PUBLIC JOINT STOCK COMPANY TRANSCONTAINER

Consolidated Financial Statements

For the Year Ended 31 December 2015

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 2015

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 2015 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 2015 were approved on 25 March 2016 by:

P. V. Baskakov	**K. S. Kalmykov**
General Director	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 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2015, 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.

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Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

AO PricewaterhouseCoopers Audit

28 March 2016

Moscow, Russian Federation

A.A. Okishev, Director (licence no. 01-000170),
AO 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: AO 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	2015	2014
ASSETS			
Non-current assets			
Property, plant and equipment	7	37,636	37,718
Advances for acquisition of non-current assets	7	431	206
Investment property		105	86
Intangible assets		246	210
Investments in associates and joint ventures	8	3,023	3,343
Trade and other receivables	9	212	353
Other non-current assets		86	96
Total non-current assets		**41,739**	**42,012**
Current assets			
Inventory		315	340
Trade and other receivables	9	1,392	1,542
Prepayments and other current assets	10	3,527	2,958
Prepaid income tax		84	113
Short-term investments		7	8
Cash and cash equivalents	11	2,110	1,904
		7,435	**6,865**
Non-current assets held for sale		-	100
Total current assets		**7,435**	**6,965**
TOTAL ASSETS		**49,174**	**48,977**
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	12	13,895	13,895
Treasury shares	12	(494)	(493)
Reserve fund	12	697	697
Translation reserve		210	1,081
Equity-settled employee benefits reserve	16	240	240
Other reserves, including investment property's revaluation reserve	12	(2,140)	(2,156)
Retained earnings		23,779	21,981
Total equity		**36,187**	**35,245**
Non-current liabilities			
Long-term debt	13	3,744	5,458
Finance lease obligations, net of current maturities	14	126	340
Employee benefit liability	15	904	939
Deferred tax liability	24	1,466	1,414
Total non-current liabilities		**6,240**	**8,151**
Current liabilities			
Trade and other payables	17	3,405	3,084
Current portion of long-term debt	13	1,893	919
Income tax payable		99	189
Taxes other than income tax payable	18	634	401
Provisions for liabilities		12	16
Finance lease obligations, current maturities	14	18	60
Accruals and other current liabilities	19	686	912
Total current liabilities		**6,747**	**5,581**
TOTAL EQUITY AND LIABILITIES		**49,174**	**48,977**

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

25 March 2016

(Amounts in millions of Russian Roubles, unless otherwise stated below)

	Notes	2015	2014
Revenue	20	42,505	36,565
Other operating income	21	811	715
Operating expenses	22	(40,042)	(33,197)
Foreign exchange gain, net		-	938
Gain from early termination of finance lease	14	24	18
Interest expense	23	(508)	(648)
Interest income		152	151
Share of result of associates and joint ventures	8	612	165
Revaluation of investment property		(6)	-
Profit before income tax		**3,548**	**4,707**
Income tax expense	24	(717)	(1,049)
Profit for the year attributable to the owners of the parent		**2,831**	**3,658**
Other comprehensive (loss)/income (net of income tax)			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit plans liabilities	15	(59)	135
Remeasurements of investment property		16	9
Items that may be reclassified subsequently to profit or loss:			
Share of translation of financial information of associates and joint ventures to presentation currency	8	(932)	970
Exchange differences on translating of other foreign operations		61	101
Other comprehensive (loss)/income for the year		**(914)**	**1,215**
Total comprehensive income for the year attributable to the owners of the parent		**1,917**	**4,873**
Earnings per share, basic and diluted (in Russian Roubles)		**207**	**267**
Weighted average number of shares outstanding	12	**13,693,737**	**13,696,127**

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

25 March 2016

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

	Notes	2015	2014
Cash flows from operating activities:			
Profit before income tax		**3 548**	**4,707**
Adjustments for:			
Depreciation and amortisation	22	2,470	2,462
Change in provision for impairment of receivables		(72)	22
Gain on disposal of property, plant and equipment	21	(376)	(347)
(Reversal)/loss on impairment of property, plant and equipment	7	(51)	89
Share of result of associates and joint ventures	8	(612)	(165)
Interest expense, net		356	497
Equity-settled employee benefits reserve	16	-	19
Foreign exchange gain,net		-	(938)
Gain from early termination of finance lease	14	(24)	(18)
Other expenses		10	-
Operating profit before working capital changes, paid income tax and interest and changes in other assets and liabilities		**5,249**	**6,328**
Working capital changes:			
Decrease in inventory		556	496
Decrease in trade and other receivables		112	515
(Increase)/decrease in prepayments and other assets		(519)	439
Increase/(decrease) in trade and other payables		133	(236)
Increase in taxes other than income tax		233	26
(Decrease)/increase in accrued expenses and other current liabilities		(229)	77
Decrease in employee benefit liabilities	15	(98)	(28)
Net cash from operating activities before income tax and interest		**5,437**	**7,617**
Interest paid		(509)	(655)
Income tax paid		(727)	(964)
Net cash provided by operating activities		**4,201**	**5,998**
Cash flows from investing activities:			
Purchases of property, plant and equipment		(2,434)	(4,212)
Proceeds from disposal of property, plant and equipment		34	76
Sale of long-term investments		90	25
Sale of short-term investments		123	751
Purchases of short-term investments		(122)	(758)
Purchases of intangible assets		(103)	(93)
Dividends received from joint ventures		-	199
Interest received		115	98
Net cash used in investing activities		**(2,297)**	**(3,914)**
Cash flows from financing activities:			
Repayments of finance lease obligations		(232)	(133)
Dividends	12	(974)	(1,117)
Principal payments on long-term borrowings		-	(2)
Principal payments on long-term bonds	13	(750)	(1,500)
Net cash used in financing activities		**(1,956)**	**(2,752)**
Net decrease in cash and cash equivalents		**(52)**	**(668)**
Cash and cash equivalents at beginning of the year		**1,904**	**1,883**
Foreign exchange effect on cash and cash equivalents		258	689
Net cash and cash equivalents at end of the year		**2,110**	**1,904**

P. V. Baskakov

General Director

25 March 2016

K. S. Kalmykov

Chief Accountant

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
Balance at 1 January 2014		**13,895**	**(484)**	**697**	**10**	**221**	**(2,165)**	**19,305**	**31,479**
Profit for the year		-	-	-	-	-	-	3,658	3,658
Other comprehensive income for the year		-	-	-	1,071	-	9	135	1,215
Total comprehensive income for the year		**-**	**-**	**-**	**1,071**	**-**	**9**	**3,793**	**4,873**
Equity-settled employee benefits reserve	16	-	-	-	-	19	-	-	19
Acquisition of treasury shares	12	-	(9)	-	-	-	-	-	(9)
Dividends	12	-	-	-	-	-	-	(1,117)	(1,117)
Balance at 31 December 2014		**13,895**	**(493)**	**697**	**1,081**	**240**	**(2,156)**	**21,981**	**35,245**
Profit for the year		-	-	-	-	-	-	2,831	2,831
Other comprehensive (loss)/ income for the year		-	-	-	(871)	-	16	(59)	(914)
Total comprehensive (loss)/income for the year		**-**	**-**	**-**	**(871)**	**-**	**16**	**2,772**	**1,917**
Acquisition of treasury shares	12	-	(1)	-	-	-	-	-	(1)
Dividends	12	-	-	-	-	-	-	(974)	(974)
Balance at 31 December 2015		**13,895**	**(494)**	**697**	**210**	**240**	**(2,140)**	**23,779**	**36,187**

P. V. Baskakov
General Director
25 March 2016

K. S. Kalmykov
Chief Accountant

(Amounts in millions of Russian Roubles, unless otherwise stated below)

1. NATURE OF THE BUSINESS

PJSC TransContainer (the "Company" or "TransContainer") was incorporated in Moscow, Russian Federation on 4 March 2006.

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

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

The Company's principal activities include arrangement of rail-based container shipping and other logistics services including terminal services, freight forwarding and intermodal delivery using rolling stock and containers. The Company owns and operates 46 container terminals along the Russian railway network. As at 31 December 2015, the Company operated 15 branches in Russia. The Company's registered address is 19 Oruzheiniy pereulok, Moscow, 125047, Russian Federation.

