Russian Railways

Open Joint Stock Company "Russian Railways"

Consolidated Financial Statements

As at 31 December 2013 and for the year then ended

Open Joint Stock Company "Russian Railways"

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As at 31 December 2013 and for the year then ended

Contents

Совершенствуя бизнес,
улучшаем мир

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Independent auditors' report

To the Shareholder of Open Joint Stock Company "Russian Railways"

We have audited the accompanying consolidated financial statements of OJSC "Russian Railways" and its subsidiaries ("the Group"), which comprise the consolidated statement of financial position as at 31 December 2013, and the consolidated statement of profit or loss, consolidated statement of other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the consolidated financial statements

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

Auditors' responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with 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 provide a basis for our qualified audit opinion.

Совершенствуя бизнес, улучшаем мир

Basis for qualified opinion

As described in Note 3 to the consolidated financial statements, in 2013, the Group completed its property, plant and equipment registers as at 31 December 2012 in accordance with its accounting policy and restated respective net book value of property, plant and equipment and related balances of other assets, liabilities and equity as at that date, and made adjustments to the amounts in consolidated statement of profit or loss for 2012. As of the date of issuance of the accompanying consolidated financial statements, the Group did not finalize its property, plant and equipment registers for the movements in its property, plant and equipment, including the effects of accounting for components, for 2013. As described in Note 2 to the consolidated financial statements, as at 31 December 2013, the Group performed an annual impairment test for its property, plant and equipment, however, impairment losses, determined as the excess of the carrying value of certain cash generating units over respective recoverable amount, were not recorded.

The effects of the departures from IAS 16 *Property, Plant and Equipment* and IAS 36 *Impairment of assets* described above on the financial position as of 31 December 2013 and results of operations for the year then ended have not been determined.

Qualified opinion

In our opinion, except for the effects of the matters described in the Basis for Qualified Opinion paragraph, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Ernst & Young LLC

30 April 2014

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Financial Position

as at 31 December 2013

(All amounts are in millions of Russian Rubles)

	Notes	2013	2012 Restated*	As at 1 January 2012 Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	7	3,276,105	2,936,998	2,565,484
Investment property		10,706	9,291	10,945
Goodwill		13,093	11,829	1,374
Intangible assets other than goodwill	8	66,796	61,908	24,904
Investments in associates and joint ventures	6	26,200	19,894	58,227
Other non-current financial assets	9	5,639	12,832	25,273
Deferred tax assets	29	4,263	4,300	2,722
Derivative financial assets	32	388	614	678
Other non-current assets		7,605	6,923	8,349
Total non-current assets		**3,410,795**	**3,064,589**	**2,697,956**
Current assets				
Inventories	10	112,812	115,834	111,106
Prepayments and other current assets	11	48,129	57,586	50,208
Income tax receivable		9,087	4,221	1,972
Receivables	12	78,037	64,720	32,411
Other current financial assets	9	15,877	17,134	8,915
Derivative financial assets	32	582	564	3,749
Cash and cash equivalents	13	114,759	159,099	218,386
		379,283	**419,158**	**426,747**
Assets classified as held for sale	15	10,142	3,166	13,579
Total current assets		**389,425**	**422,324**	**440,326**
Total assets		**3,800,220**	**3,486,913**	**3,138,282**

* Certain amounts do not correspond to the 2012 consolidated financial statements and reflect adjustments and reclassifications made as detailed in Note 3.

Continued on next page

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Financial Position

as at 31 December 2013 (continued)

(All amounts are in millions of Russian Rubles)

	Notes	2013	2012 Restated*	As at 1 January 2012 Restated*
EQUITY AND LIABILITIES				
Equity attributable to equity holder of the parent				
Share capital	21	1,947,179	1,887,709	1,786,716
Unrealised loss on available-for-sale financial assets, net of tax		(517)	(294)	(252)
Revaluation reserve		12,579	11,217	9,365
Retained earnings and other reserves		288,428	239,834	174,028
		2,247,669	**2,138,466**	**1,969,857**
Non-controlling interests		17,035	13,914	6,681
Total equity		**2,264,704**	**2,152,380**	**1,976,538**
Non-current liabilities				
Deferred tax liabilities	29	74,197	63,969	56,129
Long-term borrowings	16	595,305	373,677	246,492
Finance lease obligations, net of current portion	20	23,397	12,533	4,140
Net employee defined benefit liabilities	19	240,959	261,609	243,828
Derivative financial liabilities	32	17,197	13,689	10,373
Other non-current liabilities	17	17,017	7,294	4,596
Total non-current liabilities		**968,072**	**732,771**	**565,558**
Current liabilities				
Trade and other payables		257,513	274,566	210,653
Advances received for transportation		66,447	66,076	63,228
Finance lease obligations, current portion	20	10,177	5,664	6,907
Income tax payable		855	4,237	17,799
Taxes and similar charges payable (other than income tax)	14	38,562	36,967	31,828
Short-term borrowings	16	66,670	100,059	160,754
Derivative financial liabilities	32	2,759	2,502	2,330
Provisions and other current liabilities	18	120,818	111,691	102,687
		563,801	**601,762**	**596,186**
Liabilities, directly associated with the assets classified as held for sale	15	3,643	–	–
Total current liabilities		**567,444**	**601,762**	**596,186**
Total equity and liabilities		**3,800,220**	**3,486,913**	**3,138,282**

* Certain amounts do not correspond to the 2012 consolidated financial statements and reflect adjustments and reclassifications made as detailed in Note 3.

Yakunin V.I. President

Kraft G.V. Chief Accountant

30 April 2014

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Profit or Loss

for the year ended 31 December 2013

(All amounts are in millions of Russian Rubles)

	Notes	2013	2012 Restated*
Revenues			
Cargo revenues		1,138,359	1,127,014
Passenger revenues		204,119	190,502
Logistics revenues	22	179,218	8,043
Other revenues	23	241,142	214,764
Total revenues	4	**1,762,838**	**1,540,323**
Operating expenses			
Wages, salaries and related contributions		(697,594)	(646,585)
Materials, repairs and maintenance		(209,130)	(195,308)
Fuel		(93,394)	(88,427)
Purchased freight forwarding and logistics services	22	(131,707)	(3,807)
Electricity		(118,470)	(112,633)
Depreciation and amortization		(209,958)	(193,614)
Taxes other than income tax	24	(42,744)	(33,195)
Commercial expenses		(5,699)	(4,770)
Bad debt expense		(10,449)	(10,638)
Social expenses		(8,324)	(9,277)
Loss on impairment of property, plant and equipment		(3,906)	(5,188)
Other operating expenses	25	(158,500)	(130,888)
Total operating expenses		**(1,689,875)**	**(1,434,330)**
Operating profit before subsidies from federal and municipal budgets		**72,963**	**105,993**
Subsidies from federal and municipal budgets	26	50,028	56,723
Operating profit after subsidies from federal and municipal budgets		**122,991**	**162,716**
Finance expense and similar items		(24,862)	(10,280)
Finance income and similar items		5,525	8,569
Finance expense and similar items, net		**(19,337)**	**(1,711)**
Gain on disposal of controlling interest in subsidiaries, net	5	2,386	5,221
Equity income from associates and joint ventures, net	6	915	7,626
Changes in fair value of financial assets, net		(2,119)	(1,586)
Other income	27	16,953	23,965
Other expenses	28	(47,238)	(61,395)
Foreign exchange (loss)/gain, net		(14,575)	5,200
Income before taxation		**59,976**	**140,036**
Income taxes			
Current taxes		(13,769)	(51,335)
Deferred taxes		(9,485)	4,984
Total income taxes	29	**(23,254)**	**(46,351)**
Net income for the period		**36,722**	**93,685**
Attributable to:			
Equity holder of the parent		31,958	93,847
Non-controlling interests		4,764	(162)

* Certain amounts do not correspond to the 2012 consolidated financial statements and reflect adjustments and reclassifications made as detailed in Note 3.

Yakunin V.I. President

Kraft G.V. Chief Accountant

30 April 2014

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Other Comprehensive Income

for the year ended 31 December 2013

(All amounts are in millions of Russian Rubles)

	Notes	2013	2012 Restated*
Net income for the period		**36,722**	**93,685**
Other comprehensive income			
Items not to be reclassified to profit or loss in subsequent periods:			
Revaluation of investment property		1,300	1,628
Remeasurement gain/(loss) on net defined benefit liabilities	19	13,378	(20,612)
Income tax effects	29	81	1,856
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**14,759**	**(17,128)**
Items to be reclassified to profit or loss in subsequent periods:			
Translation difference		4,331	(1,351)
Loss on available-for-sale financial assets		(281)	(53)
Other comprehensive loss attributable to investments in associates and joint ventures		(4)	(39)
Income tax effects	29	56	18
Other comprehensive income, net of tax		17	–
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**4,119**	**(1,425)**
Other comprehensive income/(loss) for the period, net of tax		**18,878**	**(18,553)**
Total comprehensive income for the period, net of tax		**55,600**	**75,132**
Attributable to:			
Equity holder of the parent		49,733	75,358
Non-controlling interests		5,867	(226)

* Certain amounts do not correspond to the 2012 consolidated financial statements and reflect adjustments made as detailed in Note 3.

Yakunin V.I. President

Kraft G.V. Chief Accountant

30 April 2014

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

Consolidated Statement of Changes in Equity

for the year ended 31 December 2013

(All amounts are in millions of Russian Rubles, except share amounts)

		Attributable to equity holder of the parent							
		Share capital							
	Notes	Common shares	Amount	Unrealized loss on available-for-sale financial assets, net of tax	Revaluation reserve	Retained earnings and other reserves	Total	Non-controlling interests	Total equity
As at 1 January 2013 as restated		**1,887,709,216**	**1,887,709**	**(294)**	**11,217**	**239,834**	**2,138,466**	**13,914**	**2,152,380**
Net income for the period		–	–	–	–	31,958	31,958	4,764	36,722
Other comprehensive income		–	–	(223)	1,362	16,636	17,775	1,103	18,878
Total comprehensive income		**–**	**–**	**(223)**	**1,362**	**48,594**	**49,733**	**5,867**	**55,600**
Capital contribution by shareholder	21	59,469,971	59,470	–	–	–	59,470	–	59,470
Disposal of controlling interest in subsidiary		–	–	–	–	–	–	(1,044)	(1,044)
Capital contribution to share capital of subsidiary by non-controlling shareholder and other movements	5	–	–	–	–	–	–	197	197
Dividends	21	–	–	–	–	–	–	(1,899)	(1,899)
As at 31 December 2013		**1,947,179,187**	**1,947,179**	**(517)**	**12,579**	**288,428**	**2,247,669**	**17,035**	**2,264,704**

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Changes in Equity

for the year ended 31 December 2012 Restated*

(All amounts are in millions of Russian Rubles, except share amounts)

		Attributable to equity holder of the parent							
		Share capital							
	Notes	Common shares	Amount	Unrealized loss on available-for-sale financial assets, net of tax	Revaluation reserve	Retained earnings and other reserves	Total	Non-controlling interests	Total equity
As at 1 January 2012 as previously reported		1,786,715,588	1,786,716	(252)	9,365	210,697	2,006,526	6,832	2,013,358
Effect of adjustments (Note 3)		–	–	–	–	(36,669)	(36,669)	(151)	(36,820)
As at 1 January 2012 as restated		1,786,715,588	1,786,716	(252)	9,365	174,028	1,969,857	6,681	1,976,538
Net income for the period as restated		–	–	–	–	93,847	93,847	(162)	93,685
Other comprehensive loss as restated		–	–	(42)	1,852	(20,299)	(18,489)	(64)	(18,553)
Total comprehensive income as restated		–	–	(42)	1,852	73,548	75,358	(226)	75,132
Capital contribution by shareholder	21	100,993,628	100,993	–	–	–	100,993	–	100,993
Acquisition of non-controlling interests in existing subsidiary	5	–	–	–	–	(3,537)	(3,537)	1,437	(2,100)
Disposal of controlling interests in subsidiaries	5	–	–	–	–	–	–	(334)	(334)
Non-controlling interests arising from acquisition of subsidiaries	5	–	–	–	–	–	–	8,260	8,260
Dividends	21	–	–	–	–	(4,205)	(4,205)	(1,904)	(6,109)
As at 31 December 2012 as restated		1,887,709,216	1,887,709	(294)	11,217	239,834	2,138,466	13,914	2,152,380

* Certain amounts do not correspond to the 2012 consolidated financial statements and reflect adjustments made as detailed in Note 3.

