Firm Transgarant LLC

Consolidated Financial Statements for the year ended 31 December 2013 and Auditors' Report

Contents

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Auditors' Report

To the Participants and the Board of Directors

Firm Transgarant LLC

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' 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.

Audited entity: Firm Transgarant LLC

Registered by Moscow Registration Chamber on 23 December 1997, Registration No. 553.772.

Entered in the Unified State Register of Legal Entities on 23 December 2012 by Moscow Bureau of Ministry of Taxes and Duties. Registration No. 553.772, Certificate series 77 No. 006979109.

24, bld.1, Radio Street, Moscow, Russian Federation, 105005

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

Registered by the Moscow Registration Chamber on 25 May 1992, Registration No. 011.585.

Entered in the Unified State Register of Legal Entities on 13 August 2002 by the Moscow Inter-Regional Tax Inspectorate No.39 of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1027700125628, Certificate series 77 No. 005721432.

Member of the Non-commercial Partnership "Chamber of Auditors of Russia". The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

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.

Opinion

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

Akylbek Y.A.

Director, (power of attorney dated 1 October 2013 No.75/13)

ZAO KPMG

20 March 2014

Moscow, Russian Federation

’000 RUB	**Note**	**31 December 2013**	**31 December 2012**
ASSETS			
Non-current assets			
Property, plant and equipment	12	13,534,543	13,967,635
Goodwill	13	776,998	776,998
Other investments	14	72,254	163,790
Other non-current assets		64,828	96,103
Deferred tax assets	15	91,169	50,876
Total non-current assets		**14,539,792**	**15,055,402**
Current assets			
Inventories		100,383	65,597
Other investments	14	104,479	96,327
Current income tax receivable		296,507	132,181
Trade and other receivables	16	1,653,359	1,140,794
Prepayments	17	347,930	321,095
Cash and cash equivalents	18	668, 829	842,378
Total current assets		**3,171,487**	**2,598,372**
Total assets		**17,711,279**	**17,653,774**
EQUITY AND LIABILITIES			
Equity	19		
Charter capital		3,696,850	3,696,850
Additional paid-in capital		485,685	485,685
Foreign currency translation reserve		58,594	(49,373)
Retained earnings		2,199,422	1,746,545
Total equity		**6,440,551**	**5,879,707**
Non-current liabilities			
Loans and borrowings	20	8,490,444	6,116,781
Deferred tax liabilities	15	401,280	321,145
Total non-current liabilities		**8,891,724**	**6,437,926**
Current liabilities			
Loans and borrowings	20	1,882,348	4,734,415
Trade and other payables	21	483,608	579,504
Current income tax liabilities		13,048	22,222
Total current liabilities		**2,379,004**	**5,336,141**
Total liabilities		**11,270,728**	**11,774,067**
Total equity and liabilities		**17,711,279**	**17,653,774**

The consolidated statement of financial position is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 38.

'000 RUB	Note	2013	2012
Revenue	6	7,754,085	10,706,311
Cost of sales	7	(5,212,333)	(5,830,775)
Gross profit		**2,541,752**	**4,875,536**
Distribution and administrative expenses	8	(862,360)	(1,012,388)
Other (expenses)/income, net	9	(4,446)	373,277
Result from operating activities		**1,674,946**	**4,236,425**
Finance income	10	97,664	202,864
Finance costs	10	(1,400,488)	(1,383,668)
Net finance costs		**(1,302,824)**	**(1,180,804)**
Profit before income tax		**372,122**	**3,055,621**
Income tax expense	11	(103,228)	(600,416)
Profit for the year		**268,894**	**2,455,205**
Other comprehensive income			
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation differences for foreign operations		107,967	(66,647)
Other comprehensive income for the year, net of income tax		**107,967**	**(66,647)**
Total comprehensive income for the year		**376,861**	**2,388,558**
Profit attributable to Owners of the Company		**268,894**	**2,455,205**
Total comprehensive income attributable to Owners of the Company		**376,861**	**2,388,558**

These consolidated financial statements were approved by management on 20 March 2014 and were signed on its behalf by:

First Vice-President

Grom A.N.

Chief Executive Officer

Barbariush A.A.

The consolidated statement of profit or loss and comprehensive income is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 39.

’000 RUB	**Note**	**Equity attributable to the participants of the Company**				
		Share capital	**Additional paid-in capital**	**Translation reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2012	19	**3,696,850**	**485,685**	**17,274**	**1,595,969**	**5,795,778**
Total comprehensive income for the year						
Profit for the year		-	-	-	2,455,205	2,455,205
Other comprehensive income						
Foreign currency translation differences		-	-	(66,647)	-	(66,647)
Total other comprehensive income		**-**	**-**	**(66,647)**	**-**	**(66,647)**
Total comprehensive income for the year		**-**	**-**	**(66,647)**	**2,455,205**	**2,388,558**
Contributions by and distributions to owners						
Dividends paid	19	-	-	-	(2,293,345)	**(2,293,345)**
Other transaction with participants		-	-	-	(11,284)	**(11,284)**
Total contributions by and distributions to owners		**-**	**-**	**-**	**(2,304,629)**	**(2,304,629)**
Balance at 31 December 2012		**3,696,850**	**485,685**	**(49,373)**	**1,746,545**	**5,879,707**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 38.

'000 RUB	**Note**	**Equity attributable to the participants of the Company**				
		Share capital	**Additional paid-in capital**	**Translation reserve**	**Retained earnings**	**Total equity**
Balance at 1 January 2013	19	**3,696,850**	**485,685**	**(49,373)**	**1,746,545**	**5,879,707**
Correction of the cost of tangible fixed assets, net of deferred tax		-	-	-	183,983	**183,983**
Total comprehensive income for the year						
Profit for the year		-	-	-	268,894	**268,894**
Other comprehensive income						
Foreign currency translation differences		-	-	107,967	-	**107,967**
Total other comprehensive income		**-**	**-**	**107,967**	**-**	**107,967**
Total comprehensive income for the year		**-**	**-**	**107,967**	**268,894**	**376,861**
Balance at 31 December 2013		**3,696,850**	**485,685**	**58,594**	**2,199,422**	**6,440,551**

The consolidated statement of changes in equity is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 38.