The Company has ownership in the following major entities:

Name of Entity	Type	Country	Activity	Interest held, % 2015	Interest held, % 2014	Voting rights, % 2015	Voting rights, % 2014
JSC TransContainer-Slovakia	Subsidiary	Slovakia	Container shipments	100	100	100	100
TransContainer Europe GmbH	Subsidiary	Austria	Container shipments	100	100	100	100
TransContainer Asia Pacific Ltd.	Subsidiary	Korea	Container shipments	100	100	100	100
Oy ContainerTrans Scandinavia Ltd.	Joint venture	Finland	Container shipments	50	50	50	50
Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd.	Joint venture	China	Container shipments	49	49	50	50
JSC Kedentransservice (Note 8)	Joint venture	Kazakhstan	Container shipments	50	50	50	50
Trans-Eurasia Logistics GmbH	Associate	Germany	Container shipments	20	20	20	20
LLC TransContainer Finance (Note 16)	Subsidiary	Russia	Share option programme operator	100	100	100	100
Logistic Investment S.a.r.l.	Subsidiary	Luxemburg	Investment activity	100	100	100	100
Helme's Operation UK Limited	Joint venture	Great Britain	Investment activity	50	50	50	50
Logistic System Management B.V. (Note 8)	Joint venture	Netherlands	Investment activity	50	50	50	50

The consolidated financial statements of PJSC TransContainer and its subsidiaries (the "Group") as at 31 December 2015 and for the year then ended were authorised for issue by the General Director of the Company on 25 March 2016.

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. 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 and revaluation of investment properties.

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 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 stated 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 entities of the Group.

Consolidated financial statements. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared as at 31 December of 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 acquisition 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. Non-controlling interests that are not present ownership interests are measured as fair value. 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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 subsequent 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 reclassified 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

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 measured 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 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 if fluctuation of exchange rates during the period is insignificant. Otherwise exchange rates at the dates of the transactions are used for translation to the presentation currency.

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 acqusition or construction cost, less accumulated depreciation and provision for impairment. 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 included in the carrying amount when the cost is incurred, only if it is probable that the future economic benefits associated 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.

At the end of each reporting period Management assesses whether there is any indication of impairment of property, plant and equipment. If any such indication exists, Management estimates the recoverable amount, which is determined as the higher of an asset's fair value less costs of disposal and its value in use. The carrying amount is reduced to the recoverable amount and the impairment loss is recognised in profit or loss for the year.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

An impairment loss recognised for an asset in prior years is reversed where appropriate if there has been a change in the estimates used to determine the asset's value in use or fair value less costs of disposal.

Depreciation

Owned land plots and construction in progress are not depreciated. Depreciation on other items of property, plant and equipment is charged to the consolidated profit or loss so as to write off the cost of assets 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.

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

	Number of years
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 are reviewed, and adjusted as appropriate, at the end of each reporting period.

Leased assets

Capitalised leased assets held under finance lease 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 recognised in other comprehensive income.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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

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 vary from 2 to 5 years when determined.

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.

If impaired, the carrying amount of intangible assets is written down to the higher of value in use and fair value less costs of disposal.

Impairment of non-financial assets. Intangible assets that have an indefinite useful life or intangible assets not ready for use are not subject to amortisation and are tested annually for impairment.

Assets that are subject to depreciation and amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are largely independent cash inflows (cash-generating units). Prior impairments of non-financial assets (other than goodwill) are reviewed for possible reversal at each reporting date.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 of disposal. 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 of disposal.

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.

If the Group has classified an asset or disposal group as held for sale but the recognition criteria are no longer met, the Group shall cease to classify the asset or disposal group as held for sale.

The Group shall measure a non-current asset that ceases to be classified as held for sale or ceases to be included in a disposal group classified as held for sale at the lower of:

(a) its carrying amount before the asset or disposal group was classified as held for sale, adjusted for any depreciation, amortisation or revaluations that would have been recognised had the asset (or disposal group) not been classified as held for sale, and

(b) its recoverable amount at the date of the subsequent decision not to sell.

The Group shall include any required adjustment to the carrying amount of a non-current asset that ceases to be classified as held for sale in profit or loss from continuing operations in the period in which the criteria are no longer met.

Financial instruments

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 the price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Fair value of financial instruments traded in an active market is measured as the product of the quoted price for the individual asset or liability and the number of instruments held by the entity. This is the case even if a market's normal daily trading volume is not sufficient to absorb the quantity held and placing orders to sell the position in a single transaction might affect the quoted price.

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:

(a) level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities,

(b) 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), and

(c) level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial instrument. An incremental cost is one that would not have been incurred if the transaction had not taken place. Transaction costs include fees and commissions paid to agents (including employees acting as selling agents), advisors, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs.

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 the 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 the related items in the consolidated statement of financial position.

The 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 assets

Financial assets have the following categories:

(a) loans and receivables;

(b) available-for-sale financial assets;

(c) financial assets held to maturity, and

(d) financial assets at fair value through profit or loss.

Financial assets at fair value through profit or loss have two sub-categories:

(a) assets designated as such upon initial recognition, and

(b) those classified as held for trading.

The Group has the following financial assets.

Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables 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.

Held-to-maturity assets include quoted non-derivative financial assets with fixed or determinable payments and fixed maturities that the Group has both the intention and ability to hold to maturity. Management determines the classification of interest-bearing deposits with more than three months of original maturity and not redeemable on demand as held to maturity investment at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period. Held-to-maturity assets are carried at amortised cost, using the effective interest method less impairment provision.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Initial recognition of financial instruments

Financial instruments of the Group are initially recorded at fair value plus transaction costs. 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 and liabilities

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 whilst (i) also transferring substantially all the risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all the risks and rewards of ownership but not retaining control.

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

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit and loss for the year.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the 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:

(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) in the event of default, and

  (c) in the event of insolvency or bankruptcy.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Impairment of financial assets carried at amortised cost. Impairment losses are recognised in profit or loss when incurred as a result of one or more events (“loss 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:

(a) any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;

(b) the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;

(c) the counterparty considers bankruptcy or a financial reorganisation;

(d) 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

(e) 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. The renegotiated asset is then derecognised and a new asset is recognised at its fair value only if the risks and rewards of the asset substantially changed. This is normally evidenced by a substantial difference between the present values of the original cash flows and the new expected cash flows.

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. The calculation of the present value of the estimated future cash flows of a collateralised financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

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 the impairment loss account within the profit or loss for the year.

Trade and other receivables. Trade and other receivables are recognised initially at fair value and are subsequently carried at amortised cost using the effective interest method.

Borrowings. Borrowings are recognised initially at fair value, net of transaction costs incurred and are subsequently carried at amortised cost using the effective interest method.

Prepayments. Prepayments are carried at cost less provision for impairment. A prepayment is classified as non-current when the goods or services relating to the prepayment are expected to be obtained after one year, or when the prepayment relates to an asset which will itself be classified as non-current upon initial recognition. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Other prepayments are written off to profit or loss when the goods or services relating to the prepayments are received. If there is an indication that the assets, goods or

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Trade and other payables. Trade payables are accrued when the counterparty performs its obligations under the contract and are recognised initially at fair value and subsequently carried at amortised cost using the effective interest method.

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

Inventories. Inventories are recorded 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 determined on the weighted average basis and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

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

Defined benefit plans

The Group operates defined benefit pension plan. The obligation and cost of benefits under the plan are determined 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 liabilityare 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 in profit or loss.

Defined contribution plans

In addition to the defined benefit plans described above, the Group also sponsors a defined contribution plan for selected 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. 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 in which services are provided. Contributions for each employee to the State Pension Fund of the Russian Federation vary from 10% to 22%, depending on the annual gross remuneration of employee.

Value added tax. Output value added tax (“VAT”) related to revenues is payable to tax authorities on the earlier of (a) delivery of the goods or services to customers, (b) 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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Revenue recognition. Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for services provided, net of discounts, returns and value added tax.

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. Income 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 infrastrucutre services.

Revenues from these services are recognised in the accounting period in which the services are rendered, net of reinvoiced 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 intial 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.

Cargo transportation and handling services with involvement of third parties

Cargo transportation and handling services with involvement of third parties are container shipping services, handling on container terminals, truck deliveries, freight forwarding and logistic services, and services for trans-shipment and storage of cargo in the sea (river) ports, with involvement of third parties and possessing certain characteristics of agency services.

Management believes that the Group acts as a principal providing these services as the Group's customers do not interact with third-parties having a contractual relationships with the Group and the Group bears the credit risk, controls the flow of receipts and payments and is independent in its own pricing policy.

Revenues from cargo transportation and handling services with involvement of third parties are recognised in the accounting period in which the services are rendered.

