prior years.

The financial markets of the Russian Federation continue to be volatile and are characterised by frequent significant price movements on trading operations and increased spreads of quotes. Subsequent to 31 December 2014:

- the CBRF exchange rate fluctuated between RUR 56.2376 per USD and RUR 69.664 per USD;
- Russia's credit rating was downgraded by Fitch Ratings in January 2015 to BBB-, whilst Standard & Poor's cut it to BB+, putting it below investment grade for the first time in a decade. Moody's Investors Service and Fitch Ratings still have Russia as investment grade. However, these rating agencies indicated a negative outlook, meaning further downgrades are possible.
- the RTS stock exchange index ranged between 733.11 and 929.73;
- bank lending activity decreased as banks are reassessing the creditworthiness of their borrowers due to the increase in lending and exchange rates; and
- the CBRF key refinancing interest rate decreased from 17.0% p.a. to 14.0% p.a.

their ability to repay the debt due to increase in loan interest rates and currency exchange rates.

These events may have a further significant impact on the Group's future operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation and its impact on the Group's operations may differ from management's current expectations.

***Transfer pricing.*** The Russian transfer pricing legislation is to a large extent aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development (OECD). This 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 arm's length. Management has implemented internal controls to be in compliance with this transfer pricing legislation.

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.

The Group includes companies incorporated outside of Russia. The tax liabilities of the Group are determined on the assumption that these companies are not subject to Russian profits tax, because they do not have a permanent establishment in Russia. In 2014, the Controlled Foreign Company (CFC) legislation introduced Russian taxation of profits of foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties).

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**28. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)**

Starting from 2015, CFC income will be subject to a 20% tax rate. However, due to the preliminary content analysis of relevant foreign companies' activities and the earnings structure the obligation to pay taxes from CFC's profit to the Russian budget is not revealed. However, due to the preliminary analysis of the relevant foreign companies' business and the structure of earnings, liability for taxes to the Russian budget out of CFC's profit is not revealed.

**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.

**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.

**29. 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 is to maintain an optimal capital structure to reduce the cost of capital and to provide the shareholders with an acceptable level of return respecting the interests of other stakeholders. 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 2014 was RUR 35,245m (as at 31 December 2013: RUR 31,479m).

The capital structure of the Group consists of issued capital, reserves and retained earnings as disclosed in Note 13.

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, short-term investments and other non-current assets. All financial assets fall into the loans and receivables category under IAS 39 "Financial instruments: recognition and measurement".

	<u>2014</u>	<u>2013</u>
<b>Financial assets</b>		
<b>Loans and receivables</b>		
Cash and cash equivalents	1,904	1,883
Trade and other receivables	1,895	1,986
Short-term investments	8	1
Other non-current assets	5	7
<b>Total financial assets</b>	<u><u>3,812</u></u>	<u><u>3,877</u></u>

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**29. RISK MANAGEMENT ACTIVITIES (CONTINUED)**

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.

	<u>2014</u>	<u>2013</u>
<b>Financial liabilities</b>		
Trade and other payables	713	595
Other liabilities	100	94
Long-term debt	5,458	6,194
Current portion of long-term debt	919	1,693
Finance lease obligations	400	551
<b>Total financial liabilities</b>	<b><u>7,590</u></b>	<b><u>9,127</u></b>

**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 2014 part of series 2 bonds in the amount of RUR 1,500m classified as current portion of long-term debt in the consolidated statement of financial position was repaid by the Company which affected current liquidity ratio of the Group. In 2013 loans to OJSC Alfa Bank in the amount of RUR 1,822m classified as short-term debt in the consolidated statement of financial position as at 31 December 2012 were repaid by the Company 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.

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, including accrued interest, 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>Total</u>
<b>2014</b>						
Non-interest bearing liabilities (including trade and other payables and other liabilities)		364	409	40	-	813
Long-term debt	9.5%	4	7	33	485	529
Bonds	8.35%-8.8%	208	-	783	5,937	6,928
Finance lease liabilities	9.65%	4	9	51	463	527
<b>Total</b>		<b><u>580</u></b>	<b><u>425</u></b>	<b><u>907</u></b>	<b><u>6,885</u></b>	<b><u>8,797</u></b>
<b>2013</b>						
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
<b>Total</b>		<b><u>660</u></b>	<b><u>200</u></b>	<b><u>2,024</u></b>	<b><u>8,163</u></b>	<b><u>11,047</u></b>



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**29. RISK MANAGEMENT ACTIVITIES (CONTINUED)**

***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 2014 and 2013 the Group's financial assets denominated in foreign currency have exceeded its foreign currency financial liabilities.