'000 RUB	**Note**	**2013**	**2012**
Cash flows from operating activities			
Profit before income tax		372,122	3,055,621
Adjustments for:			
Depreciation	8	1,256,370	1,151,550
Loss/(gain) on disposal of property, plant and equipment	10	47,530	(193,369)
Gain on disposal of other assets	10	(7,061)	-
Gain on disposal of subsidiaries		-	(154,916)
Change in provision for bad debt	10	5,126	8,177
Net finance costs	11	1,302,824	1,180,804
Cash from operating activities before changes in working capital and provisions		**2,976,911**	**5,047,867**
Change in inventories		(34,786)	(6,078)
Change in trade and other receivables and prepayments		(410,018)	444,890
Change in trade and other payables		(95,896)	(151,902)
Cash flows from operations before income taxes and interest paid		**2,436,211**	**5,334,777**
Income tax paid		(280,558)	(798,431)
Interest paid		(964,031)	(1,218,406)
Net cash from operating activities		**1,191,622**	**3,317,940**
Cash flows from investing activities			
Proceeds from sale of property, plant and equipment		264,181	834,134
Acquisition of property, plant and equipment		(809,116)	(970,515)
Interest received		96,975	151,814
Loans issued		-	(124,565)
Proceeds from repayment of loans and finance lease receivable		98,230	711,801
Proceeds from sale of other assets		7,473	-
Proceeds from disposal of subsidiaries	6	-	114,471
Net cash (used in) / from investing activities		**(342,257)**	**717,140**
Cash flows from financing activities			
Proceeds from borrowings		6,000,000	2,946,383
Repayment of borrowings		(5,614,738)	(3,904,984)
Payment of finance lease liabilities		(1,408,176)	(689,776)
Transactions with participants	20	-	(2,304,629)
Net cash (used in) financing activities		**(1,022,914)**	**(3,953,006)**
Net increase in cash and cash equivalents		(173,549)	82,074
Cash and cash equivalents at 1 January		842,378	760,304
Cash and cash equivalents at 31 December	19	**668, 829**	**842,378**

The consolidated statement of cash flows is to be read in conjunction with the notes to, and forming part of, the consolidated financial statements set out on pages 10 to 38.

1 Background

(a) Organisation and operations

The principal activity of Firm Transgarant LLC (the "Company") and its subsidiaries (the "Group") is to provide railway transportation services mainly within the Russian Federation. The Group renders transportation services using its own and leased railway wagons and locomotives. The Company also uses rolling stock leased under short term operating lease agreements from subsidiaries of OAO "Russian Railways" and other companies on an as-needed basis. The Group's main suppliers are OAO "Russian Railways", other Russian state owned railway enterprises, producers of wagons and leasing companies.

The Company is a limited liability company incorporated in the Russian Federation on 23 December 1997. The Company is registered and located at 24, bld. 1, Radio Street, Moscow, Russian Federation. The Company is the subsidiary of the OJSC Far-Eastern Shipping Company (FESCO, the Parent Company).

In December 2012 Summa Group and other investors acquired control over FESCO, the parent of the Group, who has the power to direct transactions of the Group at his own discretion and for his own benefit. At the reporting date the immediate parent company of the Group is FESCO and the ultimate beneficiary is Mr. Ziavudin Magomedov.

(b) Russian and Ukrainian business environment

The Group's operations are primarily located in the Russian Federation and Ukraine. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and Ukraine which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation.

Ukraine's political and economic situation has deteriorated significantly since the Government's decision not to sign the Association Agreement and the Deep and Comprehensive Free Trade Agreement with the European Union in late November 2013. Political and social unrest combined with rising regional tensions has deepened the ongoing economic crisis and has resulted in a widening of the state budget deficit and a depletion of the National Bank of Ukraine's foreign currency reserves and, as a result, a further downgrading of the Ukrainian sovereign debt credit ratings. In February 2014, following the devaluation of the national currency, the National Bank of Ukraine introduced certain administrative restrictions on currency conversion transactions and also announced a transition to a floating foreign exchange rate regime. The final resolution and the effects of the political and economic crisis are difficult to predict but may have further severe effects on the Ukrainian economy.

Whilst management believes it is taking appropriate measures to support the sustainability of the Group's business in the current circumstances, a continuation of the current unstable business environment could negatively affect the Group's results and financial position in a manner not currently determinable. These consolidated financial statements do not include any adjustments for the impact of events in Ukraine that have occurred after the reporting date. The consolidated financial statements reflect management's assessment of the impact of the Russian and Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

2 Basis of preparation

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

(b) Basis of measurement

The consolidated financial statements are prepared on the historical cost basis.

(c) Functional and presentation currency

The national currency of the Russian Federation is the Russian Rouble ("RUB"), which is the Company's functional currency and the currency in which these consolidated financial statements are presented. The functional currency of the Ukrainian operations is the Ukrainian Grivna ("UAH") and Latvian operations – Latvian Lat ("LVL"). All financial information presented in RUB has been rounded to the nearest thousand.

(d) Use of estimates and judgments

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the consolidated financial statements is included in the following notes:

- Note 7 – revenue recognition;
- Note 13 – property, plant and equipment;
- Note 14 – impairment of goodwill;
- Note 26 – taxation contingencies.

3 Significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, and have been applied consistently by Group entities.

(a) Basis of consolidation

(i) Subsidiaries

Subsidiaries are entities controlled by the Group. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. The accounting policies of subsidiaries have been changed when necessary to align them with the policies adopted by the Group.

(ii) Transactions eliminated on consolidation

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Foreign currency

(i) Foreign currency transactions

Transactions in foreign currencies are translated to the respective functional currencies of Group entities at exchange rates at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to the functional currency at the exchange rate at that date. The foreign currency gain or loss on monetary items is the difference between amortised cost in the functional currency at the beginning of the period, adjusted for effective interest and payments during the period, and the amortised cost in foreign currency translated at the exchange rate at the end of the reporting period. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are retranslated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising in retranslation are recognised in profit or loss, except for differences arising on the retranslation of available-for-sale equity instruments which are recognised in other comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

(ii) Foreign operations

The assets and liabilities of foreign operations, including goodwill and fair value adjustments arising on acquisition, are translated to RUB at the exchange rates at the reporting date. The income and expenses of foreign operations are translated to RUB at exchange rates at the dates of the transactions.

Foreign currency differences are recognised directly in other comprehensive income. When a foreign operation is disposed of, in part or in full, the relevant amount in the foreign currency translation reserve is transferred to profit or loss as part of the profit or loss on disposal of foreign operations.

Foreign exchange gains and losses arising from a monetary item received from or payable to a foreign operation, the settlement of which is neither planned nor likely in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised in other comprehensive income, and are presented within equity in the foreign currency translation reserve.

(c) Financial instruments

(i) Non-derivative financial instruments

Non-derivative financial instruments comprise investments in equity and debt securities, trade and other receivables, cash and cash equivalents, loans and borrowings, and trade and other payables.

The Group initially recognises loans and receivables and deposits on the date that they are originated. All other financial assets (including assets designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. Any interest in transferred financial assets that is created or retained by the Group is recognised as a separate asset or liability.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial assets: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables and available-for-sale financial assets.

Held-to-maturity financial assets

If the Group has the positive intent and ability to hold to maturity debt securities that are quoted in an active market, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition held-to-maturity financial assets are measured at amortised cost using the effective interest method, less any impairment losses. Any sale or reclassification of a more than insignificant amount of held-to-maturity investments not close to their maturity would result in the reclassification of all held-to-maturity investments as available-for-sale, and prevent the Group from classifying investment securities as held-to-maturity for the current and the following two financial years.

Loans and receivables

Loans and receivables are a category of financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortised cost using the effective interest method, less any impairment losses. Loans and receivables comprise trade and other receivables.

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. Bank overdrafts that are repayable on demand and form an integral part of the Group’s cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows.