Terminal services and agency fees

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 accuracy 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 lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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. Borrowing costs include:

(a) interest expense calculated by the effective interest method;

(b) finance charges in respect of finance leases;

(c) exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

General and specific borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial time to get ready for intended use or sale (qualifying assets) are capitalised as part of the costs of those assets, if the commencement date for capitalisation is on or after 1 January 2009.

The commencement date for capitalisation is when

(a) the Group incurs expenditures for the qualifying asset;

(b) it incurs borrowing costs; and

(c) it undertakes activities that are necessary to prepare the asset for its intended use or sale.

Capitalisation of borrowing costs continues up to the date when the assets are substantially ready for their use or sale.

The Group capitalises borrowing costs that could have been avoided if it had not made capital expenditure on qualifying assets. Borrowing costs capitalised are calculated at the Group's average funding cost (the weighted average interest cost is applied to the expenditures on the qualifying assets), except to the extent that funds are borrowed specifically for the purpose of obtaining a qualifying asset. Where this occurs, actual borrowing costs incurred on the specific borrowings less any investment income on the temporary investment of these borrowings are capitalised.

Income taxes. 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/(credit) comprises current tax and deferred tax and is recognised in consolidated profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 in the consolidated financial statements. 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, and subsequently for goodwill which is not deductible for tax purposes. 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.

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. Incremental 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 in equity.

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 determined by dividing the profit or loss attributable to the owners of the Company by the weighted average number of ordinary shares outstanding during the reporting 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 in the period in which they are declared and approved. Dividends are disclosed when they are declared after reporting date but before the consolidated financial statements are authorised for issue.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to the passage of time is recognised as an interest expense.

Levies and charges, such as taxes other than income tax or regulatory fees based on information related to a period before the obligation to pay arises, are recognised as liabilities when the obligating event that gives rise to pay a levy occurs, as identified by the legislation that triggers the obligation to pay the levy. If a levy is paid before the obligating event, it is recognised as a prepayment.

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

The following amended standards became effective for the Group from 1 January 2015, but did not have any material impact on the Group:

- Amendments to IAS 19 – "Defined benefit plans: Employee contributions" (issued in November 2013 and effective for annual periods beginning 1 July 2014).
- Annual Improvements to IFRSs 2012 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless stated otherwise).
- Annual Improvements to IFRSs 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless stated otherwise).

New standards and improvements those are mandatory for annual periods beginning on or after 1 January 2016 or later periods that are applicable for the Group's activity and approved for adoption in the Russian Federation (unless stated otherwise) and which the Group has not early adopted, are as follows:

IFRS 9, Financial Instruments: Classification and Measurement *(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 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.

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

- 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.

- 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.

IFRS 15, Revenue from Contracts with Customers *(issued on 28 May 2014 and effective for the periods beginning on or after 1 January 2018).* 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.

IFRS 16, Leases *(issued on 13 January 2016 and effective for annual periods beginning on or after 1 January 2019)*. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases. All leases result in the lessee obtaining the right to use an asset at the start of the lease and, if lease payments are made over time, also obtaining financing. Accordingly, IFRS 16 eliminates the classification of leases as either operating leases or finance leases as is required by IAS 17 and, instead, introduces a single lessee accounting model. Lessees will be required to recognise: (a) assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value; and (b) depreciation of lease assets separately from interest on lease liabilities in the income statement. IFRS 16 substantially carries forward the lessor accounting requirements in IAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently. The Group is currently assessing the impact of the amendments on its financial statements. The new standard has not been endorsed for application in the Russian Federation.

Recognition of Deferred Tax Assets for Unrealised Losses - Amendments to IAS 12 *(issued in January 2016 and effective for annual periods beginning on or after 1 January 2017).* The amendment has clarified the requirements on recognition of deferred tax assets for unrealised losses on debt instruments. The entity will have to recognise deferred tax asset for unrealised losses that arise as a result of discounting cash flows of debt instruments at market interest rates, even if it expects to hold the instrument to maturity and no tax will be payable upon collecting the principal amount. The economic benefit embodied in the deferred tax asset arises from the ability of the holder of the debt instrument to achieve future gains (unwinding of the effects of discounting) without paying taxes on those gains. The Group is currently assessing the impact of the amendments on its financial statements. The amendments have not been endorsed for application in the Russian Federation.

Disclosure Initiative - Amendments to IAS 7 *(issued on 29 January 2016 and effective for annual periods beginning on or after 1 January 2017)*. The amended IAS 7 will require disclosure of a reconciliation of movements in liabilities arising from financing activities. The Group is currently assessing the impact of the amendment on its financial statements. The amendments have not been endorsed for application in the Russian Federation.

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

The following other new pronouncements are not expected to have any material impact on the Group when adopted:

- 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).
- 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).
- 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). The amendments have not been endorsed for application in the Russian Federation.
- Annual Improvements to IFRSs 2014 (issued on 25 September 2014 and effective for annual periods beginning on or after 1 January 2016).
- Disclosure Initiative - Amendments to IAS 1 (issued in December 2014 and effective for annual periods on or after 1 January 2016).

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

The key assumptions concerning the future and current year as well, and other key sources of estimation uncertainty at the reporting date, that have the most significant effect on the amounts recognised in the consolidated financial statements and can cause 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 2015 and 31 December 2014, the provision for impairment of receivables was recognised in the amount of RUR 275m and RUR 336m, respectively (Notes 7, 9 and 10).

Depreciable lives of property, plant and equipment. The estimation of the useful lives of items of property, plant and equipment is a matter of judgment based on the experience with similar assets. The future economic benefits embodied in the assets are consumed principally through use. However, other factors, such as technical or commercial obsolescence and wear and tear, often result in the diminution of the economic benefits embodied in the assets. 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 2014 the Group reassessed the remaining useful lives of items of property, plant and equipment (Note 7), the ranges of terms for each group of items of property, plant and equipment have not changed.

Were the estimated useful lives to differ by 10% from Management’s estimates, the impact on depreciation for the year ended 31 December 2015 would be to increase it by RUR 256m or decrease it by RUR 208m.

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

5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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 of disposal, 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.

Current year review of impairment of property, plant and equipment

As at 31 December 2015 in connection with the recent economic downturn the Group has carried out a review of recoverable amount of its non-current assets.

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 2016 to 2020;
- The discount rate used in the calculations for the period from 2016 to 2020 was equal to 16.3%, 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 1.34%. Similarly, the result is not sensitive to decrease in estimated future cash flows within 1.79%.

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 projected unit credit 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 15).

Initial recognition of related party transactions. In the normal course of business the Group enters into transactions with its related parties. IAS 39, Financial Instruments: Recognition and Measurement, 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 25.

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 and may influence carrying amounts of assets and liabilities within the next financial year:

Accounting for leases. A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form of a lease, all aspects and implications of an arrangements are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for longer than 75% of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset, the lease is classified by the Group as a finance lease, unless it is clearly demonstrated otherwise (Note 14).

Revenue from integrated freight forwarding and logistics services and from cargo transportation and handling services with involvement of third parties. There are following 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.

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 reinvoiced 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.

3) In 2015 the Group started to provide services (including third-party services) that have certain characteristics of agency services presented as revenue item "Cargo transportation and handling services with involvement of third parties" and correspondingly presented within expenses as "Third-party charges related to principal activities". Management believes that the Group acts as a principal providing these services as the Group's customers do not interact with third-parties having a contractual relationships with the Group and the Group bears the credit risk, controls the flow of receipts and payments and is independent in its own pricing policy.