Yakunin V.I. — President

Kraft G.V. — Chief Accountant

30 April 2014

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Cash Flows

for the year ended 31 December 2013

(All amounts are in millions of Russian Rubles)

	Notes	2013	2012 Restated*
Cash flows from operating activities			
Income before taxation		**59,976**	**140,036**
Adjustments to reconcile income to cash generated from operations			
Depreciation and amortization		209,958	193,614
Gain on disposal of controlling interest in subsidiaries, net	5	(2,386)	(5,221)
Equity income from associates and joint ventures, net	6	(915)	(7,626)
Impairment of investments in associates and joint ventures	28	19	2,228
Changes in fair value of financial assets, net		2,119	1,586
Bad debt expense		10,449	10,638
Gain on disposal of assets held for sale	27	(118)	(6,781)
Loss on disposal of property, plant and equipment, net	28	7,736	16,326
Loss on impairment of property, plant and equipment		3,906	5,188
Finance expense and similar items, net		19,337	1,711
Change in provision and write-off of obsolete and damaged inventory		1,725	420
Change in provision for legal claims, net	18, 28	7,731	3,515
Foreign exchange loss/(gain), net		14,575	(5,200)
Effects of employee benefits	19	(6,070)	744
Other non-cash movements of property, plant and equipment		13,186	7,650
Other losses/(gains), net		957	(4,694)
Operating income before working capital changes		**342,185**	**354,134**
Increase in receivables		(20,764)	(14,352)
Decrease/(increase) in prepayments and other current assets		2,813	(7,817)
Increase in inventories		(1,814)	(3,841)
(Decrease)/increase in trade and other payables		(23,147)	30,959
Increase in advances received for transportation		372	3,280
Increase in taxes and similar charges payable (other than income tax)		1,848	3,703
Increase in other current liabilities		3,683	6,731
(Increase)/decrease in other non-current assets		(597)	1,890
(Decrease)/increase in other non-current liabilities		(383)	1,602
Net cash from operating activities before income taxes		**304,196**	**376,289**
Income taxes paid		(19,308)	(67,974)
Net cash from operating activities		**284,888**	**308,315**

* Certain amounts do not correspond to the 2012 consolidated financial statements and reflect adjustments made as detailed in Note 3.

Continued on next page

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

Open Joint Stock Company "Russian Railways"

Consolidated Statement of Cash Flows

for the year ended 31 December 2013 (continued)

(All amounts are in millions of Russian Rubles)

	Notes	2013	2012 Restated*
Cash flows from investing activities			
Purchases of property, plant and equipment		(565,999)	(578,562)
Proceeds from disposal of property, plant and equipment		5,485	11,107
Purchases of intangible assets		(8,170)	(5,683)
Proceeds from disposal of assets classified as held for sale		1,491	71,115
Loans given, deposits placed and acquisition of other financial assets, net		9,636	6,311
Proceeds from decrease of equity interest in associate	6	780	–
Acquisition of associates and contributions to share capital of associates	6	(300)	(111)
Dividends received	6	1,530	1,057
Acquisition of subsidiaries, net of cash acquired	5	(920)	(28,734)
Interest received		5,017	6,958
Proceeds from disposal of controlling interest in subsidiaries, net of cash disposed	5	3,205	7,888
Net cash used in investing activities		**(548,245)**	**(508,654)**
Cash flows from financing activities			
Proceeds from long-term borrowings		322,185	166,389
Repayment of long-term borrowings		(92,993)	(55,761)
Repayment of short-term borrowings, net		(34,434)	(54,166)
Interest paid		(38,663)	(30,263)
Repayment of finance lease obligations, including finance charges		(9,988)	(7,757)
Proceeds from sale-leaseback		12,280	5,926
Proceeds under derivative contracts, net		1,646	918
Contributions to share capital from shareholder	21	59,470	100,993
Proceeds from government grants		–	22,817
Dividends paid		(1,899)	(6,109)
Acquisition of non-controlling interests in existing subsidiaries	5	–	(2,100)
Net cash from financing activities		217,604	140,887
Net decrease in cash and cash equivalents		**(45,753)**	**(59,452)**
Net foreign exchange gain		576	165
Cash and cash equivalents at the beginning of the period	13	159,099	218,386
Cash and cash equivalents at the end of the period	13	**113,922**	**159,099**

* Certain amounts do not correspond to the 2012 consolidated financial statements and reflect adjustments made as detailed in Note 3.

Yakunin V.I. President

Kraft G.V. Chief Accountant

30 April 2014

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

1. Description of Business and Operating Environment

Corporate Information

Open Joint Stock Company “Russian Railways” (“RZD” or “the Company”) was established on 1 October 2003 pursuant to Decree of the Russian Government No. 585 “On Foundation of Open Joint Stock Company RZD” dated 18 September 2003 and in connection with implementation of the Program of Railway Transportation Industry Restructuring (“the Reform Program”). The Company is 100% owned by the Russian Federation.

The legal address of RZD is Novaya Basmannaya Street, 2, 107174, Moscow, the Russian Federation.

These consolidated financial statements of RZD and its subsidiaries (the “Group”) for the year ended 31 December 2013 were authorized for issue by the management of RZD on 30 April 2014.

The principal activities of the Group are described in Note 4.

Factors Affecting Financial Position of the Company

Operating Environment

Russia continues economic reforms and development of its legal, tax and regulatory frameworks as required by the market economy. The future stability of the Russian economy is largely dependent upon these reforms and developments and the effectiveness of economic, financial and monetary measures undertaken by the Government.

The Russian economy is vulnerable to market downturns and economic slowdowns elsewhere in the world. The global financial crisis has resulted in uncertainty regarding further economic growth, availability of financing and cost of capital, and the Russian economy currently shows indicators of stagnation with expected GDP growth rates being reconsidered downwards both by the Russian Government and by international bodies. These effects together with potential negative impact on Russian economy of crisis in Ukraine could negatively affect the Group’s future financial position, results of operations and business prospects. Management believes it is taking appropriate measures to support the sustainability of the Group’s business in the current circumstances.

Pricing Policy

The Government of Russian Federation sets certain tariffs for the Group’s transportation services based on anticipated macroeconomic indicators and the Group’s projected funding requirements targeted to cover operating expenditures, capital expenditures and repayment of borrowings. The Federal Tariff Service (FTS) sets the Company’s tariffs for cargo (other than cargo- in-transit through Russia) transportation and the tariffs of OJSC “Federal Passenger Company”, a subsidiary of the Group, for certain classes of passenger transportation (third- and fourth-class long-distance passenger transportation). Cargo-in-transit tariffs are agreed annually between the interested countries and are fixed in international agreements. The Ministry of Transportation of Russian Federation represents Russia in such negotiations.

1. Description of Business and Operating Environment (continued)

Factors Affecting Financial Position of the Company (continued)

The Company and OJSC “Federal Passenger Company” are required to price their regulated cargo and third- and fourth-class long-distance passenger transportation services on the basis of a detailed price lists set out in Tariff 10-01 and Tariff 10-02-16, respectively. Prices set out in Tariff 10-01 and 10-02-16 are subject to annual, and occasionally supplemental, indexation.

Generally, the total cargo transportation price payable by a shipper of cargo consists of the following components: a charge for locomotive traction and infrastructure services and a charge for the use of a railcar. If a customer uses a railcar owned or leased by the Company, railcar component is also subject to tariff regulation (as opposed to when a railcar is owned by a private railcar operator). These tariffs are binding on the Company as a natural monopoly.

Private railcar operators which do not have a status of a natural monopoly (including the Company’s subsidiaries) are free to set their own prices for the railcar component of cargo transportation costs, while infrastructure and locomotive components that are fixed by Tariff 10-01 are paid to the Company either directly by the shippers or on their behalf by private railcar operators.

As discussed above, the Government regulates tariffs of OJSC “Federal Passenger Company” for third- and fourth-class long distance transportation”, while deluxe-, first- and second-class long distance passenger transportation is unregulated and subject to market pricing. Tariffs for suburban passenger transportation are regulated by regional authorities. International tariffs for passenger transportation are set according to inter-governmental and interagency agreements, and vary depending on the countries involved.

In August 2013, the FTS approved the “Guidelines for the state regulation of tariffs for railway cargo transportation services and common use cargo railway infrastructure utilization services” which determine the railway cargo transportation tariff indexation based on, among other things, return on capital invested in property, plant and equipment (PP&E) and regulated net profit (return on capital). Regulated net profit (return on capital) is determined taking into account the following:

- value of PP&E and intangible assets as owned by the Company prior to transition to the long-term tariff regulation model based on return on invested capital;
- the value of PP&E expected to be put into use in connection with railway cargo transportation services over the period of the long-term tariff regulation;
- expected refundable financing through the Federal budget of the Russian Federation, off-budgetary funds and other state funds;
- the structure of financing invested in development of railway cargo infrastructure;
- return on capital determined separately for the capital formed prior to transition to the long-term tariff regulation model based on return on invested capital and for the capital formed over the period of the long-term tariff regulation.

1. Description of Business and Operating Environment (continued)

Factors Affecting Financial Position of the Company (continued)

However, in December 2013, the FST approved the cargo tariffs for 2014 at the same level as in 2013 and the cargo tariffs growth rates for 2015-2018 (inclusive) as the previous year's tariff increased by the expected rate of inflation in the previous year as follows:

- in 2015 – 4.8%;
- in 2016 – 4.9%;
- in 2017 – 4.5%;
- in 2018 – 4.1%.

The regulated passenger tariffs in 2014 will be indexed at 2013 inflation rate decreased by 30%.

It is currently uncertain whether and when any further changes will be introduced in the tariff setting policy. The consolidated financial statements do not include any adjustments that might result from these uncertain effects. Such adjustments, if any, will be reported in the Group's consolidated financial statements in the period when they become known and estimable.

Foreign Exchange

The exchange rate of the Ruble to 1 US Dollar equated to 32.73 and 30.37 as at 31 December 2013 and 31 December 2012, respectively. The exchange rate of the Ruble to 1 EUR equated to 44.97 and 40.23 as at 31 December 2013 and 31 December 2012, respectively. The exchange rate of the Ruble to 1 Pound Sterling equated to 53.96 and 48.96 as at 31 December 2013 and 31 December 2012, respectively. The exchange rate of the Ruble to 1 Swiss Franc equated to 36.70 and 33.29 as at 31 December 2013 and 31 December 2012, respectively.

As at 30 April 2014 the exchange rate was Rubles 35.70 to 1 US Dollar, Rubles 49.51 to 1 Euro, Rubles 60.12 to 1 Pound Sterling and Rubles 40.59 to 1 Swiss Franc.

Government Subsidies

The Group continued to receive subsidies from federal and local governments to compensate the effects of passenger and cargo transportation tariffs' regulation. These subsidies are shown as a separate item in the consolidated statement of profit or loss (Note 26).

Liquidity

As at 31 December 2013, the Group's current liabilities exceeded its current assets by Rbls 178,019 million (2012: Rbls 179,438 million which is to a large extent explained by the nature of Group's current liabilities mainly represented by payables for construction, expansion, modernization and maintenance of property, plant and equipment (PP&E) as a part of Company's investment program, as well as by advances received for transportation due to the fact that the largest part of the Company's sales of transportation services are made on prepayment basis. The Company does not expect any changes in the general business terms of its contracts with customers and suppliers.