Other

Other non-derivative financial instruments are measured at amortised cost using the effective interest method, less any impairment losses. Investments in equity securities that are not quoted on a stock exchange are principally valued using valuation techniques such as discounted cash flow analysis, option pricing models and comparisons to other transactions and instruments that are substantially the same. Where fair value cannot be reliably measured, investments are stated at cost less impairment losses.

(ii) Non-derivative financial liabilities

The Group initially recognises debt securities issued and subordinated liabilities on the date that they are originated. All other financial liabilities (including liabilities designated at fair value through profit or loss) are recognised initially on the trade date at which the Group becomes a party to the contractual provisions of the instrument.

The Group derecognises a financial liability when its contractual obligations are discharged or cancelled or expire.

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Group has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

The Group has the following non-derivative financial liabilities: loans and borrowings and trade and other payables.

Such financial liabilities are recognised initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortised cost using the effective interest method.

(iii) Derivative financial instruments

The Group holds derivative financial instruments to manage its exposure to interest rate movement on its bank borrowings.

Derivatives are recognised initially at fair value; attributable transaction costs are recognised in profit or loss as incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are recognised immediately in the profit or loss.

(iv) Guarantees

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of parties under common control are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee.

(v) Equity

Incremental costs directly attributable to issue of participation rights are recognised as a deduction from equity, net of any tax effects.

(d) Property, plant and equipment

(i) Recognition and measurement

Items of property, plant and equipment, except for land, are measured at cost less accumulated depreciation and impairment losses. The cost of property, plant and equipment at the date of transition to IFRSs, was determined by reference to its fair value at that date.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount of property, plant and equipment, and are recognised net within “other income” / “other expense” in profit or loss.

(ii) Subsequent costs

The cost of replacing part of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The carrying amount of the replaced part is derecognised. The costs of the day-to-day servicing of property, plant and equipment are recognised in profit or loss as incurred.

(iii) Depreciation

Depreciation is calculated over the depreciable amount, which is the cost of an asset, or other amount substituted for cost, less its residual value. If a component of an individual asset has a useful life that is different from the remainder of that asset, that component is depreciated separately.

Depreciation is recognised in profit or loss on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment, since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Group will obtain ownership by the end of the lease term. Land is not depreciated.

The estimated useful lives are as follows:

- Rolling stock 15-30 years;
- Wheel-pair 5-8 years;
- Machinery and equipment 5-20 years;
- Buildings 30 years;
- Office and other assets and equipment 3-5 years.

Depreciation methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

(e) Leased assets

Leases in terms of which the Group assumes substantially all the risks and rewards of ownership are classified as finance leases. Upon initial recognition the leased asset is measured at an amount equal to the lower of its fair value and the present value of the minimum lease payments. Subsequent to initial recognition, the asset is accounted for in accordance with the accounting policy applicable to that asset.

Other leases are operating leases and the leased assets are not recognised on the Group’s statement of financial position.

(f) Inventories

Inventories are measured at the lower of cost and net realisable value. The cost of inventories is based on the average costing principle, and includes expenditure incurred in acquiring the inventories, production or conversion costs and other costs incurred in bringing them to their existing location and condition. In the case of manufactured inventories and work in progress, cost includes an appropriate share of production overheads based on normal operating capacity.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

(g) Impairment

(i) Non-derivative financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

Objective evidence that financial assets (including equity securities) are impaired can include default or delinquency by a debtor, restructuring of an amount due to the Group on terms that the Group would not consider otherwise, indications that a debtor or issuer will enter bankruptcy, the disappearance of an active market for a security. In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Loans and receivables and held-to-maturity investment securities

The Group considers evidence of impairment for receivables and held-to-maturity investment securities at both a specific asset and collective level. All individually significant receivables and held-to-maturity investment securities are assessed for specific impairment. All individually significant receivables and held-to-maturity investment securities found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Receivables and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together receivables and held-to-maturity investment securities with similar risk characteristics.

In assessing collective impairment the Group uses historical trends of the probability of default, timing of recoveries and the amount of loss incurred, adjusted for management’s judgement as to whether current economic and credit conditions are such that the actual losses are likely to be greater or less than suggested by historical trends.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the asset’s original effective interest rate. Losses are recognised in profit or loss and reflected in an allowance account against receivables. Interest on the impaired asset continues to be recognised through the unwinding of the discount. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(ii) Non-financial assets

The carrying amounts of the Group’s non-financial assets, other than inventories and deferred tax assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset’s recoverable amount is estimated.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. 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. For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the “cash-generating unit”).

An impairment loss is recognised if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. Impairment losses are recognised in profit or loss. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. In respect of other assets, impairment losses recognised in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

(h) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as finance cost.

(i) Revenue

Revenues are recognized in the accounting period in which the services are rendered the price is determinable and collectability is probable. The revenues are recognised net of value added tax.

Revenue from services rendered is recognised in profit or loss in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the number of days completed out of the total estimated number of days in a particular transportation route. For other services the stage of completion is assessed by reference to surveys of work performed. Estimated losses on transportation in progress are recognised at the time such losses become evident.

(i) Transportation services (operator's business)

The Company also organizes transportation for clients and provides similar services using its own or leased wagons. Normally, a transportation tariff charged by the Russian Railway is re-charged to the counterparty (the Company acts as an agent). For this type of activity, the Company's revenue comprises operator's fee and revenue from rent of wagons.

The costs of sales for this type of activity generally includes transportation fees charged by transportation organizations for transportation of empty wagons (those are not re-charged to the counterparty), depreciation, repairs and maintenance costs for owned and leased wagons and lease payments for wagons rented on the basis of operating leases.

(ii) Revenues from operating lease of rolling stock

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

(iii) Transportation agency fee

The Company is a legal intermediary for transportation organizations and pays transport fees on behalf of its clients. These fees, which are reimbursed by the Company's clients, are not included in sales or cost of sales. Consequently, only the Company's fees for intermediary activities are recognised as sales. Debtors and liabilities that occur in accordance with these activities are recognized as accounts receivable and accounts payable.

(j) Other expenses

(i) Lease payments

Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense 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.

(ii) Social expenditure

In the normal course of business the Group contributes to the Russian Federation state pension scheme on behalf of its employees. Mandatory contributions to the Russian Federation State pension scheme are expensed when incurred.

(k) Finance income and costs

Finance income comprises interest income on funds invested, dividend income and foreign currency gains. Interest income is recognised as it accrues in profit or loss, using the effective interest method. Dividend income is recognised in profit or loss on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, foreign currency losses, impairment losses recognised on financial assets. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the effective interest method.

Foreign currency gains and losses are reported on a net basis.

(l) Income tax

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognised in profit or loss except to the extent that it relates to a business combination, or items recognised directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

In accordance with the tax legislation of the Russian Federation, tax losses and current tax assets of a company in the Group may not be set off against taxable profits and current tax liabilities of other Group companies. In addition, the tax base is determined separately for each of the Group's main activities, and therefore, tax losses and taxable profits related to different activities cannot be offset.

A deferred tax asset is recognised for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(m) New Standards and Interpretations not yet adopted

The following new Standards, amendments to Standards and Interpretations are not yet effective as at 31 December 2013, and have not been applied in preparing these consolidated financial statements. The Group plans to adopt these pronouncements when they become effective.