Had the railway tariff and third-party services directly attributable to integrated freight forwarding and logistics services and other services that have certain characteristics of agency services have been excluded from both revenue and expenses, then revenue from integrated freight forwarding and logistics services, and management of cargo transportation and handling with involvement of third parties and third-party charges related to principal activities would have decreased by RUR 22,194m for the year ended 31 December 2015 (including RUR 19,090m for integrated freight forwarding and logistics services, and RUR 3,104m for management of cargo transportation and handling with involvement of third parties). For the year ended 31 December 2014 this effect would be RUR 16,027m attributable to integrated freight forwarding and logistics services.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

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

	Land, buildings and constructions	Containers and flatcars	Cranes and loaders	Vehicles and other equipment	Construction in progress	Total
Cost						
1 January 2014	**10,711**	**33,625**	**1,652**	**2,542**	**792**	**49,322**
Additions	2	3,069	387	175	580	**4,213**
Transfers	536	430	10	11	(987)	**-**
Capitalised borrowing costs	-	-	-	-	20	**20**
Reclassification to non-current assets held for sale	(66)	-	(12)	(76)	-	**(154)**
Disposals	(19)	(716)	(12)	(124)	(72)	**(943)**
31 December 2014	**11,164**	**36,408**	**2,025**	**2,528**	**333**	**52,458**
Additions	72	608	64	416	1 178	**2,338**
Transfers	230	13	22	46	(311)	**-**
Capitalised borrowing costs	7	-	-	-	11	**18**
Reclassification from non-current assets held for sale	66		12	76	-	**154**
Disposals	(57)	(823)	(4)	(173)	(4)	**(1,061)**
31 December 2015	**11,482**	**36,206**	**2,119**	**2,893**	**1,207**	**53,907**
Accumulated depreciation						
1 January 2014	**(1,731)**	**(8,796)**	**(892)**	**(1,577)**	**-**	**(12,996)**
Depreciation charge for the year	(248)	(1,796)	(80)	(297)	-	**(2,421)**
(Impairment) / reversal of impairment	(86)	3	(8)	2	-	**(89)**
Reclassification to non-current assets held for sale	9	-	6	33	-	**48**
Disposals	13	580	9	116	-	**718**
31 December 2014	**(2,043)**	**(10,009)**	**(965)**	**(1,723)**	**-**	**(14,740)**
Depreciation charge for the year	(271)	(1,775)	(108)	(263)	-	**(2 417)**
(Impairment) / reversal of impairment	-	60	(4)	(5)	-	**51**
Reclassification from non-current assets held for sale	(9)	-	(6)	(34)	-	**(49)**
Disposals	47	665	3	169	-	**884**
31 December 2015	**(2,276)**	**(11,059)**	**(1,080)**	**(1,856)**	**-**	**(16,271)**
Net book value						
31 December 2014	**9,121**	**26,399**	**1,060**	**805**	**333**	**37,718**
31 December 2015	**9,206**	**25,147**	**1,039**	**1,037**	**1,207**	**37,636**

Included under land, buildings and constructions are the amounts of RUR 112m and RUR 109m, which represent the value of land plots owned by the Group as at 31 December 2015 and 31 December 2014, respectively.

The vehicles and other equipment group includes motor transport used for terminal services and truck deliveries with gross carrying amount of RUR 791m and RUR 814m as at 31 December 2015 and 31 December 2014, respectively.

As at 31 December 2014 the Group revised the useful lives of individual fixed assets. As a result, the amount of depreciation charges for the year ended 31 December 2015 decreased by RUR 59m 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.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

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

The gross carrying amount of fully depreciated property, plant and equipment that is still in use amounted to RUR 1,513m and RUR 1,588m as at 31 December 2015 and 31 December 2014, respectively.

The carrying amount of temporarily idle property, plant and equipment as at 31 December 2015 and 31 December 2014 comprised the following:

	2015	2014
Cost	243	224
Accumulated deprecation	(106)	(93)
Net book value	**137**	**131**

Construction in-progress as at 31 December 2015 consisted mainly of the capital expenditures incurred for the reconstructions and expansion of container terminals in Krasnoyarsk, Yekaterinburg and Irkutsk amounting to RUR 201m, RUR 194m and RUR 86m, respectively, RUR 86m acquired realty for constraction the new container terminal in Primorsky Krai and crane equipment acquired for the amount of RUR 404m not ready for intended use as at reporting date.

Construction in-progress as at 31 December 2014 consisted of the capital expenditures incurred for the reconstructions and expansion of container terminals in Krasnoyarsk, Yekaterinburg and Irkutsk amounting to RUR 12m, RUR 145m and RUR 88m, respectively.

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 2015 was RUR 18m at a rate of capitalisation of 8.61% and RUR 20m capitalised for the year ended 31 December 2014 at a rate of capitalisation of 8.96%.

Leased assets as at 31 December 2015 and 31 December 2014, for which the Group is a lessee under finance leases primarily related to land, buildings and constructions and comprised the following:

	2015	2014
Cost	160	431
Accumulated depreciation	(7)	(15)
Net book value	**153**	**416**

During the year ended 31 December 2015 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 271m (RUR 144m during the year ended 31 December 2014). The remaining premises are owned by the Group and included in the group land, buildings and constructions. See Note 14 for further details regarding finance leases.

Advances for acquisition of non-current assets

As at 31 December 2015 and 31 December 2014, 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 114m and RUR 155m, respectively), advances for the acquisition of containers (RUR 259m and RUR 41m, respectively), advances for the purchase of rolling stock (RUR 37m and RUR 0m, respectively) and advances for the acquisition of other non-current assets (RUR 21m and RUR 10m, respectively).

As at 31 December 2015 no provision was recognised for impairment of advances for acquisition of non-current assets (RUR 43m as at 31 December 2014).

(Amounts in millions of Russian Roubles, unless otherwise stated below)

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

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

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.	Other joint ventures	Associates	Total associates and joint ventures
Carrying amount as at 1 January 2014	**2,270**	**50**	**10**	**2,330**
Share of profit of associates and joint ventures	163	1	1	**165**
Fair value of net assets of associates and joint ventures acquired	(120)	(2)	-	**(122)**
Effect of translation to presentation currency	933	31	6	**970**
Carrying amount as at 31 December 2014	**3,246**	**80**	**17**	**3,343**
Share of profit of associates and joint ventures	617	5	(10)	**612**
Effect of translation to presentation currency	(953)	20	1	**(932)**
Carrying amount as at 31 December 2015	**2,910**	**105**	**8**	**3,023**

Summarised financial information of associates and joint ventures is as follows as at 31 December 2015 and 31 December 2014:

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.		Other joint ventures		Associates		Total associates and joint ventures	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Current assets	2,785	1,526	300	243	690	567	**3,775**	**2,336**
Non-current assets	4,219	6,171	16	9	30	7	**4,265**	**6,187**
Current liabilities	1,246	1,203	105	92	682	488	**2,033**	**1,783**
Non-current liabilities	555	887	-	-	-	1	**555**	**888**
Net assets	5,203	5,607	211	160	38	85	**5,452**	**5,852**
Revenue	11,609	9,282	279	137	2,446	996	**14,334**	**10,415**
Profit/(loss)	1,235	326	9	2	(51)	3	**1,193**	**331**

Net assets of Logistic System Management B.V. is RUR 416m as at 31 December 2015 (RUR 3m as at 31 December 2014) and mainly comprised of cash and cash equivalents.

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.

	Joint ventures JSC Kedentransservice and Logistic System Management B.V.		Other joint ventures		Associates		Total associates and joint ventures	
	2015	**2014**	**2015**	**2014**	**2015**	**2014**	**2015**	**2014**
Net assets	5,203	5,607	211	160	38	85	**5,452**	**5,852**
Interest held, %	50%	50%	50%	50%	20%	20%	**-**	**-**
Goodwill	309	443	-	-	-	-	**309**	**443**
Investments in associates and joint ventures	2,910	3,246	105	80	8	17	**3,023**	**3,343**

(Amounts in millions of Russian Roubles, unless otherwise stated below)

8. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

Additional financial information of joint venture JSC Kedentransservice and Logistic System Management B.V. is as follows:

	2015	2014
Cash and cash equivalents	1,283	347
Current financial liabilities (excluding trade and other payables and provisions)	24	50
Non-current financial liabilities (excluding trade and other payables and provisions)	117	220
Depreciation and amortisation	472	343
Interest income	13	3
Interest expense	26	18
Income tax expense	364	102

9. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
31 December 2015			
Trade receivables	1,440	(252)	1,188
Other receivables	209	(5)	204
Total trade and other receivables, classified as financial assets	**1,649**	**(257)**	**1,392**
31 December 2014			
Trade receivables	1,650	(239)	1,411
Other receivables	142	(11)	131
Total trade and other receivables, classified as financial assets	**1,792**	**(250)**	**1,542**

Included in the Group's total trade and other receivables are debtors with a carrying amount of RUR 245m and RUR 322m as at 31 December 2015 and 31 December 2014, 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 (Note 28).

Long-term receivables are represented mainly by accounts receivable of JSC RZD Logistics, which is expected to be fully repaid till April 2018. A discount rate of 8.6% has been used for the receivables' present value determination. As at 31 December 2015 the present value of long-term accounts receivable of JSC RZD Logistics amounted to RUR 212m (RUR 313m as at 31 December 2014). As at 31 December 2015 a part of trade receivables of JSC RZD Logistics in the amount of RUR 138m (RUR 119m as at 31 December 2014), was recognised as a part of short-term trade receivables.