1. Description of Business and Operating Environment (continued)

Factors Affecting Financial Position of the Company (continued)

The Company determines the source of financing of an appropriate terms and duration for all the projects included in the Company’s investment program in accordance with the approved financial plan.

The Group is investing in expansion, modernization and maintenance of its PP&E. The Group financed investment activities through cash generated from operations and current and non-current borrowings and governmental financing received in the form of subsidies and contributions to the Company’s share capital.

Management uses the following instruments in order to manage the Group’s liquidity:

- Continuous monitoring and management of credit portfolio structure aiming at extending its duration and maintaining even flows of borrowings repayment in future periods;
- Maintaining diversified sources of external borrowings, including local and international capital markets and commercial banks;
- Entering into long-term and medium-term agreements with local banks to ensure sufficient liquidity reserves for emergency cases;
- Using short-term bridge facilities to ensure smooth cash flows to finance investments and operations.

Management believes that through twelve months after the date of authorization of these consolidated financial statements, there will be sufficient funding from (a) existing cash balances, (b) cash generated from operations, and (c) debt financing.

2. Summary of Significant Accounting Policies

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (IASB). The Russian Ruble is used as functional currency of the Company and majority of its significant subsidiaries as it is the currency of the primary economic environment in which these entities operate. These consolidated financial statements are presented in Russian Rubles (“Rbls”) and all values are rounded to the nearest million (Rbls mln. or Rbls million), unless otherwise indicated.

The Company and most of its subsidiaries, except for Gefco S.A. and its subsidiaries, are required to maintain their accounting records and prepare their statutory accounting reports in Russian Rubles and in accordance with the Regulations on Accounting and Reporting in the Russian Federation. These consolidated financial statements are based upon the statutory accounting records, as adjusted and reclassified in order to comply with IFRS. The principle adjustments relate to revenues recognition, valuation of property, plant and equipment, finance leases, financial instruments, long-term employees defined benefit obligations, provisions, deferred income taxes and accounting for subsidiaries, associates and joint ventures.

The consolidated financial statements have been prepared under the historical cost convention except as disclosed in the accounting policies below.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures

The consolidated financial statements provide comparative information in respect of the previous period. In addition, the Group presents an additional statement of financial position at the beginning of the earliest period presented when there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. An additional statement of financial position as at 1 January 2012 is presented in these consolidated financial statements due to retrospective application of certain accounting policies and correction of prior periods errors, refer to Note 3.

New and Amended Standards and Interpretations

The Group applied, for the first time, certain standards and amendments that require restatement of previous financial statements and/or changes in the Group’s accounting policies and disclosures. These include IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IAS 19 *Employee Benefits* (Revised 2011), IFRS 13 *Fair Value Measurement* and amendments to IAS 1 *Presentation of Financial Statements*. In addition, the application of IFRS 12 *Disclosure of Interests in Other Entities* resulted in additional disclosures in the consolidated financial statements (Note 5).

Several other new standards and amendments including amended IFRS 7 *Financial Instruments: Disclosures*, IAS 32 *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities*, and amendments resulting from Annual Improvements (issued in May 2012) to IAS 16 *Property, Plant and Equipment*, IAS 32 *Financial Instruments: Presentation – Tax Effects of Distributions to Holders of Equity Instruments* and IAS 34 *Interim Financial Reporting*, were applied for the first time in 2013. However, they do not impact the annual consolidated financial statements of the Group or the interim condensed consolidated financial statement of the Group.

The nature and the impact of each new standards and amendments is described below:

IAS 1 Presentation of Items of Other Comprehensive Income – Amendments to IAS 1

The amendments to IAS 1 introduce a grouping of items presented in other comprehensive income (OCI). Items that could be reclassified (“recycled”) to profit or loss at a future point in time (e.g., net gain on hedge of net investment, exchange differences on translation of foreign operations, net movement on cash flow hedges and net loss or gain on available-for-sale financial assets) now have to be presented separately from items that will never be reclassified (e.g., actuarial gains and losses on defined benefit plans and revaluation of land and buildings). The amendment affected presentation only and had no impact on the Group’s financial position or performance.

IAS 1 Clarification of the Requirement for Comparative Information (Amendment)

The amendment to IAS 1 clarifies the difference between voluntary additional comparative information and the minimum required comparative information. An entity must include comparative information in the related notes to the financial statements when it voluntarily provides comparative information beyond the minimum required comparative period.

An opening statement of financial position (as at 1 January 2012 in the case of the Group) must be presented when an entity applies an accounting policy retrospectively, makes retrospective restatements, or reclassifies items in its financial statements, provided any of those changes has a material effect on the statement of financial position at the beginning of the preceding period. The amendment clarifies that a third balance sheet does not have to be accompanied by comparative information in the related notes.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

IAS 19 Employee Benefits (Revised 2011) (IAS 19R)

IAS 19R includes a number of amendments to the accounting for defined benefit plans, including actuarial gains and losses that are now recognised in OCI and permanently excluded from profit and loss; expected returns on plan assets that are no longer recognised in profit or loss, instead, there is a requirement to recognise interest on the net defined benefit liability (asset) in profit or loss, calculated using the discount rate used to measure the defined benefit obligation, and unvested past service costs are now recognised in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognised. Other amendments include new disclosures, such as, quantitative sensitivity disclosures provided in Note 19.

In case of the Group, transition to IAS 19R had an impact on the comparative information presented in the consolidated financial statements as explained in Note 3.

IFRS 10 Consolidated Financial Statements and IAS 27 Separate Financial Statements

IFRS 10 establishes a single control model that applies to all entities including special purpose entities. IFRS 10 replaces the parts of previously existing IAS 27 *Consolidated and Separate Financial Statements* that dealt with consolidated financial statements and SIC-12 *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control such that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. To meet the definition of control in IFRS 10, all three criteria must be met, including: (a) an investor has power over an investee; (b) the investor has exposure, or rights, to variable returns from its involvement with the investee; and (c) the investor has the ability to use its power over the investee to affect the amount of the investor’s returns. The Group has changed its accounting policy accordingly; however, there is no material impact on the Group’s perimeter of consolidation.

IAS 27 would only apply in the separate financial statements of the parent and some of the Group’s subsidiaries.

IFRS 11 Joint Arrangements and IAS 28 Investments in Associates and Joint Ventures

IFRS 11 replaces IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly-controlled Entities – Non-monetary Contributions by Venturers*. IFRS 11 removes the option to account for jointly controlled entities (JCEs) using proportionate consolidation. Instead, JCEs that meet the definition of a joint venture under IFRS 11 must be accounted for using the equity method.

The Group accounted for its interests in jointly controlled entities using equity method, thus there is no impact on the Group’s accounting policy in this respect. However, the rest of changes introduced in IFRS 11, in particular, with regard to classification of joint arrangements into joint ventures and joint operations, resulted in the changes to the Group’s accounting policy but had no material impact on the Group’s financial position or performance.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 sets out the requirements for disclosures relating to an entity’s interests in subsidiaries, joint arrangements, associates and structured entities. The requirements in IFRS 12 are more comprehensive than the previously existing disclosure requirements for subsidiaries, for example, where a subsidiary is controlled with less than a majority of voting rights. While the Group has subsidiaries with material non-controlling interests and consolidated structures entities, there are no unconsolidated structured entities. IFRS 12 disclosures are provided in Notes 2 (in *Judgments* section) and 5.

IFRS 13 Fair Value Measurement

IFRS 13 establishes a single source of guidance under IFRS for all fair value measurements. IFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under IFRS. IFRS 13 defines fair value as an exit price. As a result of the guidance in IFRS 13, the Group re-assessed its policies for measuring fair values, in particular, its valuation inputs such as non-performance risk for fair value measurement of liabilities. IFRS 13 also requires additional disclosures.

Application of IFRS 13 has not materially impacted the fair value measurements of the Group. Additional disclosures where required, are provided in the individual notes relating to the assets and liabilities whose fair values were determined. Fair value hierarchy is provided in Note 33.

In December 2013, the IASB issued *Annual Improvements to IFRSs 2010-2012 Cycle* including amendment to IFRS 13 effective immediately. In the amendment to IFRS 13, the IASB clarified that short-term receivables and payables with no stated interest rates can be held at invoiced amounts when the effect of discounting is immaterial. This clarification had no material impact on the Group’s financial position or performance.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

IFRSs and IFRIC Interpretations not yet effective

The standards, amendments and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. These standards, amendments and interpretations are those that the Group reasonably expects potentially to have an impact on accounting policy, disclosures, financial position or performance when applied at a future date. Group intends to adopt these standards, amendments and interpretations when they become effective.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB work on the replacement of IAS 39 *Financial Instruments: Recognition and Measurement* and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after 1 January 2013, but Amendments to IFRS 9 *Mandatory Effective Date of IFRS 9 and Transition Disclosures*, issued in December 2011, moved the mandatory effective date to 1 January 2015.

In November 2013, the IASB issued package of amendments to IFRS 9, including also certain amendments to IFRS 7 and IAS 39. IASB comprehensively reviewed the hedge accounting requirements in IAS 39 and replaced them with the requirements in IFRS 9. These amendments align hedge accounting more closely with risk management, resulting in more useful information to users of financial statements. The requirements also establish a more principle-based approach to hedge accounting and address inconsistencies and weaknesses in the hedge accounting model in IAS 39. The amendments also included requirements in IFRS 9 that address own credit risk available more quickly by permitting those requirements to apply without applying the other requirements of IFRS 9 at the same time. Further, the amendments removed the 1 January 2015 mandatory effective date of IFRS 9 in order to provide sufficient time for preparers of financial statements to make the transition to the new requirements.

The Group is assessing the impact of these amendments on its consolidated financial statements.

IAS 19 Employee Benefits entitled Defined Benefit Plans: Employee Contributions (Amendments to IAS 19)

These amendments apply to contributions from employees or third parties to defined benefit plans. The objective of the amendments is to simplify the accounting for contributions that are independent of the number of years of employee service, for example, employee contributions that are calculated according to a fixed percentage of salary. The amendments are effective from 1 July 2014 with earlier application permitted. The Group is assessing the impact of these amendments on its consolidated financial statements.

IAS 36 Impairment of assets: Recoverable Amount Disclosures for Non-Financial Assets (Amendments to IAS 36)

These amendments remove the unintended consequences of IFRS 13 *Fair Value Measurement* on the disclosures required under IAS 36 *Impairment of Assets*. In addition, these amendments require disclosure of the recoverable amounts for the assets or cash-generating units (CGUs) for which an impairment loss has been recognised or reversed during the period. These amendments should be applied retrospectively for annual periods beginning on or after 1 January 2014.

Standards and interpretations issued but not yet effective which are expected to have an impact on the accounting policy of the Group although not expected to have any impact on disclosures, presentation, financial position or performance when applied at future date are listed below:

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

- *IFRIC Interpretation 21 Levies (IFRIC) 21.* The interpretation clarifies that an entity recognises a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. It also clarifies that a levy liability is accrued progressively only if the activity that triggers payment occurs over a period of time, in accordance with the relevant legislation. For a levy that is triggered upon reaching a minimum threshold, the interpretation clarifies that no liability should be anticipated before the specified minimum threshold is reached. IFRIC 21 is effective for annual periods beginning on or after 1 January 2014.
- *IAS 39 Novation of Derivatives and Continuation of Hedge Accounting – Amendments to IAS 39.* These amendments provide relief from discontinuing hedge accounting when novation of a derivative designated as a hedging instrument meets certain criteria. These amendments are effective for annual periods beginning on or after 1 January 2014.
- *IAS 32 Offsetting Financial Assets and Financial Liabilities − Amendments to IAS 32.* These amendments clarify the meaning of "currently has a legally enforceable right to set-off" and the criteria for non-simultaneous settlement mechanisms of clearing houses to qualify for offsetting. These amendments are effective for annual periods beginning on or after 1 January 2014.