- IFRS 9 *Financial Instruments* is to be issued in phases and is intended ultimately to replace International Financial Reporting Standard IAS 39 *Financial Instruments: Recognition and Measurement*. The first phase of IFRS 9 was issued in November 2009 and relates to the classification and measurement of financial assets. The second phase regarding classification and measurement of financial liabilities was published in October 2010. The third phase was issued in November 2013 and relates to general hedge accounting. The Group recognises that the new standard introduces many changes to the accounting for financial instruments and is likely to have a significant impact on Group's consolidated financial statements. The impact of these changes will be analysed during the course of the project as further phases of the standard are issued. The Group does not intend to adopt this standard early.
- Amendments to IAS 32 Financial Instruments: Presentation - Offsetting Financial Assets and Financial Liabilities specify that an entity currently has a legally enforceable right to set-off if that right is not contingent on a future event; and enforceable both in the normal course of business and in the event of default, insolvency or bankruptcy of the entity and all counterparties. The amendments are effective for annual periods beginning on or after 1 January 2014, and are to be applied retrospectively.
- Amendments to IAS 36 *Recoverable Amount Disclosures for Non-Financial Assets*. The IASB has issued amendments to reverse the unintended requirement in IFRS 13 *Fair Value Measurement* to disclose the recoverable amount of every cash-generating unit to which significant goodwill or indefinite-lived intangible assets have been allocated. Under the amendments, the disclosure of information about the recoverable amount of impaired assets will be required only when the recoverable amount is based on fair value less costs of disposal. The amendments apply retrospectively for annual periods beginning on or after 1 January 2014. Early application is permitted, which means that the amendments can be adopted at the same time as IFRS 13The impact of these new standards has not been determined by the Group yet.

4 Determination of fair values

A number of the Group's accounting policies and disclosures require the determination of fair value, for both financial and non-financial assets and liabilities. Fair values have been determined for measurement and for disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

(a) Trade and other receivables

The fair value of trade and other receivables, excluding construction work in progress, is estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date. This fair value is determined for disclosure purposes.

(b) Non-derivative financial liabilities

Fair value, which is determined for disclosure purposes, is calculated based on the present value of future principal and interest cash flows, discounted at the market rate of interest at the reporting date. For finance leases the market rate of interest is determined by reference to similar lease agreements.

5 Disposal of subsidiary

On 26 March 2012 the Group disposed of its investment in OAO Stroyopttorg, OOO TG-Leasing and TG-Finance Limited to FESCO.

The disposal of the subsidiaries had the following effect on the Group's assets and liabilities at the date of disposal:

	Carrying amount at date of disposal of Stroyopttorg '000 RUB	Carrying amount at date of disposal of TG-Leasing and TG-Finance '000 RUB
Non-current assets		
Property, plant and equipment	146,004	-
Investments	-	833,650
Deferred tax assets	-	4,306
Current assets		
Investments	-	546,925
Inventories	3,148	
Trade and other receivables	13,821	2,371
Cash and cash equivalents	2,566	152,913
Non-current liabilities		
Loans and borrowings	(108,577)	(1,063,668)
Deferred tax liabilities	(4,227)	(50,784)
Current liabilities		
Loans and borrowings	(13,852)	(262,946)
Income tax payable	(6,076)	(74,289)
Trade and other payables	(6,217)	(34)
Net identifiable assets and liabilities	**26,590**	**88,444**
Consideration received, satisfied in cash	148,950	121,000
Cash disposed of	2,566	152,913
Net cash inflow/(outflow)	**146,384**	**(31,913)**

6 Revenue

	2013 '000 RUB	2012 '000 RUB
Transportation services (operator's business)	6,376,134	8,873,743
Operating lease of rolling stock	1,340,865	1,769,274
Transportation agency fees	9,816	10,090
Other sales	27,270	53,204
	7,754,085	**10,706,311**

7 Cost of sales

	2013 '000 RUB	2012 '000 RUB
Railway infrastructure tariff	(2,519,323)	(3,153,600)
Rolling stock repair and maintenance costs	(743,876)	(628,678)
Depreciation	(1,256,370)	(1,151,550)
Operating lease of rolling stock	(385,091)	(591,615)
Taxes other than on income	(137,733)	(133,033)
Raw materials	(94,563)	(81,524)
Communication costs	(63,778)	(66,665)
Insurance	(9,029)	(8,155)
Other operating expenses	(2,570)	(15,955)
	(5,212,333)	**(5,830,775)**

Starting from 1 January 2013 the Group has decided to change the presentation of payroll expenses and social charges from Cost of sales where they were accounted for in prior periods to Administrative expenses (note 8). Presentation of payroll expenses and social charges for 2012 was changed as well.

8 Distribution and administrative expenses

	2013 '000 RUB	2012 '000 RUB
Payroll expenses and social charges	(657,633)	(849,393)
Office rent cost	(77,258)	(79,281)
Management fee	(63,681)	(20,741)
Other expenses	(63,788)	(62,973)
	(862,360)	**(1,012,388)**

9 Other income and expenses

	2013 '000 RUB	2012 '000 RUB
Change in impairment allowance for doubtful debts	(5,126)	(8,177)
Gain on disposal of subsidiaries	-	154,916
(Loss) / gain on disposal of property, plant and equipment and other assets	(40,469)	193,369
Other income	41,149	33,169
	(4,446)	**373,277**

For the movement in the allowance for doubtful debts, see Note 22(c).

10 Finance income and finance costs

Finance income comprised of the following items:

	2013 '000 RUB	2012 '000 RUB
Interest income on deposits	67,402	117,482
Interest income on finance lease granted	28,776	40,948
Income on revaluation of derivative financial liability	-	44,434
Other finance income	1,486	-
	97,664	**202,864**

Finance costs comprised of the following items:

	2013 '000 RUB	2012 '000 RUB
Interest expense on loans and borrowings	(614,719)	(763,153)
Interest charge on finance lease	(725,286)	(557,069)
Foreign exchange loss	(60,483)	(45,167)
Other finance costs	-	(18,279)
	(1,400,488)	**(1,383,668)**

11 Income tax expense

	2013 '000 RUB	2012 '000 RUB
Current tax expense		
Current income tax expense	(107,057)	(652,497)
Deferred tax expense		
Origination and reversal of temporary differences	3,829	52,081
Total income tax expense	**(103,228)**	**(600,416)**

Reconciliation of effective tax rate:

	2013 '000 RUB	2012 '000 RUB
Profit before income tax	372,122	3,055,621
Income tax expense at applicable tax rate	(74,424)	(611,124)
Effect of income taxed at lower/(higher) rates	2,527	(6,748)
Tax on intragroup dividends	(23,897)	
(Non-deductible) / non-taxable differences	(7,434)	3,344
Decrease in provision for tax loss carry-forwards	-	14,112
	(103,228)	**(600,416)**