As at 31 December 2015 accounts receivable of JSC RZD Logistics under the contract of purchase of Far East Land Bridge Ltd. shares as a part of short-term accounts receivable accounted for RUR 31m. As at 31 December 2014 accounts receivable of JSC RZD Logistics was recognised as a part of long-term receivables in the amount of RUR 40m.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

9. TRADE AND OTHER RECEIVABLES (CONTINUED)

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

	31 December 2015		**31 December 2014**	
	Trade receivables	**Other receivables**	**Trade receivables**	**Other receivables**
Neither past due nor impaired	1,016	131	1,137	83
Total neither past due nor impaired	**1,016**	**131**	**1,137**	**83**
Past due but not impaired				
- less than 90 days	161	47	240	12
- 90-180 days	3	8	11	18
- more than 180 days	8	18	23	18
Total past due but not impaired	**172**	**73**	**274**	**48**
Individually impaired				
- less than 90 days	27	-	65	-
- 90-180 days	34	2	22	-
- more than 180 days	191	3	152	11
Total individually impaired	**252**	**5**	**239**	**11**
Less impairment provision	**(252)**	**(5)**	**(239)**	**(11)**
Total	**1,188**	**204**	**1,411**	**131**

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

	2015	**2014**
Balance at beginning of the year	**(250)**	**(171)**
Additional provision, recognised in the current year	(11)	(25)
Release of provision	16	6
Utilisation of provision	14	19
Foreign currency translation	(26)	(79)
Balance at end of the year	**(257)**	**(250)**

10. PREPAYMENTS AND OTHER CURRENT ASSETS

	2015	**2014**
VAT receivable	1,731	1,428
Advances to suppliers (net of provision)	1,719	1,383
Other current assets	77	147
Total prepayments and other current assets	**3,527**	**2,958**

As at 31 December 2015 and 31 December 2014 provision for impairment of advances to suppliers was recognised in the amount of RUR 18m and RUR 43m, respectively.

11. CASH AND CASH EQUIVALENTS

	2015	**2014**
Cash and Russian Rouble denominated current accounts with banks	984	392
Foreign currency denominated current accounts with banks	916	1,512
Russian Rouble denominated bank deposits	210	-
Total cash	**2,110**	**1,904**

(Amounts in millions of Russian Roubles, unless otherwise stated below)

11. CASH AND CASH EQUIVALENTS (CONTINUED)

Two Russian Rouble denominated short-term bank deposits in the amount of RUR 207m bearing interest at annual rates in a range from 10.50% to 10.75% were placed with AO ALFA-BANK, as at 31 December 2015. The total amount of accrued interest on Russian Rouble denominated short-term bank deposits amounted to RUR 3m. The deposits matured in January 2016 and March 2016.

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor's long-term ratings or equivalents of Moody's or Fitch ratings as follows as at 31 December 2015 and 31 December 2014:

	2015		2014	
	Bank balances payable on demand	Term deposits	Bank balances payable on demand	Term deposits
- A- to A+ rated	89	-	136	-
- BBB to A- rated	230	-	1,763	-
- Lower than BBB rated	1,577	210	1	-
- Unrated	4	-	4	-
Total	**1,900**	**210**	**1,904**	**-**

12. EQUITY

Share Capital

The Company's authorised, issued and paid share capital as at 31 December 2015 and 31 December 2014 comprises:

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

The JSC United Transportation and Logistics Company (JSC UTLC) is the controlling shareholder of the Company, holding 50%+2 of its ordinary shares.

During the year ended 31 December 2015 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 13,693,737 shares (13,696,127 during the year ended 31 December 2014).

Treasury shares

In relation to the Share Option Plan for the Company's Management (Note 16), 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 periods ended 31 December 2015 and 31 December 2014 no options were exercised.

During the year ended 31 December 2015 the Group acquired treasury shares in the amount of RUR 1m (RUR 9m during the year ended 31 December 2014).

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.

As at 31 December 2015 Other Reserves, including investment property's revaluation reserve amounted to RUR 2,140m (RUR 2,156m as at 31 December 2014).

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.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

12. EQUITY (CONTINUED)

Due to the transfer of the part of property, plant and equipment to the investment property during the year ended 31 December 2015 the investment property's revaluation was recognised in other comprehensive income for the amount of RUR 16m (RUR 65m during the perods ended 31 December 2014 and 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. The Company had RUR 18,368m and RUR 17,499m of undistributed and unreserved earnings as at 31 December 2015 and 31 December 2014, respectively.

Dividends of RUR 70.96 per share (RUR 974m in total) were approved at the annual shareholders' meeting on 24 June 2015 relating to the Company's results for the year ended 31 December 2014. In July 2015 the dividends have been fully paid.

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 Company's results for the year ended 31 December 2013. In July 2014 the dividends have been fully paid.

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 2015 and 31 December 2014 the Company's reserve fund was RUR 697m.

13. LONG-TERM DEBT

Long-term debt

	Effective interest rate	2015	2014
Bonds	8.35%	3,744	4,990
Other borrowings	9.5%	-	468
Total		**3,744**	**5,458**

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

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 2015 the carrying value of the bonds amounted to RUR 4,993m (RUR 4,990m as at 31 December 2014). The amount of accrued interest is RUR 176m (RUR 174m as at 31 December 2014) 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 28.

Current portion of long-term debt

	Effective interest rate	2015	2014
Current portion of long-term bond	8.35% - 8.8%	1,425	919
Current portion of long-term borrowings	9.5%	468	-
Total		**1,893**	**919**

(Amounts in millions of Russian Roubles, unless otherwise stated below)

13. LONG-TERM DEBT (CONTINUED)

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 16). The loan matures in five years. As at 31 December 2015 the amount of loan was RUR 468m (RUR 468m as at 31 December 2014) and has been included as current portion of long-term debt in the consolidated statement of financial position.

Five-year RUR bonds, series 2

In accordance with the terms of issue the Company made a full repayment of its obligations under the bonds, series 2 in four equal payments in December 2013, June 2014, December 2014 and June 2015 for the total amount of RUR 3,000m.

14. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	2015	**2014**	**2015**	**2014**
Due within one year	19	64	18	60
Due after one year but not more than five years	158	463	126	340
	177	527	144	400
Less future finance charges	(33)	(127)	-	-
Present value of minimum lease payments	**144**	**400**	**144**	**400**

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 2015, the Group bought back part of the non-residential premises of the building and redeemed its obligation in the amount of RUR 271m in advance (RUR 144m during the year ended 31 December 2014) that resulted in recognition of gain from early termination of finance lease obligations for a total amount of RUR 24m (RUR 18m during the year ended 31 December 2014) 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 130m 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.

15. 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 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 though 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.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

15. 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 2015 and 31 December 2014 consisted of the following:

	2015	2014
Pension Fund of the Russian Federation	609	573
Defined contribution plan Blagosostoyanie	21	19
Total expense for defined contribution plans	**630**	**592**

Defined benefit plans

There were 173 employees as at 31 December 2015 (as at 31 December 2014: 223) eligible for defined benefit pension plan with benefits depended on salary and years of service. In addition, there were 82 and 83 retired employees eligible for the post-retirement benefit program of the Group through Fund Pochet as at 31 December 2015 and 31 December 2014, 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 2015 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 2015 and 31 December 2014, respectively, in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2015	2014	2015	2014	2015	2014
Service cost	15	27	123	115	138	142
Net interest on obligation	63	51	25	14	88	65
Remeasurements of the net defined benefit	-	-	(72)	13	(72)	13
Net expense recognised in the consolidated profit or loss	**78**	**78**	**76**	**142**	**154**	**220**

Net loss recognised in other comprehensive income for post-employment benefits related mainly to remeaseruments of the net defined benefit constitute RUR 59m for the year ended 31 December 2015. Net gain recognised in other comprehensive income as a result of remeasurement of post-employment benefits constitute RUR 135m for the year ended 31 December 2014.