IFRS 14 Regulatory Deferral Accounts. In January 2014, the IASB issued IFRS 14 *Regulatory Deferral Accounts* which allows rate-regulated entities to continue recognizing regulatory deferral accounts in connection with their first-time adoption of IFRS. Existing IFRS prepares are prohibited from adopting this standard, and thus this standard is not expected to be relevant for the Group. However, the IASB is continuing its comprehensive rate-regulated activities project, which could result in a standard on rate regulation or a decision not to develop specific requirements. By issuing IFRS 14, the IASB is not anticipating the outcome of the comprehensive project.

Annual Improvements to IFRSs 2010-2012 and 2011-2013 Cycles

In December 2013, the IASB issued *Annual Improvements to IFRSs 2010-2012 Cycle* and *Annual Improvements to IFRSs 2011-2013 Cycle* representing a set of amendments to IFRSs in response to seven issues addressed during the 2010-2012 cycle and four issues addressed during the 2011-2013 cycle of annual improvements to IFRSs. Except for two amendments, to IFRS 13 and IFRS 1, the amendments are effective from 1 July 2014 either prospectively or retrospectively.

The following amendments are expected to be relevant to the Group:

- IFRS 3 *Business Combinations*: Accounting for contingent consideration in a business combination.
- IFRS 8 *Operating Segments*: Aggregation of operating segments.
- IAS 24 *Related Party Disclosures*: Key management personnel.
- IFRS 3 *Business Combinations*: Scope exceptions for joint ventures.
- IAS 40 *Investment Property*: Clarifying the interrelationship between IFRS 3 and IAS 40 when classifying property as investment property or owner-occupied property.

2. Summary of Significant Accounting Policies (continued)

Principles of Consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries, i. e. investees controlled by the Group, as at 31 December 2013.

In certain instances, the Group sponsors the formation of structured entities for the purpose of issuance of debt securities or other purposes. The Group consolidates structured entities it controls.

The financial statements of the subsidiaries are prepared for the same reporting period as a parent company. All intragroup transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Where necessary, accounting policies for subsidiaries have been changed to ensure consistency with the policies adopted by the Group.

Total comprehensive income within a subsidiary is attributed to equity holders of the parent and the non-controlling interest even if that results in a deficit balance. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

Acquisition of subsidiaries

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree at the proportionate share of the acquiree’s net identifiable assets at the date of acquisition. Acquisition costs incurred are expensed and included in *Other expenses* in the consolidated statement of profit or loss.

Transactions under common control

The transactions with entities under common control are measured at the actual consideration stated in any agreement related to the each transaction, provided that there is no requirement of IFRS to measure the transaction at fair value.

Functional currencies

The Group’s consolidated financial statements are presented in Roubles, which is also the Company’s functional currency and the functional currency of all significant subsidiaries, except Gefco S.A. which has Euro as a functional currency. Items included in the financial statements of each entity are measured using the functional currency of each entity.

2. Summary of Significant Accounting Policies (continued)

Fair value measurements

The Group measures financial instruments, such as derivatives, and non-financial assets such as investment properties, at fair value at each reporting date.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest input that is significant to the fair value measurement as a whole:

- Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs: unobservable inputs for the asset or liability.

The management determines the policies and procedures for both recurring fair value measurement, such as investment properties, and for non-recurring measurement, such as assets held for sale and distribution and assets of discontinued operations.

External appraisers are involved for valuation of significant assets and significant liabilities. Involvement of external appraisers is decided upon annually by the Company’s management. Selection criteria include market knowledge, reputation, independence and whether professional standards are properly maintained. The management decides, after discussions with the appraisers, which valuation techniques and inputs to use for each case.

For the purposes of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Property, Plant and Equipment

Property, plant and equipment are recognized at historical cost of acquisition or construction less accumulated depreciation and any accumulated impairment losses (the Group’s approach to the accounting for impairment is described in *Significant Accounting Judgments, Estimates and Assumptions* section below). Construction-in-progress comprises costs directly related to construction and acquisition of property, plant and equipment plus an appropriate allocation of directly attributable variable and fixed overheads that are incurred in construction. Depreciation commences once the asset becomes available for use.

Subsequent expenditures relating to an item of property, plant and equipment, which qualify for recognition as assets in accordance with provisions of IAS 16 *Property, Plant and Equipment,* are capitalized and the replaced parts are derecognised. When each major inspection is performed, its cost is recognised in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied.

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (being an asset that necessarily takes a substantive period of time to get ready for its intended use or sale) are capitalized as part of the cost of respective asset.

2. Summary of Significant Accounting Policies (continued)

Property, Plant and Equipment (continued)

Costs other than those referred to above are recognized as an expense when incurred.

Land occupied by the Group's facilities is owned by the Russian Federation. In 2003, at the date of incorporation, some of such land plots were contributed as in-kind contribution to the Company's share capital and, consequently, were included in Property, Plant and Equipment as at 31 December 2013 and 2012. The land is not depreciated.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life. Depreciation is included into operating expenses in the respective period.

The useful lives used to calculate depreciation are as follows (years):

Buildings	10-60
Constructions	10-100
Roadbed	10-100
Superstructure	20 -25
Locomotives	20-40
Rolling stock, passenger	25-28
Rolling stock, cargo	13-40
Operating equipment	4-60
Other fixed assets	4-60

The residual values, useful lives and methods of depreciation of property, plant and equipment are reviewed at each financial year end and adjusted prospectively, if appropriate.

The useful lives presented herein differ from those disclosed in the consolidated financial statements as at 31 December 2012 and for the year then ended as they were revised in the course of the Group's finalization of its PP&E registers for the year 2012 as described in Note 3.

An item of property, plant and equipment and any significant part initially recognized is derecognized upon disposal or when no future economic benefits are expected from its use or disposal.

Investment Property

Investment property is initially recognized at cost, including directly attributable expenditure, and subsequently remeasured at fair value which reflects market conditions at the end of the reporting period. Fair values are determined based on an annual evaluation performed by an accredited external independent appraiser, applying a valuation model recommended by the International Valuation Standards Committee.

2. Summary of Significant Accounting Policies (continued)

Intangible Assets Other than Goodwill

Intangible assets are initially measured at cost. After initial recognition, intangible assets are measured at cost less accumulated amortization and any accumulated impairment losses (the Group's approach to the accounting for impairment is described in *Significant Accounting Judgments, Estimates and Assumptions* section below). Internally generated intangible assets, excluding capitalized development costs, are not capitalized and related expenditure is reflected in profit and loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized on a straight-line basis over the estimated useful lives of the related assets. Useful lives of the Group's intangible assets vary from 3 to 38 years. Amortization periods and methods for intangible assets with finite useful lives 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 considered to modify the amortization period or method, as appropriate, and are treated as changes in accounting estimates. Amortization expense on intangible assets with finite lives is included into operating expenses of the respective period.

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Financial Assets and Liabilities

The Group's financial assets include cash and cash equivalents, trade and other receivables and loans issued classified as loans and receivables, derivative financial instruments classified as financial assets at fair value through profit or loss and financial assets classified as available-for-sale investments.

All regular way purchases and sales of financial assets are recognised on the trade date, which is the date that the Group commits to purchase or sell the asset.

The Group's financial liabilities include trade and other payables and interest bearing loans and borrowings classified as loans and borrowings, derivative financial instruments classified as financial liabilities at fair value through profit or loss and financial guarantee contracts.

Financial guarantee contracts

Financial guarantee contracts issued by the Group are these contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specific debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are initially recognised as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the best estimate of expenditure required to settle present obligation at the reporting date and the amount initially recognized less, when appropriate, cumulative amortization.

2. Summary of Significant Accounting Policies (continued)

Financial Assets and Liabilities (continued)

Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate and currency swaps to hedge its foreign currency risks and interest rate risks. Such derivative financial instruments are designated upon recognition as financial assets held for trading, initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Any gains or losses arising from changes in fair value of derivatives are taken directly to the statement of profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

The Group did not designate any financial instruments as hedging instruments as defined by IAS 39.

Inventories

Inventories, which include materials, fuel and spare parts, are valued at the lower of cost, as determined by the weighted average method, and net realizable value.

Cash and Cash Equivalents

Cash consists of cash on hand and balances with banks. Cash equivalents comprise short-term deposits with original maturities of three months or less.

For the purpose of the consolidated statement of cash flows, cash and cash equivalents consist of cash and short-term deposits, as defined above, net of outstanding bank overdrafts.

Revenue and Expense Recognition

Revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the Group and the amount of revenues can be measured reliably.

Revenues and expenses are accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the statement of profit or loss in the period to which they relate. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent.

2. Summary of Significant Accounting Policies (continued)

Revenue and Expense Recognition (continued)

The revenues generated by the Group comprise:

- Cargo revenues representing revenues from cargo transportation;
- Logistics revenues mainly represented by revenues from logistics services provided by Gefco S.A. and its subsidiaries ("Gefco Group");
- Passenger revenues representing revenues obtained from transportation of passengers;
- Other revenues including revenues obtained from repair of rolling stock, sale of goods, healthcare services, telecommunication services, construction services and other revenues as detailed in Note 23.

Cargo and passenger transportation

In respect of services related to cargo transportation, revenue is recognised by reference to the stage of completion of the transportation at the reporting date provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. In the event that either of the conditions above is not met as at the reporting date, the recognition of revenue is deferred to the date when transportation is completed, i.e. cargo delivered to the place of destination. The stage of completion is determined as a percentage of services performed to date to total services to be performed.

In respect of services related to passenger transportation, revenue is recognized when transportation is completed.

Logistics revenues

Revenue from logistics services is recognised over the period when the services are rendered.

Rental income

Rental income arising from operating leases on investment properties, rolling stock and railway infrastructure objects is accounted for on a straight-line basis over the lease terms and is included in revenue due to its operating nature.

Revenue from construction services

The Group renders significant construction services to third parties under long-term construction contracts.

Revenue from construction services rendered is recognised in the statement of profit or loss by reference to the stage of completion which is measured based on the actual volume of works completed. The stage of completion is assessed monthly. When the outcome of the contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. The Group provides for estimated losses on uncompleted contracts in the period, in which such losses are identified.

2. Summary of Significant Accounting Policies (continued)

Interest Income and Expense

Interest income and expense are recorded using the effective interest rate (EIR), which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of such an instrument taking into consideration all contractual terms of the instrument. Interest income and expense is included in finance income and expense, respectively, in the consolidated statement of profit or loss.

Government Subsidies

The Group receives subsidies and grants from the Russian government for compensation of the effect of tariffs' regulation, capital repairs and acquisition of assets and other purposes. Government subsidies related to income are recognised as income over the periods necessary to match them on the systematic basis with the related cost which they are intended to compensate. Income relating to government subsidies is presented separately in the statement of profit or loss.

Subsidies and grants contributed towards the acquisition of or capitalisable subsequent expenditures on assets are deducted from the cost of those assets in the periods where related costs are incurred. Such subsidies are then recognized as income over the useful life of a depreciable asset by way of reduced depreciation charge.

When loans or similar assistance are provided by the governments or related institutions at below-market interest rate, the effect of this favorable interest is regarded as a government grant and measured as the difference between the initial carrying value of the loan and the proceeds received.

Cash proceeds from subsidies and grants related to assets are presented separately from the cash outflows on purchase of assets, within financing activities in the statement of cash flows.

Employee Benefits

Defined benefit plans

The Group operates defined benefit pension plans. These benefits are partially funded. In addition, the Group provides certain other retirement and post-employment benefits to its employees. These benefits are unfunded. The obligation and cost of benefits under the plans are determined separately for each plan using the projected unit credit method.