For the year ended 31 December 2014 the Russian Rouble depreciated against the US Dollar by 72%, and against EURO by 52% (depreciated against the US Dollar by 8% and against the EURO by 12% for the year ended 31 December 2013). 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	
	2014	2013	2014	2013	2014	2013
<b>Assets</b>						
Cash and cash equivalents	1,256	981	247	159	8	1
Trade and other receivables	633	162	56	251	1	1
<b>Total assets</b>	<b>1,889</b>	<b>1,143</b>	<b>303</b>	<b>410</b>	<b>9</b>	<b>2</b>
<b>Liabilities</b>						
Trade and other payables	290	273	33	34	2	2
<b>Total liabilities</b>	<b>290</b>	<b>273</b>	<b>33</b>	<b>34</b>	<b>2</b>	<b>2</b>

The table below provides analysis of sensitivity of Group's profit and loss and capital to strengthening of the Russian Rouble against the US Dollar and EURO by 30%, 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	
	2014	2013	2014	2013
<b>Total</b>	<b>(480)</b>	<b>(261)</b>	<b>(81)</b>	<b>(113)</b>

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 2014 the Group's borrowed funds consist of long-term debt and current portion of long-term debt (Note 14), long-term debt (Note 14) and finance lease liabilities (Note 15).

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%.

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**29. RISK MANAGEMENT ACTIVITIES (CONTINUED)**

***Interest rate risk (continued)***

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 2014 and 31 December 2013, loan from LLC TrustUnion Asset Management were recognised by the Group.

All bonds and loan were 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 15). 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 (Note 10), and carrying amount of cash and cash equivalents (Note 12) 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.

The Group's concentration of credit risk is dependent on a few large key customers. As at 31 December 2014 83% of the total net amount of trade and other receivables related to the seven largest counterparties of the Group (as at 31 December 2013: 62%).

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

	<b>Outstanding balance, net</b>	
	<b>2014</b>	<b>2013</b>
OJSC RZD Logistics	667	638
UNICO LOGISTICS	470	70
RZD	281	294
Rail-Container (Beijing) Go., LTD	69	51
InterRail Services AG	44	-
Schenker Rail Automotive GmbH	33	146
LLC Unico Logistics Rus	2	31
<b>Total</b>	<b>1,566</b>	<b>1,230</b>

As at 31 December 2014 and 31 December 2013 no impairment of accounts receivable has been identified for all these customers. Accounts receivable of OJSC RZD Logistics was discounted in accordance with confirmed schedule for the repayment of debts (Note 10).

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**29. RISK MANAGEMENT ACTIVITIES (CONTINUED)**

***Credit Risk (continued)***

Financial assets neither past due nor impaired are the primarily receivables from related parties (Note 26) and receivables from other companies in the transportation and logistics sector. 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 10.

Credit risk on liquid funds is limited because these funds are placed only with financial institutions well known to the Group. 86% of total cash and cash equivalents as at 31 December 2014 (as at 31 December 2013: 96%) 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 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, and also financial liabilities classified as Level 2.

For financial 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: trade and other receivables (excluding long-term receivables of OJSC RZD Logistics), other financial assets, trade and other payables. These financial assets and liabilities relate to Level 3 in the fair value hierarchy.

As at 31 December 2014 the fair value of long-term accounts receivable of OJSC RZD Logistics accounts for RUR 263m. The calculation is based on the use of a weighted average interest rate established by the Central Bank of Russia for December 2014 on attracted by credit institutions deposits of non-financial entities in rubles for a period from 1 to 3 years.

The fair value of long-term debt classified as Level 2 in the fair value measurement hierarchy approximates their carrying value.

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>2014</u>	<u>2013</u>
<b>Financial liabilities</b>		
Bonds	5,327	7,308
<b>Total</b>	<u><u>5,327</u></u>	<u><u>7,308</u></u>

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**29. RISK MANAGEMENT ACTIVITIES (CONTINUED)**

***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.

**30. SUBSEQUENT EVENTS**

***Acquisition of containers.*** In January-March 2015 the Group obtained under the previously signed agreements:

- 338 containers from Yang Zhou Runyang Logistic Equipment Co.,Ltd for the total amount of RUR 52m (at the Central Bank of Russia exchange rate as at the date of purchase), not subject to VAT;
- 501 containers from LLC Con-service for the total amount of RUR 81m (plus VAT in the amount of RUR 15m).