The amounts recognised in the consolidated statement of financial position as at 31 December 2015 and 31 December 2014, respectively, in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2015	2014	2015	2014	2015	2014
Present value of defined benefit obligation	690	670	269	328	959	998
Fair value of plan assets	(55)	(61)	-	-	(55)	(61)
Net employee benefit liability	**635**	**609**	**269**	**328**	**904**	**937**

(Amounts in millions of Russian Roubles, unless otherwise stated below)

15. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

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

	Post-employment benefits	Other long-term benefits	Total
Present value of defined benefit obligation as at 1 January 2014	**837**	**321**	**1,158**
Service cost:	28	115	143
Current service cost	*36*	*121*	*157*
Past service cost	*(9)*	*(6)*	*(15)*
Interest on the defined benefit liability	56	14	70
Actuarial (gain)/losses:	(136)	13	(123)
from changes in financial assumptions	*(196)*	*2*	*(194)*
other	*60*	*11*	*71*
Losses arising on transfer of employees*	1	-	1
Settlement of liability	(116)	(135)	(251)
Present value of defined benefit obligation as at 31 December 2014	**670**	**328**	**998**
Service cost:	15	123	138
Current service cost	*26*	*130*	*156*
Past service cost	*(11)*	*(7)*	*(18)*
Interest on the defined benefit liability	70	25	95
Actuarial (gain)/losses:	58	(72)	(14)
from changes in demographic assumptions	*7*	-	*7*
from changes in financial assumptions	*23*	*(72)*	*(49)*
other	*28*	-	*28*
Losses arising on transfer of employees*	2	-	2
Settlement of liability	(125)	(135)	(260)
Present value of defined benefit obligation as at 31 December 2015	**690**	**269**	**959**

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

	2015	2014
Fair value of plan assets as at 1 January	**(61)**	**(62)**
Income on plan assets:	(4)	(3)
interest on the plan assets	*(7)*	*(5)*
the return on plan assets, excluding amounts included in net interest on the net defined benefit liability	*3*	*2*
Losses arising on transfer of employees*	-	1
Contributions from the employer (funded plans)	(69)	(80)
Settlement of liability (funded plans)	79	83
Fair value of plan assets as at 31 December	**(55)**	**(61)**

* 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.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

15. 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:

	Share in total plan assets	
	2015	**2014**
Corporate bonds and stock of Russian legal entities	58%	53%
Shares in closed investment funds	20%	22%
Bank deposits	11%	16%
Other	11%	9%
	100%	**100%**

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:

	2015	**2014**
Discount rate	9.8%	13.0%
Average rate of employee turnover	Based on the industry average	Based on the industry average
Projected average annual growth of consumer prices	5.3%	6.7%
Life expectancy table	Russia, 2014, with probability corrected to 87% of the initial level	Russia, 2013, with probability corrected to 90% of the initial level

As at 31 December 2015 the Group assumed that wage and salary growth in 2015 will be 2.5% in average and in subsequent periods the growth of salary and benefits will be in line with the growth of consumer prices.

Results of sensitivity analysis of defined benefit obligation at 31 December 2015 and 31 December 2014:

	Change in assumption	**Change in liabilities**	
		2015	**2014**
Discount rate	-1%	45	36
	+1%	(39)	(32)
Rate of employee turnover	-1%	16	14
	+1%	(17)	(14)
Projected average growth of benefits	-1%	(47)	(39)
	+1%	54	44
Average life expectancy after retirement	-1 year	(2)	(1)
	+1 year	2	1

(Amounts in millions of Russian Roubles, unless otherwise stated below)

15. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

Weighted average duration of the defined benefit obligation is 5.3 years (2014: 4.4 years).

The maturity profile of the defined benefit obligation as at 31 December 2015:

	Before year	1 to 2 years	2 to 5 years
Post-employment benefits	91	86	229
Other long-term benefits	121	77	98
	212	**163**	**327**

16. 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 circumstanses, including breach of specific labour agreement provisions, Plan Participants can forfeit their right to purchase shares.

Ordinary shares wiil 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:

	2015	2014
Options outstanding at 1 January	**174,935**	**165,180**
Options granted during the year	-	11,708
Options cancelled during the year	-	(1,953)
Options outstanding at 31 December	**174,935**	**174,935**

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted.

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

(Amounts in millions of Russian Roubles, unless otherwise stated below)

16. EMPLOYEE SHARE OPTION PLAN (CONTINUED)

	Options granted as at 13 May 2014	Options granted as at 20 May 2011
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%
Fair value at measurement date (in Russian Roubles)	**845 - 938**	**1,308 - 1,462**

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

During the year ended 31 December 2015 no expenses were incurred and no options were exercised.

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

	2015	2014
Reserve as at 1 January	**240**	**221**
Expense recognised for the period	-	19
Reserve as at 31 December	**240**	**240**

17. TRADE AND OTHER PAYABLES

	2015	2014
Trade payables	645	662
Amounts payable for the acquisition of property, plant and equipment	157	34
Amounts payable for the intangible assets	-	17
Total financial liabilities within trade and other payable	**802**	**713**
Liabilities to customers (advances)	2,603	2,371
Total trade and other payables	**3,405**	**3,084**

18. TAXES OTHER THAN INCOME TAX PAYABLE

	2015	2014
Social insurance contribution	164	197
Property tax	117	127
VAT	313	42
Personal income tax	30	29
Other taxes	10	6
Total taxes other than income tax payable	**634**	**401**

19. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2015	2014
Settlements with employees	583	812
Other liabilities (financial liabilities)	103	100
Total accrued expenses and other current liabilities	**686**	**912**

Settlements with employees as at 31 December 2015 and 31 December 2014 comprised accrued salaries and bonuses of RUR 399m and RUR 628m, respectively, and accruals for unused vacation of RUR 184m and RUR 184m, respectively.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

20. 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

	2015	2014
Integrated freight forwarding and logistics services	31,608	27,379
Rail-based container shipping services	4,390	5,405
Cargo transportation and handling services with involvement of third parties	3,104	-
Terminal services and agency fees	2,130	2,167
Truck deliveries	848	978
Bonded warehousing services	194	234
Other freight forwarding services	134	283
Other	97	119
Total revenue	**42,505**	**36,565**

Analysis of revenue by location of customers

	2015	2014
Revenue from external customers		
Russia	34,919	28,785
Korea	3,961	3,633
Germany	1,317	1,716
Kazakhstan	550	898
Great Britain	526	35
China	425	396
Latvia	363	493
Finland	150	51
Other	294	558
Total revenue	**42,505**	**36,565**

During the year ended 31 December 2015, UNICO LOGISTICS CO. LTD accounted for RUR 3,649m or 9% of the Group's total revenue (for the year ended 31 December 2014: RUR 3,259m or 9% of the Group's total revenue).

During the year ended 31 December 2015, RZD and its subsidiaries accounted for RUR 3,254m or 8% of the Group's total revenue (for the year ended 31 December 2014: RUR 2,692m or 7% of the Group's total revenue).

21. OTHER OPERATING INCOME

	2015	2014
Gain from disposal of property, plant and equipment	376	347
Gain from the sale of inventory and from the reuse of spare parts	159	212
Refund of VAT on the sale of services by applying the tax rate 0%	56	-
Other operating income	220	156
Total operating income	**811**	**715**

(Amounts in millions of Russian Roubles, unless otherwise stated below)

22. OPERATING EXPENSES

	2015	**2014**
Cost of integrated freight forwarding and logistics services	22,194	16,027
Freight and transportation services	5,858	4,979
Payroll and related charges	4,507	4,609
Depreciation and amortisation	2,470	2,461
Materials, repair and maintenance	2,275	2,419
Rent	638	443
Taxes other than income tax	521	631
Consulting and information services	261	212
Security	211	206
Fuel costs	166	172
License and software	161	107
Charity	89	195
Communication costs	70	68
Change in provision for impairment of property, plant and equipment	-	89
Change in provision for impairment of receivables	-	22
Other expenses	621	557
Total operating expenses	**40,042**	**33,197**

23. INTEREST EXPENSE

	2015	**2014**
Interest expense on RUR bonds	431	555
Interest expense on finance lease obligations	33	48
Interest expense on bank loans and borrowings	44	45
Total interest expense	**508**	**648**

24. INCOME TAX

	2015	**2014**
Current income tax charge	(666)	(1,077)
Deferred income tax (expense)/benefit	(51)	28
Income tax expense	**(717)**	**(1,049)**

The statutory tax rate effective in the Russian Federation was 20% for the years ended 31 December 2015 and 31 December 2014.