Re-measurements, comprising of actuarial gains and losses and the return on plan assets (excluding net interest), are recognized immediately in the statement of financial position with a corresponding debit or credit to retained earnings through other comprehensive income in the period in which they occur. Re-measurements are not reclassified to profit or loss in subsequent periods.

Net interest is calculated by applying the discount rate to the net defined benefit liability or asset. The Group recognises the following changes in the net defined benefit obligation under the line *Wages, salaries and related contributions* in consolidated statement of profit or loss:

- Service costs comprising current service costs, past-service costs, gains and losses on curtailments and non-routine settlements.
- Net interest expense or income.

2. Summary of Significant Accounting Policies (continued)

Employee Benefits (continued)

Past service costs are recognised in profit or loss on the earlier of:

- The date of the plan amendment or curtailment; and
- The date that the Group recognises restructuring-related costs.

Defined contribution plans

In addition to the defined benefit plans described above, the Group also sponsors a defined contribution plan for certain of its employees. The plan provides for contributions by the Group ranging from 1% to 4.8% of salary, and by employees ranging from 0.6% to 10.7% of salary. The Group’s contributions relating to the defined contribution plan are expensed in the year to which they relate.

State plan

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

Contributions to the State Pension Fund together with other social contributions are calculated as 30% (2012: 30%) on the annual gross salary of each employee. Excess of annual gross salary of employee over Rbls 568 thousand (2012: Rbls 512 thousand) is taxed at 10%.

Other long-term benefits

In 2008 the Group introduced a number of long-term employee benefits, including loyalty bonus. The obligation and cost of benefits are determined separately for each benefit using the projected unit credit method. Service cost, net interest on the net defined benefit liability and remeasurements of the net defined benefit liability for other long-term benefits are recognised in the statement of profit or loss.

Provisions

A provision is recognised when the Group has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

2. Summary of Significant Accounting Policies (continued)

Contractual Commitments

Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future.

The Group discloses significant contractual commitments for major types of purchases in the notes to the financial statements.

Sale and Leaseback Transactions

If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. The asset is restated to its fair value (or the present value of the minimum lease payments, if lower) in exactly the same way as any other asset acquired under a finance lease.

Significant Accounting Judgments, Estimates and Assumptions

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs, and accompanying disclosures, and disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in the future periods.

Judgments

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

Accounting for non-production property, plant and equipment

Included in property, plant and equipment are social infrastructure assets. Management believes that expenditures incurred in respect of acquisition or construction of such assets qualify for the recognition as an asset on the premises that such expenditures are capable of contributing indirectly to the flow of cash and cash equivalents to the Group through a reduction of cash benefits to employees. This is driven by the fact that such non-production assets are employed by the Group to provide in-kind benefits to its employees.

Accounting for leases – Group as lessee

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 arrangement rather than the form of the contract. The arrangement is assessed for whether fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset or assets, even if that right is not explicitly specified in the arrangement. If the lease term is for the major part of the economic life of the asset even if title is not transferred, or if at the inception of the lease the present value of the minimum lease payments amounts to at least substantially all of the fair value of the leased asset, the lease is classified by the Group as finance lease, unless it is clearly demonstrated otherwise.

2. Summary of Significant Accounting Policies (continued)

Judgments (continued)

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

Operating lease commitments – Group as lessor

The Group has entered into commercial property leases on its investment property. The Group has determined, based on an evaluation of the terms and conditions of the arrangements, such as the lease term not constituting a substantial portion of the economic life of the commercial property, and the present value of minimal lease payments at the inception of the lease is significantly lower than the fair value of the leased asset, that it retains all the significant risks and rewards of ownership of these properties and accounts for the contracts as operating leases.

Assets classified as held for sale

As at 31 December 2013, certain PP&E items and the Group's subsidiaries OJSC "First Nonmetallic Company" and OJSC "Vagonremmash" were classified as assets and disposal groups held for sale, respectively, and accounted for in accordance with IFRS 5 *Assets Held for Sale and Discontinued Operations* (Note 15).

Consolidation of a Structured Entity

The Company has no voting rights in respect of RZD Capital P.L.C., a public limited company incorporated in Ireland. Principal activity of RZD Capital P.L.C. (hereinafter also – RZD Capital) is the issue of debt securities for the sole purpose of providing loans to the Company. There is insufficient equity to allow RZD Capital to finance its activities without the financial support from the Company.

Based on these facts and circumstances, the Group assessed that the voting rights are not dominant factor in determination of whether the Company controls RZD Capital and concluded that RZD Capital is a structured entity under IFRS 10 controlled by the Company. Respectively, RZD Capital is consolidated into the Group's consolidated financial statements.

RZD Capital issued a series of loan participation notes in 2010-2013 (Note 16). The Company's obligations under the loan agreements with RZD Capital serve as a security for loan participation notes issued.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below. The Group based its assumptions and estimates on the latest information available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

The most significant estimates relate to the depreciable lives of property, plant and equipment, impairment of non-financial and financial assets, determination of the net employee defined benefit liabilities and the related current service costs with regard to pension plans and other long-term employee benefits, fair value of financial instruments, revaluation of investment property, provision for tax and legal contingencies, deferred taxation, development costs and construction contracts. Actual results could differ from these estimates.

Useful life of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end. 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 recognized in profit or loss.

Impairment of property, plant and equipment and other non-financial assets

The Group assesses at each reporting date whether there is any indication that an asset or any of the Groups' cash-generating units (CGUs) may be impaired and determines recoverable amount of an asset or a CGU if impairment indicators are identified.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

The Group bases its impairment calculation on detailed budgets and forecasts which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecasts generally cover the period of three years and are further extrapolated for the mid-term period applying forecasted inflation rate, cargo and passenger turnover and tariffs growth rates. For longer periods, a long-term growth rate is determined and applied to projected future cash flows. For the purposes of impairment test performed as of 31 December 2013, the Group based its mid-term projections on the forecasted inflation rate, cargo and passenger turnover and tariffs growth rates for the period up to and including the year 2030. In particular, forecasted cargo tariffs growth rates used in the impairment test as of 31 December 2013 are based on the tariff growth rates approved by the FST in December 2013 for the years 2014-2018 (Note 1) and on the long-term forecast of the Ministry of the Economic Development of the Russian Federation issued in November 2013 for the periods subsequent to 2018. Projected cash inflows include continuing government support in the form of subsidies and grants in accordance with the Group's three-year financial plan for 2014-2016 and are further indexed by forecasted inflation rate. Projected cash outflows take into account forecasted decrease in the operating expenses planned by the management in accordance with the Group's cost reduction program. Discount rate used to calculate CGU recoverable amount is based on the weighted average cost of capital (WACC) as a starting point, adjusted to reflect asset-specific risks for each CGU.

Prior to 2013, the Group identified several CGUs of which the most significant one, CGU *RZD*, included predominantly infrastructure assets owned by the Company and assets used by the Group for its development and maintenance. Assets used for provision of the long-distance and suburban passenger transportation, owned both by the Company and its respective subsidiaries, were also included in CGU *RZD*.

Based on the impairment analysis performed as of 31 December 2012, no impairment was identified for CGU *RZD*.

In 2013, the Group changed its CGU structure splitting CGU *RZD* into three separate CGUs: CGU *Infrastructure* (CGU IS), CGU *Long-Distance Passenger Transportation* (CGU LDPT) and CGU *Suburban Passenger Transportation* (CGU SPT). The most significant one, CGU IS, includes predominantly infrastructure assets owned by the Group and assets used by the Group for its development and maintenance. Assets used for provision of the long-distance and suburban passenger transportation, owned both by the Group and its respective subsidiaries, were separated to CGU LDPT and CGU SPT, respectively. Such change in the CGU structure was caused by the developments in the tariff-setting regulations for cargo, long-distance and suburban passenger transportation resulting in the Group's conclusion on the cash inflows generated by related assets becoming largely independent starting from the year 2013. No goodwill is allocated to the specified CGUs.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

The Group determined recoverable amounts of CGU IS, CGU LDPT and CGU SPT as of 31 December 2013 based on a value in use calculation. As a preliminary result of the impairment test for CGU IS, CGU LDPT and CGU SPT as of 31 December 2013, the Group identified impairment losses, calculated as the excess of the CGU carrying value over respective recoverable amount, for CGU LDPT and CGU SPT in the amount of Rbls 161 billion and Rbls 129 billion, respectively. Also, potential impairment losses in the total amount of Rbls 3 billion were identified for other CGUs.

No impairment of CGU IS was identified as of 31 December 2013. However, adverse changes in the cargo and passenger turnover and tariffs growth rates, and in other projection factors described above, in the future periods, if any, could result in the material impairment loss for CGU IS in the periods where such changes occur.

The Group believes that impairment of CGU LDPT and CGU SPT results mainly from the following:

- CGU LDPT: adverse changes in the expected long-distance passenger transportation volumes due to overall stagnation in Russian economy and insufficient indexation of tariffs which is not compensated in full by the government subsidies;
- CGU SPT: overall losses in suburban passenger transportation caused by insufficient level of compensation for lost revenues in suburban passenger transportation due to tariffs regulation by the regional authorities.

The Group has not recorded impairment losses described above preliminarily estimated in the total amount of Rbls 293 billion as it has not finalized its PP&E registers for the year 2013 and respective carrying values as of 31 December 2013 at the date when these consolidated financial statements were authorized for issuance (Note 3). Thus impairment losses determined as the excess of the carrying value of the Group's CGUs over respective recoverable amount may be revised upon final determination of the respective carrying values.

These estimates, including the methodologies used, may have a material impact on the amount of any property, plant and equipment and other non-financial assets impairment.

Goodwill is tested for impairment annually as at 30 June and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. Impairment loss is recognized when CGU carrying value exceeds its recoverable amount. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually as at 30 June at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

Goodwill and intangible assets with indefinite useful life are mainly allocated to CGU Logistics, which includes assets of Gefco Group and other Group's subsidiaries involved in provision of logistics services.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

Losses on impairment of non-financial assets are recognized in the statement of profit or loss within operating expenses.

As at 30 June 2013, no impairment of goodwill or intangible assets with indefinite useful lives was identified and no impairment indicators were identified by the Group as at 31 December 2013 (2012: nil).

Impairment of financial assets

The Group assesses, at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred "loss event") and that loss event has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the debtors or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and when observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortized cost

For financial assets carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists 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.

Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment. If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognised in the consolidated statement of profit or loss in finance expense for loans issued and in operating expenses for receivables. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income in the statement of profit or loss. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to finance costs in the statement of profit or loss.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

Long-term employee benefits – defined benefit plans

The cost of defined benefit pensions plans, other post-employment benefit plans and other long-term benefits and present values of related obligations are determined using actuarial valuations. An actuarial valuation involves making various assumptions including determination of mortality, both during and after employment, rates of employee turnover, discount rate, future salary and benefits levels and, to a limited extent, expected return on plan assets. Due to complexities involved in valuation and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. In determining the appropriate discount rate, management considers the interest rates of government bonds with the currency and terms consistent with the currency and estimated terms of the defined benefit obligation. All assumptions are reviewed at each reporting date. More details are provided in Note 19.

Litigations

The Group exercises considerable judgment in measuring and recognizing provisions and the exposure to contingent liabilities related to pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation, as well as other contingent liabilities. Judgment is necessary in assessing the likelihood that a pending claim will succeed, or a liability will arise, and to quantify the possible range of the final settlement. Because of the inherent uncertainties in this evaluation process, actual losses may be different from the originally estimated provision. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists, if available, or with the support of outside consultants, such as legal counsel. Revisions to the estimates may significantly affect future operating results.