12 Property, plant and equipment

'000 RUB	Rolling stock	Buildings	Machinery and equipment	Other	Construction in progress	Total
Cost						
Balance at 1 January 2012	**18,066,318**	**196,103**	**92,319**	**123,997**	**15,366**	**18,494,103**
Additions	954,319	7,101	3,329	18,363	2,319	985,431
Disposals	(731,920)	(136,772)	(4,843)	(26,807)	(12,316)	(912,658)
Translation differences	(170,943)	-	-	(669)	(332)	(171,944)
Balance at 31 December 2012	**18,117,774**	**66,432**	**90,805**	**114,884**	**5,037**	**18,394,932**
Correction of the cost of tangible fixed assets	227,655	-	-	-	-	227,665
Additions	783,666	9,518	-	15,720	212	809,116
Disposals	(479,282)	(6,107)	(2,195)	(31,996)	-	(519,580)
Translation differences	125,897	-	-	801	-	126,698
Balance at 31 December 2013	**18,775,710**	**69,843**	**88,610**	**99,409**	**5,249**	**19,038,821**
Depreciation						
Balance at 1 January 2012	**(3,289,372)**	**(17,258)**	**(27,356)**	**(77,650)**	**-**	**(3,411,636)**
Depreciation for the year	(1,123,007)	(3,908)	(4,618)	(20,017)	-	(1,151,550)
Disposals	87,701	15,424	1,187	9,492	-	113,804
Translation differences	21,762	-	-	323	-	22,085
Balance at 31 December 2012	**(4,302,916)**	**(5,742)**	**(30,787)**	**(87,852)**	**-**	**(4,427,297)**
Depreciation for the year	(1,235,637)	(2,649)	(4,678)	(13,406)	-	(1,256,370)
Disposals	174,445	2,842	2,195	28,385	-	207,867
Translation differences	(17,137)	(11,084)	-	(448)	-	(28,671)
Balance at 31 December 2013	**(5,381,244)**	**(16,633)**	**(33,270)**	**(73,321)**	**-**	**(5,504,470)**
Net book value						
At 31 December 2012	**13,814,858**	**60,690**	**60,018**	**27,032**	**5,037**	**13,967,635**
At 31 December 2013	**13,394,466**	**53,210**	**55,340**	**26,088**	**5,249**	**13,534,543**

The cost of Rolling stock has been increased on 1 January 2013 by RUB 227,665 thousand to reflect the cumulative effect of implementation of component accounting in Transgarant-Ukraine.

At 31 December 2013 properties with a carrying amount of RUB 5,654,035 thousand (2012: RUB 3,843,885 thousand) are pledged to secure related parties' bond obligations.

Leased plant and machinery

The Group leases production equipment under a number of finance lease agreements. At the end of each of the leases the Group has the option to purchase the equipment at a beneficial price. At 31 December 2013 the net book value of leased plant and machinery was RUB 3,975,051 thousand (2012: RUB 6,276,835 thousand). The leased equipment secures lease obligations.

Insured assets

As at 31 December 2013 the Company's rolling stock with a net book value of RUR 10,907,584 thousand (2012: RUB 7,442,042 thousand) was insured with Russian insurance companies. The total insured value is RUB 19,540,436 thousand (2012: RUB 11,814,289 thousand).

13 Goodwill

'000 RUB	Gross amount	Accumulating impairment loss	Carrying amount
At 31 December 2012	776,998	-	776,998
At 31 December 2013	776,998	-	776,998

The Group uses discounted cash flow techniques to arrive at the recoverable amounts of the cash generating units for the purposes of an impairment testing.

The discount and growth rate used in the impairment testing for the Group Transgarant CGU for the year 2013 were as follows: discount rate - 14.95%, terminal growth rate - 3.6%

The recoverable amount is determined based on value in use calculations. These calculations are based on post-tax cash flow projections and all the assumptions in relation to growth rates are determined by reference to management's past experience and industry forecasts.

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term growth rate, consistent with the assumption that a market participant would make.

The key assumptions in respect of CGU are as follows:

- the projected volumes of throughput and railcar fleet dynamics reflect past experience and management's estimates. The prices are estimated in accordance with the past performance of relevant CGUs and management's expectations of market development.
- the discount rate was a post-tax measure estimated based on the industry average weighted-average cost of capital reflecting specific risks relating to the relevant CGU.
- recoverable amount for CGU's exceed carrying values and, therefore, no impairment was recognized.

Increase of discount rate by 1 % and decrease in revenue by 2% will not lead to impairment loss.

14 Other investments

’000 RUB	**Contract interest rate**	**2013**	**2012**
Non-current			
Net investments in the finance lease:			
RUB denominated	Fixed 11.84%	-	21,859
USD denominated	Fixed 12.73%	72,254	141,931
		72,254	**163,790**
Current			
Net investments in the finance lease:			
RUB denominated	Fixed 10.81%	23,810	31,750
USD denominated	Fixed 12.73%	79,905	64,197
Interest receivable on bank deposits		764	380
Total		**104,479**	**96,327**

The finance lease granted is repayable as follows:

	2013			**2012**		
’000 RUB	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Repayable <1 year	119,352	15,637	103,715	124,369	28,422	95,947
Repayable 1-5 years	76,420	4,166	72,254	183,501	19,711	163,790
	195,772	**19,803**	**175,969**	**307,870**	**48,133**	**259,737**

The Group’s exposure to credit, currency and interest rate risks related to other investments is disclosed in note 22.

15 Deferred tax assets and liabilities

(a) Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities are attributable to the following:

	Assets		**Liabilities**		**Net**	
’000 RUB	**2013**	**2012**	**2013**	**2012**	**2013**	**2012**
Property, plant and equipment	-	-	(1,039,879)	(1,256,760)	(1,039,879)	(1,256,760)
Investments in finance leases	-	-	(35,194)	(51,947)	(35,194)	(51,947)
Trade and other receivables	93,720	97,089	-	-	93,720	97,089
Loans and borrowings	657,613	916,061		(1,225)	657,613	914,836
Trade and other payables	-	-	(79,655)	(33,090)	(79,655)	(33,090)
Tax loss carry-forwards	93,284	59,603	-	-	93,284	59,603
Tax assets/(liabilities)	**844,617**	**1,072,753**	**(1,154,728)**	**(1,343,022)**	**(310,111)**	**(270,269)**
Set off of tax	(753,448)	(1,021,877)	753,448	1,021,877	-	-
Net tax assets/(liabilities)	**91,169**	**50,876**	**(401,280)**	**(321,145)**	**(310,111)**	**(270,269)**

(b) Movement in temporary differences during the year

2013

’000 RUB	**1 January**	**Recognised in profit or loss**	**Recognised in equity**	**31 December**
Property, plant and equipment	(1,256,760)	260,552	(43,673)	(1,039,881)
Investments in finance leases	(51,947)	16,753	-	(35,194)
Trade and other receivables	97,089	(3,369)	-	93,720
Loans and borrowings	914,836	(257,223)	-	657,613
Trade and other payables	(33,090)	(46,565)	-	(79,655)
Tax loss carry-forwards	59,603	33,681	-	93,284
	(270,269)	**3,829**	**(43,673)**	**(310,113)**

2012

’000 RUB	**1 January**	**Recognised in profit or loss**	**Disposal of subsidiaries**	**31 December**
Property, plant and equipment	(1,261,160)	192,782	(188,382)	(1,256,760)
Investments in finance leases	(454,978)	126,918	276,113	(51,947)
Trade and other receivables	87,339	9,750	-	97,089
Loans and borrowings	1,143,265	(224,123)	(4,306)	914,836
Trade and other payables	(12,087)	(21,003)	-	(33,090)
Tax loss carry-forwards	138,678	(46,355)	(32,720)	59,603
Allowance for tax loss carry-forwards	(14,112)	14,112	-	-
	(373,055)	**52,081**	**50,705**	**(270,269)**

16 Trade and other receivables

’000 RUB	**2013**	**2012**
Trade accounts receivable	686,503	687,985
Value added taxes receivable	876,432	482,302
Other receivables	121,532	23,658
	1,684,467	**1,193,945**
Allowance for doubtful debts	(31,108)	(53,151)
	1,653,359	**1,140,794**

The Group’s exposure to credit and currency risks is disclosed in note 22.