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

	2015	**2014**
Profit before income tax	**3,548**	**4,707**
Theoretical tax charge at statutory rate of 20%	(710)	(941)
Tax effect of items which are not deductible or assessable for taxation purposes and other effects:		
Benefits in-kind and other non-deductible payments to employees	(22)	(19)
Non-deductible post-employment benefits	(10)	(11)
Non-deductible charitable donations	(18)	(39)
Income tax adjustments for prior periods	(43)	-
Non-taxable income of result of associates and joint ventures	122	28
Other non-taxable income / (non-deductible expenses) and other effects, net	(36)	(67)
Income tax expense	**(717)**	**(1,049)**

(Amounts in millions of Russian Roubles, unless otherwise stated below)

24. INCOME TAX (CONTINUED)

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

	1 January 2015	Charged to profit or loss	Charged to other comprehensive income	31 December 2015
Investment property	17	-	4	21
Loans and borrowings	4	(3)	-	1
Intangible assets	(2)	(8)	-	(10)
Finance lease obligations	(80)	51	-	(29)
Property, plant and equipment	1,871	(75)	-	1,796
Employee benefits liability	(113)	21	(5)	(97)
Trade and other receivables	(74)	9	-	(65)
Trade and other payables	(199)	59	-	(140)
Other	(10)	(3)	2	(11)
Total net deferred tax liability	**1,414**	**51**	**1**	**1,466**

	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)
Total net deferred tax liability	**1,445**	**(28)**	**(3)**	**1,414**

The Group did not recognise a deferred tax liability concerning temporary differences of RUR 318m (2014: RUR 413m) in respect of investments in subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in the foreseeable future.

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

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

Management estimates that deferred tax liabilities of RUR 1,623m (31 December 2014: RUR 1,567m) are settled after more than twelve months after the end of the reporting period and deferred tax assets will be primarily recovered within twelve months after the end of the reporting period.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

25. 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 2015 and 31 December 2014, are disclosed below:

Related party	Nature of relationship	
	31 December 2015	**31 December 2014**
OJSC Russian Railways (RZD)	Ultimate controlling company	Ultimate controlling company
JSC UTLC (Note 12)	Parent company	Parent company
JSC Kedentransservice	Joint venture of the Company	Joint venture of the Company
Oy ContainerTrans Scandinavia Ltd.	Joint venture of the Company	Joint venture of the Company
Chinese-Russian Rail-Container International Freight Forwarding (Beijing) Co, Ltd.	Joint venture of the Company	Joint venture of the Company
Trans-Eurasia Logistics GmbH	Associate of the Company	Associate of the Company
Far East Land Bridge Ltd.	Subsidiary of RZD	Subsidiary of RZD
JSC Carriage Repair Company - 1	Subsidiary of RZD	Subsidiary of RZD
JSC Carriage Repair Company - 2	Subsidiary of RZD	Subsidiary of RZD
OJSC Carriage Repair Company - 3	Subsidiary of RZD	Subsidiary of RZD
JSC RZD Logistics	Subsidiary of RZD	Subsidiary of RZD
PJSC Bank VTB	State-controlled entity	State-controlled entity
Fund Blagosostoyanie	Post-employment benefit plan for Company employees	Post-employment benefit plan for Company employees
FAR-EASTERN SHIPPING COMPANY PLC	Significant shareholder	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 acquisition 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 PJSC Bank VTB, which is also state-controlled. PJSC 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 revenue generated from such transactions with RZD is reported as agency fees in the consolidated profit or loss.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and outstanding balances with related parties as at and for the year ended 31 December 2015 are shown below:

	Ultimate controlling company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties	Total
ASSETS						
Non-current assets						
Trade and other receivables	-	212	-	-	-	**212**
Current assets						
Cash and cash equivalents	-	-	-	-	1,123	**1,123**
Trade receivables	210	351	2	39	-	**602**
Other receivables	41	46	-	20	87	**194**
Advances to suppliers	1,440	10	-	122	1	**1,573**
Total assets	**1,691**	**619**	**2**	**181**	**1,211**	**3,704**
LIABILITIES						
Current liabilities						
Trade payables	13	114	1	13	32	**173**
Liabilities to customers (advances)	-	31	4	32	22	**89**
Other payables	-	-	-	-	7	**7**
Total liabilities	**13**	**145**	**5**	**45**	**61**	**269**
Revenue						
Rail-based container shipping services	133	56	1	32	47	**269**
Terminal services and agency fees	1,678	20	-	-	5	**1,703**
Integrated freight forwarding and logistics services	2	1,287	113	522	65	**1,989**
Cargo transportation and handling services with involvement of third parties	-	73	-	-	10	**83**
Other services	17	20	2	3	17	**59**
Interest income on deposits	-	-	-	-	91	**91**
Other interest income	-	-	-	-	3	**3**
Other operating income	116	40	1	-	1	**158**
Total income	**1,946**	**1,496**	**117**	**557**	**239**	**4,355**
Operating Expenses						
Freight and transportation services	3,885	4	1	528	49	**4,467**
Third-party charges relating to integrated freight forwarding and logistics services	17,165	27	11	1 934	183	**19,320**
Repair services	381	812	-	-	5	**1,198**
Rent of property and equipment	30	2	-	-	3	**35**
Other expenses	169	69	1	37	108	**384**
Total expenses	**21,630**	**914**	**13**	**2,499**	**348**	**25,404**
Purchases of property, plant and equipment	90	73	-	-	34	**197**
Purchases of inventory	-	72	-	-	11	**83**
Contributions to non-state pension funds	-	-	-	-	102	**102**
Total other transactions	**90**	**145**	**-**	**-**	**147**	**382**

As at 31 December 2015 transactions under the item "Advances to suppliers" in the amount of RUR 16m were entered into with JSC UTLC, the parent company. The amount of "Trade receivables" of JSC UTLC amounted to RUR 2m as at 31 December 2015. Revenue on "Other services" from JSC UTLC amounted to RUR 2m and expenses from transactions with JSC UTLC under the item "Third-party charges relating to integrated freight forwarding and logistics services" amounted to RUR 14m as at 31 December 2015.

As at 31 December 2015 provision for impairment of accounts receivable of Far East Land Bridge Ltd., subsidiary of RZD, in respect of trade receivables balance is RUR 202m.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

25. 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
ASSETS						
Non-current assets						
Trade receivables	-	313	-	-	-	**313**
Current assets						
Cash and cash equivalents	-	-	-	-	1,638	**1,638**
Trade receivables	241	430	26	83	1	**781**
Other receivables	40	123	-	7	24	**194**
Advances to suppliers	1,239	10	-	-	1	**1,250**
Total assets	**1,520**	**876**	**26**	**90**	**1,664**	**4,176**
LIABILITIES						
Current liabilities						
Trade payables	16	27	3	62	16	**124**
Liabilities to customers	-	32	5	-	47	**84**
Other payables	1	-	-	1	20	**22**
Total liabilities	**17**	**59**	**8**	**63**	**83**	**230**
Revenue						
Rail-based container shipping services	131	37	4	88	62	**322**
Terminal services and agency fees	1,679	6	-	-	5	**1,690**
Integrated freight forwarding and logistics services	3	846	156	328	206	**1,539**
Other services	19	16	4	3	18	**60**
Interest income on deposits	-	-	-	-	90	**90**
Other interest income	-	-	-	-	6	**6**
Other operating income	104	88	-	2	2	**196**
Total income	**1,936**	**993**	**164**	**421**	**389**	**3,903**
Operating Expenses						
Freight and transportation services	3,218	1	-	651	14	**3,884**
Third-party charges relating to integrated freight forwarding and logistics services	12,258	2	23	1,524	73	**13,880**
Repair services	346	883	-	-	3	**1,232**
Rent of property and equipment	30	1	-	-	3	**34**
Other expenses	93	122	1	2	104	**322**
Total expenses	**15,945**	**1,009**	**24**	**2,177**	**197**	**19,352**
Purchases of property, plant and equipment	29	861	-	-	64	**954**
Purchases of inventory	-	6	-	-	-	**6**
Contributions to non-state pension funds	-	-	-	-	111	**111**
Total other transactions	**29**	**867**	**-**	**-**	**175**	**1,071**

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

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.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

25. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Dividends

Dividends payable to JSC UTLC and FAR-EASTERN SHIPPING COMPANY PLC. amounted to RUR 493m and RUR 238m, respectively, and were paid in July 2015 for 2014.

Dividends payable to RZD and FAR-EASTERN SHIPPING COMPANY PLC. amounted to RUR 566m and RUR 273m, respectively, and were paid in July 2014 for 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 21 and 20 persons as at 31 December 2015 and 31 December 2014, respectively. Total gross compensation, including insurance contributions and before withholding of personal income tax, to key management personnel amounted to RUR 263m (including total insurance contributions of RUR 28m) and RUR 355m (including total insurance contributions of RUR 38m) for the years ended 31 December 2015 and 31 December 2014, 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 sort-term excluding future payments under pension plans with defined benefits. Defined benefit payments to Key management of the Group are calculated based on the same terms as for the other employees.

As stated in Note 16, during the year ended 31 December 2015, the Group did not have any expenses related to the Share Option Plan approved by the Board of Directors in October 2010 (RUR 19m as at 31 December 2014).

There were no expenses related to the options provided to the General Director and his deputies for the year ended 31 December 2015 (RUR 7m as at 31 December 2014).