Current taxes

Russian tax, currency and customs legislation is subject to varying interpretations and changes occur frequently. Further, the interpretation of tax legislation by tax authorities as applied to the transactions and activity of the Group's entities may not coincide with that of management. As a result, tax authorities may challenge transactions and the Group's entities may be assessed additional taxes, penalties and interest, which can be significant. Periods remain open to review by the tax and customs authorities with respect to tax liabilities for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. As at 31 December 2013, the management believes that its interpretation of the relevant legislation is appropriate and that it is probable that the Group's tax, currency and customs positions will be sustained. More details are provided in Notes 18 and 29.

Deferred tax assets

Deferred tax assets are recognized to the extent that their utilization is probable. The utilization of deferred tax assets will depend on whether it is possible to generate sufficient taxable income in respective tax jurisdiction. Various factors are used to assess the probability of the future utilization of deferred tax assets, including past operating results, operational plan, expiration of tax losses carried forward, and tax planning strategies. If actual results differ from the estimates or if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be materially affected. Further details are provided in Note 29.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

Fair value of financial instruments

Where the fair value of financial assets and financial liabilities cannot be derived from active markets, they are determined using appropriate valuation techniques including the discounted cash flows models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments.

The analysis of fair values of financial instruments is provided in Note 33.

Revaluation of investment property

The Group carries its investment property at fair value, with changes in fair value being recognised in the statement of profit or loss. The Group engaged an independent valuation specialist to assess fair value as at 31 December 2013. Investment property was valued with a reference to market-based evidence, using comparable prices adjusted for specific market factors, such as nature, location and condition of the property.

Development costs

Development costs are capitalised in accordance with the Group’s accounting policy. Initial capitalisation of costs is based on management’s judgment that technological and economical feasibility is confirmed, usually when a product development project has reached a defined milestone according to an established project management model. In determining the amounts to be capitalised, management makes assumptions regarding the expected future cash generation of the project, discount rates to be applied and the expected period of benefits.

Construction contract

When the outcome of a construction contract cannot be estimated reliably, revenue is recognised only to the extent of contract costs incurred that it is probable will be recoverable; and contract costs are recognised as an expense in the period in which they are incurred. An expected loss on the construction contract is recognised as an expense immediately. The expected loss is assessed based on analysis performed by the management of the Group in accordance with approved project budget.

3. Restatement of Comparative Information and Reclassifications

Restatement as a Result of Application of IAS 19R

The Group applied IAS 19 (Revised 2011) retrospectively in the current period in accordance with the transitional provisions set out in the revised standard (Note 2) and also corrected certain prior period errors restating appropriate balances of liabilities and equity as at 31 December 2012 and 1 January 2012 and making adjustments to the comparative figures in the consolidated statement of profit or loss and consolidated statement of other comprehensive income for the year ended 31 December 2012 as follows:

As at 1 January 2012:

Consolidated statement of financial position

Deferred tax liabilities decreased by	Rbls 2,672 million
Retained earnings and other reserves decreased by	Rbls 36,669 million
Net employee defined benefit liabilities increased by	Rbls 39,492 million
Non-controlling interests decreased by	Rbls 151 million

As at 31 December 2012 and for the year then ended:

Consolidated statement of financial position

Deferred tax liabilities decreased by	Rbls 2,549 million
Retained earnings and other reserves decreased by	Rbls 34,632 million
Net employee defined benefit liabilities increased by	Rbls 37,332 million
Non-controlling interests decreased by	Rbls 151 million

Consolidated statement of other comprehensive income

Remeasurement loss on net defined benefit liabilities increased by	Rbls 20,612 million
Related income tax effects (gain) increased by	Rbls 1,632 million

Consolidated statement of profit or loss

Wages, salaries and related contributions decreased by	Rbls 21,967 million
Gain on disposal of controlling interest in subsidiaries, net, increased by	Rbls 805 million
Deferred taxes (gain) decreased by	Rbls 1,755 million
Net income for the period increased by	Rbls 21,017 million

Correction of Errors

In 2013, the Group has finalized its property, plant and equipment registers as at 31 December 2012, bringing accounting for property, plant and equipment in accordance with IAS 16 *Property, Plant and Equipment* and IAS 36 *Impairment of Assets* as of this date. However, the Group did not finalize its property, plant and equipment registers for the movements in its property, plant and equipment, including accounting for components and recognition of effects of impairment for 2013 (Note 2).

3. Restatement of Comparative Information and Reclassifications (continued)

Correction of Errors (continued)

As a result of above, the Group identified certain errors in the carrying values of property, plant and equipment as at 31 December 2012. In accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*, these errors were corrected retrospectively by restating appropriate balances of assets, liabilities and equity as at 31 December 2012 and making certain adjustments to the consolidated statement of profit or loss and statement of other comprehensive income for the year 2012 as following:

As at 31 December 2012 and for the year then ended:

Consolidated statement of financial position

Property, plant and equipment decreased by	Rbls 5,215 million
Deferred tax assets decreased by	Rbls 458 million
Deferred tax liabilities decreased by	Rbls 450 million
Finance lease obligations, net of current portion, decreased by	Rbls 2,343 million
Finance lease obligations, current portion, decreased by	Rbls 32 million
Retained earnings and other reserves decreased by	Rbls 5,594 million
Revaluation reserve increased by	Rbls 2,746 million

Consolidated statement of profit or loss

Materials, repairs and maintenance decreased by	Rbls 14,431 million
Depreciation and amortization increased by	Rbls 2,516 million
Loss on impairment of property, plant and equipment increased by	Rbls 1,080 million
Other operating expenses increased by	Rbls 265 million
Finance expense and similar items increased by	Rbls 37 million
Gain on disposal of controlling interest in subsidiaries, net, increased by	Rbls 2,546 million
Other income decreased by	Rbls 2,344 million
Other expenses increased by	Rbls 16,566 million
Foreign exchange gain, net, increased by	Rbls 245 million
Deferred taxes (gain) decreased by	Rbls 8 million
Net income for the period decreased by	Rbls 5,594 million

Consolidated statement of other comprehensive income

Revaluation of investment property increased by	Rbls 2,746 million

3. Restatement of Comparative Information and Reclassifications (continued)

Change in Presentation of Repair Expenses

Certain expenses related to repairs previously included in the line *Materials, repairs and maintenance* of consolidated statement of profit or loss were reallocated between the lines *Wages, salaries and related contributions, Fuel, Electricity, Depreciation and amortization, Taxes other than income* tax and *Other operating expenses* of consolidated statement of profit or loss as follows:

Materials, repairs and maintenance decreased by	Rbls 21,993 million
Wages, salaries and related contributions increased by	Rbls 18,990 million
Fuel increased by	Rbls 995 million
Electricity increased by	Rbls 748 million
Depreciation and amortization increased by	Rbls 37 million
Taxes other than income increased by	Rbls 366 million
Other operating expenses increased by	Rbls 857 million

Reclassifications and Correction of Misclassifications

Certain comparative amounts have been reclassified to conform to the current period presentation and to correct certain misclassifications. The major reclassifications are described below:

- Certain raw materials, construction materials and other inventories previously included in the construction in process within the line *Property, plant and equipment* of consolidated statement of financial position were reclassified to the line *Inventories* in the consolidated statement of financial position.
- Certain prepayments related to purchase of property, plant and equipment previously included in the line *Prepayments and other current assets* of consolidated statement of financial position were reclassified to the line *Property, plant and equipment* in the consolidated statement of financial position.
- Revenue from logistics services previously reported within the line *Other revenues* of the consolidated statement of profit or loss was separated into the line *Logistics revenues* in the consolidated statement of profit or loss.
- Cost of freight forwarding logistics services purchased from third parties previously reported within the line *Other operating expenses* of the consolidated statement of profit or loss was presented as a separate line in the consolidated statement of profit or loss.
- Certain other operating expenses previously included in the line Materials, repairs and maintenance of consolidated statement of profit or loss were reclassified to the line Other operating expenses of consolidated statement of profit or loss.

Disclosures in related notes to these consolidated financial statements were amended respectively.

Such reclassifications had no impact on the Group's net income for the period.

4. Segment Reporting

For management purposes, the Group is organized into business units based on their services, and has five reportable operating segments:

- *RZD cargo segment* includes cargo transportation services provided by the Company.
- *Long-distance passenger segment* comprises all cross-regional passenger transportation services provided by the Group and aggregates long-distance passenger transportation provided by the Company and long-distance passenger transportation provided by OJSC "Federal Passenger Company", a subsidiary of the Company.
- *Auxiliary operations segment* includes repair and maintenance of rolling stock, energy re-sale, construction and other services provided by the Company's branches.
- *Subsidiaries cargo segment* includes cargo transportation services provided by the Company's subsidiaries.
- *Logistics services of Gefco Group* − in 2013, the Group identified additional separate reportable segment *Logistics Services of Gefco Group* comprised by operations of Gefco Group acquired by the Company in December 2012 (Note 5).
- *All other segments* include activities of the Company's subsidiaries which provide services related to suburban passenger transportation, telecommunication, research and development services, construction, reconstruction and modernization of railways and railway transport infrastructure, repair and maintenance of different railway-related equipment, real estate construction, wholesale of property, plant and equipment and raw materials for external customers and other companies within the Group. None of these operations are of a sufficient size to be reported separately. None of these operations can be aggregated with reportable operating segments described above due to dissimilar economical characteristics.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated on a basis of segment operating profit or loss determined based on management accounts that differ from the IFRS consolidated financial statements for the reason that the management accounts are based on local GAAP figures. The operating segment results do not include effects of certain non-recurring transactions, such as business acquisitions, and the effects of some adjustments that may be considered necessary to reconcile the management accounts to IFRS consolidated financial statements.

Prices between operating segments are generally set on the basis described in Note 1 other than for services outside of domestic and international regulations where prices are set by the management on a basis, where applicable, similar to transactions with third parties.

Substantially all of the Group's operating assets, except for the assets of Gefco Group, are located and most of the services, except for the services provided by Gefco Group, are provided in the Russian Federation.

4. Segment Reporting (continued)

Segment revenue is revenue that is directly attributable to a segment, whether from sales to external customers or from transactions with other segments. Segment revenue does not include:

- subsidies from federal and municipal budgets;
- finance income and similar items;
- income from rent of other property;
- foreign exchange gains;
- gain on changes in fair value of financial assets;
- gain on disposal of PP&E;
- gain on disposal of assets classified as held for sale;
- change in provision for legal claims (gain);
- penalties charged to customers;
- gain on disposal of controlling interest in subsidiaries;
- equity income from associates and joint ventures;
- other income.

Segment expense is expense resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments. Segment expense does not include:

- finance expense and similar items;
- foreign exchange losses;
- loss on changes in fair value of financial assets;
- loss on disposal of PP&E;
- loss on disposal of assets classified as held for sale;
- loss on impairment of PP&E;
- contributions to trade union, membership in professional associations;
- bank charges;
- income tax expense;
- bad debt expense;
- social expenses;
- commercial expenses;
- change in provision for legal claims (loss);
- penalties charged by customers;
- charity expenses;
- other expenses.

Segment result is measured as segment revenue less segment expense.