17 Prepayments

’000 RUB	**2013**	**2012**
Prepayments to OAO “Russian Railways” and its branches	255,023	204,774
Other prepayments	92,907	116,321
	347,930	**321,095**

18 Cash and cash equivalents

’000 RUB	**2013**	**2012**
Bank balances – RUB denominated	563,358	420,680
Bank balances – USD denominated	74,540	41,310
Bank balances – EUR denominated	3	2,401
Other currencies – UAH denominated	30,928	377,987
	668,829	**842,378**

The Group’s exposure to interest rate risk and a sensitivity analysis for financial assets and liabilities are disclosed in note 23.

19 Equity

As at 31 December 2013 and 2012 the Company's authorized and registered charter capital was RUB 3,696,850 thousand.

In 2012 Neteller Holdings Limited transferred its shares in the Company’s charter capital to OJSC FESCO and Eustacia Finance Limited. Transfer resulted in decrease in share of Neteller Holdings Limited to nil (2011: 23.8%) and increase in shares of OJSC FESCO and Eustacia Finance Limited to 91.196% and 8.804% respectively (2011: 76.2% and Nil respectively). Eustacia Finance Limited is a 100% owned subsidiary of OJSC FESCO.

The Company’s charter allows the participants to exit from the Company at their discretion and receive their proportionate share in the net assets of the Company. In accordance with the Law “On Limited Liability Companies”, a sole participant may not exit from a limited liability company other than through its liquidation.

Because Eustacia Finance Limited is the wholly owned subsidiary of OJSC FESCO, its decision to exit from the Company would require a consent of OJSC FESCO. In substance, OJSC FESCO is the sole participant in the Company and its participation right has been classified as equity.

The participatory rights have been issued and are fully paid. For the year ended 31 December 2012 the Participant of Company declared and paid the dividend in the amount of RUB 2,293,345 thousand. The Company did not declare or distribute dividends in 2013.

20 Loans and borrowings

This note provides information about the contractual terms of the Group's interest-bearing loans and borrowings, which are measured at amortised cost. For more information about the Group's exposure to interest rate, foreign currency and liquidity risk, see note 23.

'000 RUB	**Effective interest rate**	**2013**	**2012**
Non-current			
Secured bank loans from related parties:			
RUB denominated	Fixed 8.5%	-	2,580,209
Unsecured loans from related parties:			
RUB denominated	Fixed 11.0%	896,643	896,643
	Fixed 7 %	606,000	-
	Fixed 8,5 %	4,624,000	-
Finance lease liabilities:			
USD denominated	Fixed 14,42%	29,545	36,224
RUB denominated	Fixed 13,90-20,01%	1,265,268	2,603,705
Finance lease liabilities from related parties:			
USD denominated	Fixed 15,35%	1,068,988	-
		8,490,444	**6,116,781**
Current portion of secured bank loans:			
RUB denominated	MOSPRIME 3M+4.6%	-	296,111
RUB denominated	Fixed 8.75% - 9%	-	1,967,529
Unsecured loans from related parties:			
RUB denominated	Fixed 0%	447,000	447,000
Finance lease liabilities:			
USD denominated	Fixed 14,42%	9,490	7,631
RUB denominated	Fixed 13,90-20,01%	453,362	525,933
Finance lease liabilities from related parties:			
USD denominated	Fixed 15,35%	461,436	1,355,478
Accrued interest		511,060	134,733
		1,882,348	**4,734,415**

The effective interest rates of long-term bank loans approximate their contractual interest rates, effective interest rates of long-term loans from related parties varies from 7% to 11%.

Bank loans with carrying amount of RUB 4,843,849 thousand as of 31 December 2012 were guaranted by related parties.

Bank loans are secured with the following assets:

	2013		
'000 RUB	**Number of pledged items**	**Total number of items**	**Net book value of pledged assets**
Tank wagons	-	962	-
Boxcars	-	1,173	-
Pellet-wagons	783	2,151	390,129
Locomotive	-	6	-
Open wagons	1,001	6,722	1,876,407
Mineral carrier	70	100	39,073
Thermos car	-	55	-
Cement carriers	487	581	572,150
Platform-cars	2,533	3,530	2,776,276
	4,874	**15,280**	**5,654,035**

	2012		
'000 RUB	**Number of pledged items (unaudited)**	**Total number of items (unaudited)**	**Net book value of pledged assets**
Tank wagons	693	967	358,145
Boxcars	1,002	1,177	1,102,288
Pellet-wagons	686	2,278	337,885
Locomotive	1	6	12,596
Open wagons	2,588	6,836	1,775,981
Mineral carrier	79	100	41,097
Cement carriers	152	582	215,893
Platform-cars	-	3,035	-
	5,201	**14,981**	**3,843,885**

Finance lease liabilities are payable as follows:

	2013			2012		
'000 RUB	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**	**Future minimum lease payments**	**Interest**	**Present value of minimum lease payments**
Payable <1 year	1,313,026	388,738	924,288	2,353,687	464,645	1,889,042
Payable in 1-5 years	2,656,361	292,560	2,363,801	3,169,490	703,230	2,466,260
Payable >5 years	-	-	-	176,000	2,331	173,669
	3,969,387	**681,299**	**3,288,089**	**5,699,177**	**1,170,206**	**4,528,971**

21 Trade and other payables

’000 RUB	**2013**	**2012**
Trade accounts payable	132,928	112,278
Advances from customers	87,685	176,385
Value added tax payable	97,507	78,303
Payroll and related taxes	118,197	158,815
Property tax	29,050	34,111
Other accounts payable	18,241	19,612
	483,608	**579,504**

22 Financial instruments and risk management

(a) Overview

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk;
- market risk.

This note presents information about the Group’s exposure to each of the above risks, the Group’s objectives, policies and processes for measuring and managing risk, and the Group’s management of capital. Further quantitative disclosures are included throughout these consolidated financial statements.

Risk management framework

The Group’s management has overall responsibility for the establishment and oversight of the Group’s risk management framework. The Group’s risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group’s activities.