26. COMMITMENTS UNDER OPERATING LEASES

As at 31 December 2015, the Group leases container terminal Dobra in Slovakia. The remaining period of agreements validity is 9 years.

The Group leases certain production buildings and office premises in Russia. The remaining terms of the relevant lease agreements are from one to four 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:

	2015	2014
Within one year	152	362
Within two to five years	335	753
After five years	232	259
Total minimum lease payments	**719**	**1,374**

Decrease of minimum lease payments under contracted operating leases relates to the termination and expiration of lease agreements.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

27. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group’s capital commitments as at 31 December 2015 and 31 December 2014 consisted of the following, including VAT:

	2015	2014
Acquisition of containers and flatcars	1,901	1,453
Acquisition of lifting machines and other equipment	143	317
Construction of container terminal complexes and modernisation of existing assets	632	5
Total capital commitments	**2,676**	**1,775**

Operating environment of the Group. The Russian Federation displays certain characteristics of an emerging market. Its economy has a high sensitivity to oil and gas materials prices. The legal, tax and regulatory frameworks continue to develop, they are subject to changes and varying interpretations. During 2015 the Russian economy was negatively impacted by a decline in oil prices, ongoing political tension and international sanctions against certain Russian companies and individuals. The economic recession characterised by the falling index of gross domestic product was a result of these factors. Financial markets are still characterised by a lack of stability, frequent and significant changes in prices and increase in spreads on trading operations. Russian Federation rating has been cut to "below investment grade". This economic environment has a significant impact on the Group's operations and financial position. Management takes the necessary steps to ensure stable operations of the Group. Nevertheless, the future implications of the current economic situation is difficult to predict, and Management's current expectations and assessment may differ from actual results.

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 Co-operation 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 comply with the 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 the Russian Federation. 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).Starting from 2015, income of the controlled foreign company that do not ensure the return to the Russian Federation and are not exempt from taxation in accordance with current legislation, is subject to a 20% tax rate. The first tax period for the profits determination of CFC is 2015. However, as a result of the preliminary analysis of the relevant foreign companies’ business and the structure of earnings, expenses, dividend policy, evaluation of tax residency status, liability for taxes to the Russian budget in respect of CFC's profit is not significant.

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

Environmental matters. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes

(Amounts in millions of Russian Roubles, unless otherwise stated below)

27. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

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 and other insurable risks, with the exception of insurance policies that partially cover its vehicles, buildings and constructions, Directors and Officers liability insurance policy and a forwarding agent'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.

28. 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 2015 was RUR 36,187m (as at 31 December 2014: RUR 35,245m).

The capital structure of the Group consists of issued capital, reserves and retained earnings as disclosed in Note 12.

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, except for deposits not redeemable on demand, fall into the loans and receivables category under IAS 39 "Financial instruments: recognition and measurement". Deposits with no advanced payments allowed are classified as held to maturity investment.

	2015	2014
Financial assets		
Loans and receivables		
Cash and cash equivalents	2,110	1,904
Trade and other receivables	1,604	1,895
Short-term investments	-	8
Other non-current assets	5	5
Held-to-maturity investments		
Short-term investments	7	-
Total financial assets	**3,726**	**3,812**

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

(Amounts in millions of Russian Roubles, unless otherwise stated below)

28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

	2015	2014
Financial liabilities		
Trade and other payables	802	713
Other liabilities	103	100
Long-term debt	3,743	5,458
Current portion of long-term debt	1,893	919
Finance lease obligations	144	400
Total financial liabilities	**6,685**	**7,590**

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 2015 a bond loan of series 2 in the amount of RUR 750m classified as current portion of long-term debt in the consolidated statement of financial position as at 31 December 2014 and which affected current liquidity ratio of the Group was repaid by the last tranche by the Company.

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 future interest, based on the earliest date on which the Group can be required to pay or expect to make the payment.

	Effective interest rate	Less than 1 month	1-3 months	3 months-1 year	1-5 years	Total
2015						
Non-interest bearing liabilities (including trade and other payables and other liabilities)		580	249	76	-	905
Short-term debt	9.5%	4	7	474	-	485
Bonds	8.35%	208	-	1,458	4,062	5,728
Finance lease liabilities	9.65%	2	3	14	158	177
Total		**794**	**259**	**2,022**	**4,220**	**7,295**
2014						
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
Total		**580**	**425**	**907**	**6,885**	**8,797**

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.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

As at 31 December 2015 and 2014 the Group's financial assets denominated in foreign currency have exceeded its foreign currency financial liabilities.

As at 31 December 2015 the Russian Rouble depreciated against the USD by 30%, and against EUR by 17% (depreciated against the USD by 72% and against the EUR by 52% as at 31 December 2014). 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	
	2015	2014	2015	2014	2015	2014
Assets						
Cash and cash equivalents	800	1,256	111	247	4	8
Trade and other receivables	357	633	99	56	-	1
Total assets	**1,157**	**1,889**	**210**	**303**	**4**	**9**
Liabilities						
Trade and other payables	355	290	33	33	3	2
Total liabilities	**355**	**290**	**33**	**33**	**3**	**2**

The table below provides analysis of sensitivity of Group's profit and loss and capital to strengthening of the Russian Rouble against the USD and EUR 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	
	2015	2014	2015	2014
Total	**(241)**	**(480)**	**(53)**	**(81)**

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 2015 the Group's borrowed funds consist of long-term debt, current portion of long-term debt (Note 13) and finance lease liabilities (Note 14).

The annual coupon rate of the five-year RUR bonds, series 4 issued on 1 February 2015 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 2015 and 31 December 2014, 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.

Finance lease obligations are financial instruments bearing a fixed interest rate, therefore, they do not subject the Group to an additional interest risk.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

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 9), and carrying amount of cash and cash equivalents (Note 11) 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 2015 81% of the total net amount of trade and other receivables related to five largest counterparties of the Group (as at 31 December 2014: 83% related to six largest counterparties).

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

	Outstanding balance, net	
	2015	**2014**
JSC RZD Logistics	617	667
UNICO LOGISTICS	316	470
RZD	251	281
InterRail Services AG	-	44
DB Schenker Rail Automotive GmbH	86	33
Rail-Container (Beiging) Go., LTD	23	69
Total	**1,293**	**1,564**

As at 31 December 2015 and 31 December 2014 no impairment of accounts receivable has been identified for all these customers. Accounts receivable of JSC RZD Logistics was discounted in accordance with confirmed schedule for the repayment of debts (Note 9).

Financial assets neither past due nor impaired are primarily receivables from related parties (Note 25) 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 collectability.

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 9.

Credit risk on liquid funds is limited because these funds are placed only with financial institutions well known to the Group. 53% of total cash and cash equivalents as at 31 December 2015 (as at 31 December 2014: 86%) 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.

(Amounts in millions of Russian Roubles, unless otherwise stated below)

28. RISK MANAGEMENT ACTIVITIES (CONTINUED)

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 (Note 3). 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: cash, trade and other receivables (excluding long-term receivables of JSC RZD Logistics), other financial assets, trade and other payables, finance lease obligations. Except for cash, these financial assets and liabilities relate to Level 3 in the fair value hierarchy.

As at 31 December 2015 the fair value of long-term accounts receivable of JSC RZD Logistics accounts for RUR 200m (RUR 263m as at 31 December 2014). The calculation is based on the use of a weighted average interest rate established by the Central Bank of Russia for December 2015 on attracted by credit institutions deposits of non-financial entities in roubles for a period from 1 to 3 years.

The fair value of short-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:

	2015	**2014**
Financial liabilities		
Bonds	4,800	5,327
Total	**4,800**	**5,327**

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.

29. SUBSEQUENT EVENTS

Dividends received. In January 2016 dividends in the amount of EUR 1.8m (RUR 145m at the Central Bank of the Russian Federation exchange rate as at the date of transaction) were received by the Group (holds 50% of JSC Kedentransservice shares) from Logistic System Management B.V.

Acquisition of containers. In January-March 2016 the Group obtained under the previously signed agreements:

- 939 containers from Yang Zhou Runyang Logistic Equipment Co.,Ltd for the total amount of RUR 155m (at the Central Bank of the Russian Federation exchange rate as at the date of purchase), net of VAT;
- 443 containers from Feilcon Holding Ltd for the total amount of RUR 103m (at the Central Bank of the Russian Federation exchange rate as at the date of purchase), net of VAT;
- 177 containers from LLC Con-service for the total amount of RUR 28m (plus VAT in the amount of RUR 5m).