4. Segment Reporting (continued)

The following tables present revenue and segment results information regarding the Group's reportable operating segments:

Year ended 31 December 2013

	RZD Cargo	Long-distance passenger	Auxiliary operations	Subsidiaries cargo	Logistics services of Gefco Group	All other segments	Eliminations (A)	Adjustments (B)	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties	1,061,540	198,174	123,168	78,142	168,946	163,649	–	(30,781)	1,762,838
Inter-segment sales	39,465	7,542	143,514	16,962	–	261,325	(468,808)	–	–
Total revenue	**1,101,005**	**205,716**	**266,682**	**95,104**	**168,946**	**424,974**	**(468,808)**	**(30,781)**	**1,762,838**
Wages, salaries and related contributions	(440,949)	(41,186)	(105,302)	–	–	–	–	(110,157)	(697,594)
Fuel	(79,137)	(1,029)	(10,819)	–	–	–	–	(2,409)	(93,394)
Electricity	(93,349)	(691)	(21,807)	–	–	–	–	(2,623)	(118,470)
Depreciation and amortization	(156,235)	(16,111)	(39,394)	–	–	–	–	1,782	(209,958)
Segment result	**65,265**	**(10,517)**	**(7,560)**	**9,666**	**4,039**	**20,929**	**(22,163)**	**317**	**59,976**

Year ended 31 December 2012

	RZD cargo	Long-distance passenger	Auxiliary operations	Subsidiaries cargo	All other segments	Eliminations (A)	Adjustments (B)	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties	1,064,806	183,986	110,682	66,034	147,367	–	(32,552)	1,540,323
Inter-segment sales	36,838	7,120	145,568	40,493	402,708	(632,727)	–	–
Total revenue	**1,101,644**	**191,106**	**256,250**	**106,527**	**550,075**	**(632,727)**	**(32,552)**	**1,540,323**
Wages, salaries and related contributions	(417,394)	(41,344)	(99,150)	–	–	–	(88,697)	(646,585)
Fuel	(75,043)	(1,110)	(11,310)	–	–	–	(964)	(88,427)
Electricity	(89,500)	(604)	(20,423)	–	–	–	(2,106)	(112,633)
Depreciation and amortization	(149,200)	(16,420)	(37,955)	–	–	–	9,961	(193,614)
Segment result	**75,105**	**(18,710)**	**(9,614)**	**30,673**	**25,762**	**(39,333)**	**76,153**	**140,036**

(A) Inter-segment revenues and margins are eliminated on consolidation.

4. Segment Reporting (continued)

(B) The operating profit of each operating segment does not include the following adjustments representing differences between management accounts and consolidated financial statements for the years ended 31 December:

	2013	**2012**
	Rbls,mln	*Rbls,mln*
Reclassification of subsidies	(21,186)	(21,186)
Income from rent of other property (Note 27)	(8,753)	(7,402)
Other adjustments to revenue	(842)	(3,964)
	(30,781)	**(32,552)**
PP&E adjustments (C)	78,374	101,991
Adjustments related to intangible assets	(2,998)	(991)
Adjustments to bad debt expense	(10,449)	(10,638)
Additional non-current employee benefit liabilities	5,575	1,805
Subsidies from federal and municipal budgets not included in segment results (Note 26)	50,028	56,723
Finance expense and similar items, net, not included in segment results	(19,337)	(1,711)
Changes in fair value of financial assets, net, not included in segment results	(2,119)	(1,586)
Foreign exchange (loss)/gain, net, not included in segment results	(14,575)	5,200
Commercial expenses	(5,699)	(4,770)
Bank charges (Note 28)	(3,858)	(4,739)
Impairment of investments in associates and joint ventures (Note 28)	(19)	(2,228)
Payments under collective labour agreement	(5,730)	(6,911)
Loss on impairment of property, plant and equipment	(3,906)	(5,188)
Penalties charged (by)/to customers, net (Notes 27 and 28)	(2,722)	(2,558)
Contributions to trade union, membership in professional associations (Note 28)	(3,557)	(3,442)
Additional contribution to pension fund (Note 28)	–	(8,367)
Social expenses	(8,324)	(9,277)
Gain on disposal of assets classified as held for sale (Note 27)	118	6,781
Gain on disposal of controlling interest in subsidiaries, net (Note 5)	2,386	5,221
Equity income from associates and joint ventures, net	915	7,626
Change in provision for legal claims, net (Notes 18 and 28)	(7,731)	(3,515)
Charity expenses (Note 28)	(2,143)	(1,762)
Other adjustments	(13,131)	(8,959)
Total adjustments to income before taxation	**317**	**76,153**

(C) PP&E adjustments represent the effect of different carrying values and useful lives of property, plant and equipment and accounting treatment of property, plant and equipment components for the purposes of management accounts and consolidated financial statements prepared in accordance with IFRS.

5. Subsidiaries

The RZD's major subsidiaries included in the Group's consolidated financial statements as at 31 December 2013 and 31 December 2012 and for the years then ended are as follows:

Name of Company	Nature of business	Group's equity interest, % 31 December 2013	31 December 2012
OJSC "Federal Passenger Company"	Passenger transportation	100	100
Gefco S.A. (A)	Logistics operator	75	75
OJSC "Federal Freight"	Forwarding agent	100	100
OJSC "TransContainer"	Forwarding agent	50.60	50.63
OJSC "Refservice"	Forwarding agent	100	100
OJSC "RailTransAuto"	Forwarding agent	51	51
OJSC "High-speed Rail Lines"	High-speed rail lines	100	100
OJSC "RZDstroy"	Construction works	100	100
OJSC "Roszheldorproject"	Research and development	55.56	55.56
OJSC "RZD Trading Company"	Supply of rolling stock, railway equipment and spare parts	50 + 1 common share	50 + 1 common share
CJSC "Company TransTeleCom"	Telecommunication services	100	100
NO "Zhilsotsipoteka"	Residential construction	100	100
CJSC "Zheldoripoteka" (B)	Residential construction	100	100
OJSC "TransWoodService"	Manufacturing	100	100
OJSC "BetElTrans"	Manufacturing	100	100
OJSC "First Nonmetallic Company"	Extraction, processing and sale of nonmetallic minerals	100	100
OJSC "Zeleznodorozhnaya Torgovaya Kompaniya"	Trading	100	100
OJSC "Carriage Repair Company – 1"	Rolling stock repair and maintenance	100	100
OJSC "Carriage Repair Company – 2"	Rolling stock repair and maintenance	100	100
OJSC "Carriage Repair Company – 3"	Rolling stock repair and maintenance	100	100
OJSC "Kaluga plant "Remputmash"	Repair works	100	100
OJSC "The Incorporated Electrotechnical Plants"	Manufacturing of electrical engineering equipment	50 + 1 common share	50 + 1 common share

Major subsidiaries of RZD, except for Gefco S.A. (incorporated in France) and its subsidiaries, are registered in the Russian Federation.

(A) In December 2012, the Company acquired 75% equity stake in the logistics operator Gefco S.A. (France) for a total cash consideration of EUR 800 million (Rbls 32,626 million at the exchange rate at the date of payment).

(B) In December 2012, the Company acquired 50% less two shares in CJSC "Zheldoripoteka". As a result, the Group's interest in CJSC "Zheldoripoteka" increased up to 100%.

5. Subsidiaries (continued)

Details of Non-Wholly Owned Subsidiaries that Have Material Non-Controlling Interests

The table below shows details of non-wholly owned subgroups of the Group that have material non-controlling interests as at 31 December:

Name of Subgroup	Principle place of business	Proportion of ownership interests and voting rights held by non-controlling interests 2013	2012	Profit allocated to non-controlling interests 2013	2012	Accumulated non-controlling interests 2013	2012
				Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
TransContainer Group	Russian Federation	49.40%	49.37%	3,278	2,353	12,003	10,405
Gefco Group	France, Western Europe	25%	25%	1,009	–	8,632	7,742
Individually immaterial subsidiaries with non-controlling interests						(3,600)	(4,233)
						17,035	**13,914**

The summarized financial information of these subgroups is provided below. This information is based on amounts before inter-company eliminations.

Gefco Group

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Non-current assets	58,954	55,247
Current assets	43,220	35,450
Non-current liabilities	26,324	17,644
Current liabilities	41,650	42,400
Total equity	**34,200**	**30,653**
Attributable to:		
Equity holder of parent	25,568	22,911
Non-controlling interest	8,632	7,742

	2013
	Rbls mln
Revenue	168,946
Operating expenses	(167,167)
Finance expense and similar items, net	(601)
Other income and expenses, net	(456)
Income before taxation	**722**
Income taxes	(170)
Net income for the period	**552**
Other comprehensive income	4,159
Total comprehensive income for the period, net of tax	**4,711**
Attributable to non-controlling interests	1,009
Dividends, declared and paid, to non-controlling interests	(119)

5. Subsidiaries (continued)

Details of Non-Wholly Owned Subsidiaries that Have Material Non-Controlling Interests (continued)

	2013
	Rbls mln
Net cash from operating activities	4,980
Net cash used in investing activities	(1,798)
Net cash used in financing activities	(5,992)
Net decrease in cash and cash equivalents	**(2,810)**

TransContainer Group

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Non-current assets	31,002	27,774
Current assets	7,707	9,046
Non-current liabilities	8,130	5,696
Current liabilities	6,278	10,856
Total equity	**24,301**	**20,268**
Attributable to:		
Equity holder of parent	12,298	9,863
Non-controlling interest	12,003	10,405

	2013	2012
	Rbls mln	*Rbls mln*
Revenue	39,350	36,352
Operating expenses	(32,488)	(27,815)
Finance expense and similar item, net	(573)	(657)
Other income and expenses, net	664	(247)
Income before taxation	**6,953**	**7,633**
Income taxes	(657)	(1,690)
Net income for the period	**6,296**	**5,943**
Other comprehensive income/(loss)	199	(208)
Total comprehensive income for the period, net of tax	**6,495**	**5,735**
Attributable to non-controlling interests	3,278	2,353
Dividends, declared and paid, to non-controlling interests	(636)	(618)

	2013	2012
	Rbls mln	*Rbls mln*
Net cash from operating activities	7,225	7,242
Net cash used in investing activities	(4,775)	(6,061)
Net cash used in financing activities	(1,974)	(2,067)
Net increase/(decrease) in cash and cash equivalents	**476**	**(886)**

5. Subsidiaries (continued)

Changes in the Group's Ownership Interests in Subsidiaries

Acquisition in 2013

Acquisition of controlling interest in CJSC MAGINFO

In September 2013, the Group through its subsidiary, CJSC "Company TransTeleCom", acquired 100% of shares of CJSC "MAGINFO", a telecommunications operator, for the total cash consideration of Rbls 950 million. The fair value of net identifiable assets of CJSC "MAGINFO" as at the date of acquisition amounted to Rbls 352 million. The management assessed that goodwill related to this transaction amounted to Rbls 598 million.

Acquisitions in 2012

Acquisition of controlling interest in Gefco S.A.

In December 2012, the Group acquired 75% share of Gefco S.A., an entity incorporated in France, for cash consideration of EUR 800 million (Rbls 32,626 million at the exchange rate at the date of payment). Gefco Group is engaged in provision of logistics services.

The amounts recognized in the Group's consolidated financial statements as of 31 December 2012 and for the year then ended for the assets and liabilities of Gefco Group and respective non-controlling interest have been determined provisionally since the Group did not complete the initial accounting for this business combination at the date when 2012 financial statements were authorized for issuance.

In the second half of 2013, the management has completed its accounting for this business combination, and as a result, no adjustments were recognized to the initially recorded provisional values of assets, liabilities and non-controlling interest as at the date of acquisition.

5. Subsidiaries (continued)

Changes in the Group's Ownership Interests in Subsidiaries (continued)

The fair values of identifiable assets and liabilities of Gefco S.A. and respective non-controlling interest at the date of acquisition were:

	Fair value recognized on acquisition
	Rbls mln
Property, plant and equipment	18,895
Intangible assets other than goodwill	34,636
Deferred tax assets	422
Other non-current assets	1,291
Inventories	278
Trade receivables	24,246
Cash and cash equivalents	6,923
Other current assets	3,999
Total assets	**90,690**
Trade payables	22,737
Other current liabilities	19,659
Deferred tax liabilities	14,024
Other non-current liabilities	3,624
Total liabilities	**60,044**
Net assets	**30,646**
Less non-controlling interest	*(7,662)*
Net assets acquired	**22,984**
Goodwill	9,642
Cost of acquisition	**32,626**

The fair value of the acquiree's trade receivables for logistic services amounted to Rbls 24,246 million. The gross value of the acquiree's trade receivables was Rbls 25,170 million as at the date of acquisition.

The goodwill comprised future economic benefits from market penetration. None of the goodwill recognised is expected to be deductible for income tax purposes.