(b) Capital management

The management board’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The management board monitors profitability and leverage ratios and compliance with the minimum capital requirements. The management board uses a return on capital ratio which the Group defines as net profit divided by total net assets attributable to equity participants equity. There were no changes in the Group’s approach to capital management during the year.

(c) Credit risk

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables, finance lease granted and cash. The Group has policies in place to ensure that sales of products and services are made to customers with an appropriate credit history.

The maximum exposure to credit risk at the reporting date was:

’000 RUB	**2013**	**2012**
Net investments in the finance lease	175,969	259,737
Trade and other receivables, net of provision	776,162	658,492
Cash and cash equivalents	668,829	842,378
	1,620,960	**1,760,607**

The maturity profile of trade and other receivables is as follows:

	2013		**2012**	
’000 RUB	**Gross**	**Allowance for doubtful debts**	**Gross**	**Allowance for doubtful debts**
Not past due	598,215	-	641,727	-
Past due for 3-12 months	178,712	-	16,765	-
Past due for more than one year	31,108	(31,108)	53,151	(53,151)
Total	**808,035**	**(31,108)**	**711,643**	**(53,151)**

Approximately 20,1% (2012: 20,3%) of the Group’s Trade and other receivables is attributable to a single customer.

The movement in the allowance for doubtful debts is as follows:

‘000 RUB	**2013**	**2012**
As at 1 January	53,151	51,049
Bad debts created	8,793	23,061
Bad debts reversed	(3,667)	(14,884)
Bad debts written-off	(27,169)	(6,075)
	31,108	**53,151**

The Group held cash and cash equivalents of RUB 668,829 thousand at 31 December 2013 (2012: RUB 842,378 thousand), which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with bank and financial institution counterparties, which are rated AA- to AA+, based on rating agency ratings.

(d) Guarantees

As at 31 December 2013, the Company and some of its subsidiaries guaranteed the performance of related parties’ bond obligations for the total amount of RUB 28,638,050 thousand (2012: RUB 24,298,160 thousand).

The Group considers that financial guarantee contracts entered into by the Group to guarantee the indebtedness of other parties are insurance arrangements, and accounts for them as such. In this respect, the Group treats the guarantee contract as a contingent liability until such time as it becomes probable that the Group will be required to make a payment under the guarantee. The Group’s policy is to provide financial guarantees only to subsidiaries and related parties.

(e) Liquidity risk

	2013				
'000 RUB	**Carrying value**	**Contractual cash flow**	**Within 1 year**	**1-5 years**	**over 5 years**
Unsecured loans from related parties	7,084,703	9,046,647	1,492,151	7,554,496	-
Finance lease liabilities	3,288,089	3,969,388	1,313,026	2,656,362	-
Trade and other payables	269,366	269,366	269,366	-	-
	10,642,158	**13,285,401**	**3,074,543**	**10,210,858**	**-**

	2012				
'000 RUB	**Carrying value**	**Contractual flow**	**Within 1 year**	**1-5 years**	**over 5 years**
Secured bank loans	4,872,626	5,695,173	2,722,839	2,972,334	-
Unsecured loans from related parties	1,449,599	1,868,441	651,586	1,216,855	-
Finance lease liabilities	4,528,971	5,699,177	2,353,687	3,169,490	176,000
Trade and other payables	290,705	290,119	290,119	-	-
	11,141,315	**13,552,910**	**6,018,231**	**7,358,679**	**176,000**

The contractual maturities of financial liabilities are presented including the estimated interest payments.

(f) Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return.

The Group buys and sells derivatives in order to manage market risks.

(i) Currency risk

The Group's exposure to foreign currency risk was as follows based on notional amounts:

'000 RUB	**USD-denominated 2013**	**USD-denominated 2012**
Current assets		
Cash and cash equivalents	74,540	41,310
Net investment in finance lease	79,905	64,197
Trade accounts receivable	127,686	139,678
Non-current assets		
Net investment in finance lease	72,254	141,931
Current liabilities		
Finance lease	(470,926)	(1,363,109)
Trade accounts payable	(29, 675)	(18,557)
Non-current liabilities		
Finance lease	(1,098,533)	(36,224)
	(1,244,750)	**(1,036,421)**

The following exchange rates were applied at 31 December:

	RUB 2013	RUB 2012
1 USD equals	32.7292	30.3727

Management estimate that a 10% strengthening/(weakening) of RUB against the abovementioned currency, based on the Group's exposure as at the balance sheet date would have increased/(decreased) the Group's pre-tax profit for the year by RUB 124,475 thousand, before any tax effect (31 December 2012: RUB 103,642 thousand). This analysis assumes that all other variables, in particular interest rates, remain constant. The analysis is performed on the same basis for 2012.

(ii) Interest rate risk

Changes in interest rates impact primarily loans by changing either their fair value (fixed rate debt) or their future cash flows (variable rate debt). Management does not have a formal policy of determining how much of the Group's exposure should be to fixed or variable rates.

The Group does not have variable rate instruments as at 31 December 2013 (RUB 296,111 thousand as at 31 December 2012).

The Group does not account for any fixed-rate financial instruments as fair value through profit or loss or as available-for-sale. Therefore a change in interest rates at the reporting date would not have an effect in profit or loss or in equity.

(g) Fair values versus carrying amounts

Management of the Group believes that the fair values of financial assets and liabilities shown in the balance sheet approximate their carrying amounts. The basis for determining fair values is disclosed in note 2(e).

(h) Capital management

The management board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. This policy includes compliance with certain externally imposed minimum capital requirements. The management board monitors profitability and leverage ratios and compliance with the minimum capital requirements. The management board uses a return on capital ratio which the Group defines as net profit divided by total net assets attributable to equity participant's equity. There were no changes in the Group's approach to capital management during the year.

(i) Netting agreements

The Group may enter into sales and purchase agreements with the same counterparty in the normal course of business. The related amount receivable and payable do not always meet the criteria for offsetting in the statement of financial position. However there were no such statements of financial position as at 31 December 2012 and 31 December 2013. For netted-off statement of financial position please see table below:

'000 RUB	**Trade and other receivables**	**Trade and other payables**
31 December 2013		
Gross amounts	1,681,090	(511,339)
Amounts offset in accordance with IAS 32 offsetting criteria	(27,731)	27,731
Net amounts presented in the statement of financial position	1,653,359	(483,608)
Net amount	**1,653,359**	**(483,608)**

'000 RUB	**Trade and other receivables**	**Trade and other payables**
31 December 2012		
Gross amounts	1,183,951	(622,661)
Amounts offset in accordance with IAS 32 offsetting criteria	(43,157)	43,157
Net amounts presented in the statement of financial position	1,140,794	(579,504)
Net amount	**1,140,794**	**(579,504)**

23 Operating leases

The Group leases rolling-stock and office premises under lease agreements including non-cancellable. The lease expenditure on rent of rolling-stock charged to the consolidated statement of comprehensive income during the year is disclosed in note 7. The lease expenditure on office rent is included in distribution and administrative expenses. The future aggregate minimum lease payments under non-cancellable operating leases as at 31 December are as follows for each of the following periods:

'000 RUB	**2013**	**2012**
Less than one year	423,022	313,457
Between one and five years	1,097,174	452,813
More than five years	179,526	-
	1,699,722	**766,270**

24 Capital commitment

At 31 December 2013 the Group did not have capital commitment for acquisition of rolling stock (2012: nil).

25 Contingencies

Taxation contingencies in the Russian Federation and Ukraine

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.

Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

New transfer pricing legislation enacted in the Russian Federation starting from 1 January 2012 provides for major modifications making local transfer pricing rules closer to OECD guidelines, but creating additional uncertainty in practical application of tax legislation in certain circumstances.

The new transfer pricing rules introduce an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe new basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level. The new transfer pricing rules eliminated the 20-percent price safe harbour that existed under the previous transfer pricing rules applicable to transactions on or prior to 31 December 2011.

The new transfer pricing rules primarily apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code. In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Since there is no practice of applying the new transfer pricing rules by the tax authorities and courts, it is difficult to predict the effect of the new transfer pricing rules on these consolidated financial statements.

These circumstances may create tax risks in the Russian Federation that are substantially more significant than in other countries. Management believes that it has provided adequately for tax liabilities based on its interpretations of applicable Russian tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

The Group performs most of its operations in Ukraine and therefore within the jurisdiction of the Ukrainian tax authorities. The Ukrainian tax system can be characterized by numerous taxes and frequently changing legislation which may be applied retroactively, open to wide interpretation and in some cases are conflicting. Instances of inconsistent opinions between local, regional, and national tax authorities and between the Ministry of Finance and other state authorities are not unusual. Tax declarations are subject to review and investigation by a number of authorities that are enacted by law to impose severe fines, penalties and interest charges. A tax year remains open for review by the tax authorities during the three subsequent calendar years, however under certain circumstances a tax year may remain open longer.

These facts create tax risks substantially more significant than typically found in countries with more developed systems. Management believes that it has adequately provided for tax liabilities based on its interpretation of tax legislation, official pronouncements and court decisions. However, the interpretations of the relevant authorities could differ and the effect on these consolidated financial statements, if the authorities were successful in enforcing their interpretations, could be significant.

26 Related party transactions

(a) Transactions with the parent company

’000 RUB	2013	2012
Amounts due from/(to) at the end of year	20	(13,672)
Loans payable by the Group as at 1 January	896,643	-
Loans received during the year	-	1,578,977
Repayment during the year	-	(682,334)
Loans payable by the Group as at 31 December	896,643	896,643
Interest payable by the Group as at 1 January	105,956	-
Interest charged to the statement at comprehensive income	98,630	106,046
Interest paid on the loans		(90)
Interest payable by the Group as at 31 December	204,586	105,956
Rendering of services by the Group	4,434	1,468
Services provided to the Group	(2,024)	(1,655)
Management fee	(63,078)	-
Revenue from sale by Group of other assets	-	1,138
Gain from disposal of subsidiaries	-	154,916

(b) Transactions with jointly controlled entities of the parent company

’000 RUB	2013	2012
Amounts due from at the end of year	613	68
Present value of minimum lease payments receivable as at 1 January	206,128	278,084
Interest income on finance lease	24,110	32,417
Interest income on finance lease paid	(92,437)	(89,731)
Foreign exchange difference	14,358	(14,642)
Present value of minimum lease payments receivable as at 31 December	152,159	206,128
Loan issued by the Group as at 1 January	-	46,081
Loans issued during the year	-	-
Repaid during the year	-	(46,081)
Loan issued by the Group as at 31 December	-	-
Interest receivable by the Group as at 1 January	-	11,867
Interest accrued in the statement of comprehensive income	-	1,509
Interest repaid on the loans	-	(13,376)
Interest receivable by the Group as at 31 December	-	-
Rendering of services by the Group	63,784	54,508
Services provided to the Group	(546)	(185)

(c) Transactions with subsidiaries of the parent company

’000 RUB	**2013**	**2012**
Amounts due from at the end of year	68,930	19,844
Present value of minimum lease payments receivable as at 1 January	53,609	84,325
Interest income on finance lease	4,771	8,530
Interest income on finance lease paid	(34,570)	(39,246)
Present value of minimum lease payments receivable as at 31 December	23,810	53,609
Present value of minimum lease payments payable as at 1 January	1,355,478	-
Interest expense on finance lease	135,272	1,989,045
Interest repaid on finance lease	(67,322)	(520,737)
Foreign exchange differences	106,996	(112,830)
Present value of minimum lease payments payable as at 31 December	1,530,424	1,355,478
Loans issued by the Group as at 1 January	-	56,500
Loans issued during the year	-	12,000
Repaid during the year	-	(68,500)
Foreign exchange differences	-	-
Loans issued by the Group as at 31 December	-	-
Interest receivable by the Group as at 1 January		22,467
Interest accrued in the statement of comprehensive income	-	1,862
Interest repaid on the loans	-	(24,329)
Foreign exchange differences	-	-
Interest receivable by the Group as at 31 December	-	-
Loans payable by the Group as at 1 January	447,000	289,765
Loans received during the year	5,720,000	1,504,162
Repayment during the year	(490,000)	(1,306,026)
Foreign exchange differences	-	(40,901)
Loans payable by the Group as at 31 December	5,677,000	447,000
Interest payable by the Group as at 1 January	-	-
Interest charged to the statement of comprehensive income	306,495	-
Interest paid on the loans	-	-
Foreign exchange differences	-	-
Interest payable by the Group as at 31 December	306,495	-
Rendering of services by the Group	640,004	463,813
Services provided to the Group	(9,287)	(13,426)
Remuneration for the guarantee Group	49,232	-
Management fee	(603)	(20,000)

(d) Management remuneration

During the year key management personnel received RUB 75,207 thousand (2012: RUB 149,448 thousand) in remuneration.

27 Significant subsidiaries

The principal subsidiaries consolidated within the Group and the degree of control exercised by the Company are as follows:

Entity	Country of Incorporation	Activity	Ownership at 31 December 2013	Ownership at 31 December 2012
DP Transgarant-Ukraine	Ukraine	Transportation services	100%	100%
Transgarant Vostok LLC	Russia	Transportation services	100%	100%
SIA TEKTRANS	Latvia	Transportation services	100%	100%
MetizTrans LLC	Russia	Transportation services	100%	100%
Investconsulting LLC	Russia	Transportation services	100%	100%
TEK MetizTrans LLC	Russia	Transportation services	100%	100%
FESCO Rail LLC	Russia	Transportation services	100%	100%

28 Events subsequent to the reporting date

In February 2014 the Group received loan from UniCredit Bank in the amount of RUB 600 million, on a security of rolling stocks and FESCO Rail LLC and DVMP OJSC guarantee. The carrying amount of pledged rolling stock as at 31 December 2013 was RUB 298 million

In February 2014 the Firm Transgarant LLC has paid out the loans to related parties (OJSC FESCO's subsidiaries), in total amount RUB 489 million.

In March 2014 the Firm Transgarant LLC , Fesco Rail LLC, TEK MetizTrans LLC guaranteed the credit of VMPT JSC from VTB Bank JSC in total amount 4 billion RUB