The management has determined that the recoverable amounts of goodwill and of the Gefco's brand, an intangible asset with indefinite useful life, as at 31 December 2012, are equal to their fair values determined at the date of acquisition less costs to sell which are considered to be negligible.

If the combination had taken place at the beginning of the year, the Group's revenue for 2012 would have increased by Rbls 143,936 million and the income before taxation for 2012 would have increased by Rbls 1,716 million.

5. Subsidiaries (continued)

Changes in the Group’s Ownership Interests in Subsidiaries (continued)

Acquisition of controlling interest in CJSC “Electro-com”

In February 2012, the Group through its subsidiary, CJSC “Company TransTeleCom”, acquired 100% of shares of CJSC “Electro-com”, a telecommunications operator, for total consideration of Rbls 2,348 million, including cash consideration of Rbls 2,308 million. The management assessed that goodwill related to this transaction amounted to Rbls 1,205 million.

Acquisition of control in OJSC “AK “Yakutia Railways”

In June 2012, the Group acquired 1 share of OJSC “AK “Yakutia Railways” for cash consideration of 370 rubles. As a result, the Group’s share in OJSC “AK “Yakutia Railways” increased up to 50% plus one share, and the Group obtained control over OJSC “AK “Yakutia Railways”. The fair value of net identifiable assets of OJSC “AK “Yakutia Railways” as at the date of acquisition amounted to Rbls 1,063 million.

Other acquisitions

In 2012, the Group acquired 4,996 common shares of its subsidiary CJSC “Zheldoripoteka” for cash consideration of Rbls 2,100 million. As a result, the Group’s interest in CJSC “Zheldoripoteka” increased up to 100%.

Disposals in 2013

Disposal of OJSC “Krasnoyarskiy elektrovagonoremontniy zavod”

In January 2013, the Group sold 100% less one share in OJSC “Krasnoyarskiy elektrovagonoremontniy zavod” for cash consideration of Rbls 1,560 million. As a result of the transaction, a gain of Rbls 992 million was recognized in the consolidated statement of profit or loss within *Gain on disposal of controlling interest in subsidiaries, net*.

Disposal of controlling interest in OJSC “Novosibirskiy Strelochniy Zavod”

In July 2013, the Group sold 75% less two shares in OJSC “Novosibirskiy Strelochniy Zavod” for cash consideration of Rbls 2,030 million. The Group’s interest in OJSC “Novosibirskiy Strelochniy Zavod” decreased to 25% plus two shares, and the Group lost control over OJSC “Novosibirskiy Strelochniy Zavod”. As a result of the disposal of controlling interest in OJSC “Novosibirskiy Strelochniy Zavod”, a gain of Rbls 637 million was recognized in the consolidated statement of profit or loss within *Gain on disposal of controlling interest in subsidiaries, net*.

The Group’s retained interest in OJSC “Novosibirskiy Strelochniy Zavod” is accounted for using the equity method in accordance with IAS 28 *Investments in Associates and Joint Ventures* starting from the date the control was lost (Note 6).

5. Subsidiaries (continued)

Changes in the Group's Ownership Interests in Subsidiaries (continued)

Disposal of controlling interest in JSC "Kedentransservice"

In December 2013, as a result of realization of the right to purchase 17% in JSC "Kedentransservice" by the second shareholder, the Group sold 17% of shares of JSC "Kedentransservice" (subsidiary of OJSC "TransContainer") for a cash consideration of Rbls 665 million. The Group's interest in JSC "Kedentransservice" decreased to 50% and the Group lost control over JSC "Kedentransservice". As a result of the disposal, a gain of Rbls 757 million was recognized in the consolidated statement of profit or loss within *Gain on disposal of controlling interest in subsidiaries, net.*

As at 31 December 2013, the Group's retained investment in JSC "Kedentransservice" is accounted for using equity method in accordance with IAS 28 (Note 6).

Disposals in 2012

Disposal of controlling interest in OJSC "Zeldorremmash"

In December 2012, the Company sold 75% less two shares of OJSC "Zeldorremmash" through the tender for cash consideration of Rbls 7,915 million. The Group's interest in OJSC "Zeldorremmash" decreased to 25% plus two shares and the Group lost control over OJSC "Zeldorremmash".

Due to the restatement of the carrying amount of property, plant and equipment at the date of disposal of controlling interest in OJSC "Zeldorremmash" (Note 3), the carrying value of net assets disposed as well as the gain on disposal of controlling interest in OJSC "Zeldorremmash" were restated.

As a result of the disposal of controlling interest in OJSC "Zeldorremmash", a gain of Rbls 5,122 million was recognized in the consolidated statement of profit or loss within *Gain on disposal of controlling interest in subsidiaries, net.*

Calculation of the gain on disposal of controlling interest in OJSC "Zeldorremmash" is presented below:

	At the transaction date Restated
	Rbls mln
Proceeds from disposal	7,915
Investment in associate OJSC "Zeldorremmash" at fair value (Note 6)	1,945
Carrying value of net assets disposed	(4,738)
Gain on disposal of controlling interest in OJSC "Zeldorremmash"	**5,122**

The Group's retained investment in OJSC "Zeldorremmash" is accounted for using equity method in accordance with IAS 28 (Note 6).

6. Investments in Associates and Joint Ventures

Investments in associates and joint ventures as at 31 December 2013 and 31 December 2012 comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
The Breakers Investments B.V. (CJSC "Transmashholding")	13,289	10,854
OJSC "Moscow Rail Ring"	2,750	2,611
JSC "Kedentransservice"	2,270	–
OJSC "Central Exurban Passenger Company"	1,645	1,581
OJSC "Zeldorremmash"	1,463	1,945
OJSC "Novosibirskiy Strelochniy Zavod"	621	–
Other	4,162	2,903
	26,200	**19,894**

The Breakers Investments B.V. (CJSC "Transmashholding")

The Breakers Investments B.V. holds a controlling stake in CJSC "Transmashholding". The principal activities of CJSC "Transmashholding" and its subsidiaries include design and manufacturing of locomotives, carriages and other railway transportation equipment and spare parts. CJSC "Transmashholding" operates mainly in the Russian Federation and in Ukraine.

The Company's ownership interest in The Breakers Investments B.V. as at 31 December 2013 and 31 December 2012 equals to 25% plus one share. The following table presents summarized financial information for The Breakers Investments B.V. as of 31 December 2013 and 31 December 2012:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Share of the associate's:		
Non-current assets	11,173	10,280
Current assets	14,924	14,667
Non-current liabilities	(3,454)	(3,696)
Current liabilities	(9,261)	(10,304)
Net assets	**13,382**	**10,947**
Share of the associate's revenue	38,572	32,473
Share of the associate's net income	3,959	2,567
Share of the other comprehensive income/(loss)	6	(39)
Dividends declared	(1,530)	(1,057)
Carrying amount of investment	**13,289**	**10,854**

JSC "Kedentransservice"

In December 2013, the Group lost control over JSC "Kedentransservice" (Note 5). The Group's retained 50% interest in JSC "Kedentransservice" was recognized at its fair value at the date when control was lost and accounted for in accordance with IAS 28 *Investments in Associates and Joint Ventures.* The management assessed that goodwill related to this transaction amounted to Rbls 309 million.

6. Investments in Associates and Joint Ventures (continued)

OJSC "Central Exurban Passenger Company"

In January 2013, the Group sold 72 shares of OJSC "Central Exurban Passenger Company" for cash consideration of Rbls 780 million. As a result, the Group's share in OJSC "Central Exurban Passenger Company" decreased to 25% plus one share.

OJSC "Novosibirskiy Strelochniy Zavod"

In July 2013, the Group lost control over OJSC "Novosibirskiy Strelochniy Zavod" (Note 5). The Group's retained 25% plus two shares interest in OJSC "Novosibirskiy Strelochniy Zavod" was recognized at its fair value at the date when control was lost and accounted for in accordance with IAS 28. The Group recognized the excess of the Group's interest in the fair value of the net identifiable assets and liabilities of OJSC "Novosibirskiy Strelochniy Zavod" over the cost of investment in amount of Rbls 64 million in the consolidated statement of profit or loss for the year ended 31 December 2013.

7. Property, Plant and Equipment

Property, plant and equipment as at 31 December 2013 and 2012 comprised the following:

31 December 2013

Gross book value	**Balance as at 1 January 2013**	**Additions**	**Disposals**	**Transfers**	**Additions through business combi-nations**	**Disposal of subsi-diaries**	**Effect of translation difference**	**Balance as at 31 December 2013**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	13,898	100	(2,696)	228	–	(33)	345	11,842
Buildings	270,278	496	(5,908)	38,510	–	(790)	1,432	304,018
Constructions	977,326	9,866	(18,624)	266,479	–	(363)	–	1,234,684
Roadbed	452,899	1,485	(5,570)	50,196	–	–	–	499,010
Superstructure	819,776	26,731	(27,887)	85,634	–	(136)	–	904,118
Operating equipment	786,091	8,821	(18,644)	98,634	42	(2,005)	567	873,506
Locomotives	406,438	4,483	(3,455)	88,684	–	–	–	496,150
Rolling stock, cargo	204,413	18,007	(5,651)	14,922	–	(10)	1,419	233,100
Rolling stock, passenger	439,692	2,865	(10,361)	53,583	–	–	–	485,779
Other fixed assets	140,320	7,615	(5,876)	13,457	–	(2,392)	608	153,732
Construction-in-progress	585,956	534,628	(7,570)	(710,327)	–	(138)	46	402,595
Total	**5,097,087**	**615,097**	**(112,242)**	**–**	**42**	**(5,867)**	**4,417**	**5,598,534**

7. Property, Plant and Equipment (continued)

31 December 2013 (continued)

Accumulated depreciation	Balance as at 1 January 2013	Depreciation charge for the year	Accumulated depreciation on disposals	Disposal of subsi-diaries	Effect of translation difference	Balance as at 31 December 2013
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	–	–	–	–	–	–
Buildings	(81,766)	(6,694)	228	218	(671)	(88,685)
Constructions	(480,418)	(26,111)	6,457	270	–	(499,802)
Roadbed	(208,970)	(7,293)	136	–	–	(216,127)
Superstructure	(486,620)	(68,587)	14,135	115	–	(540,957)
Operating equipment	(370,652)	(48,118)	11,731	909	(457)	(406,587)
Locomotives	(176,621)	(20,448)	1,098	–	–	(195,971)
Rolling stock, cargo	(97,464)	(7,675)	2,218	8	(831)	(103,744)
Rolling stock, passenger	(201,009)	(13,285)	4,857	–	–	(209,437)
Other fixed assets	(52,515)	(8,668)	3,047	757	(381)	(57,760)
Impairment	(4,054)	–	695	–	–	(3,359)
Total	**(2,160,089)**	**(206,879)**	**44,602**	**2,277**	**(2,340)**	**(2,322,429)**

31 December 2012 as restated

Gross book value	Balance as at 1 January 2012	Additions	Disposals	Transfers	Additions through business combi-nations	Disposal of subsi-diary	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	10,387	1,346	(633)	510	3,220	(932)	13,898
Buildings	244,125	6,514	(4,023)	21,678	7,008	(5,024)	270,278
Constructions	902,243	5,687	(10,286)	79,840	304	(462)	977,326
Roadbed	418,111	932	(844)	34,687	13	–	452,899
Superstructure	770,336	17,623	(32,589)	64,507	–	(101)	819,776
Operating equipment	709,058	4,855	(7,557)	81,512	1,620	(3,397)	786,091
Locomotives	344,811	634	(3,971)	64,163	958	(157)	406,438
Rolling stock, cargo	169,699	8,829	(26,655)	47,220	5,387	(67)	204,413
Rolling stock, passenger	403,677	11,145	(4,946)	29,810	6	–	439,692
Other fixed assets	136,482	7,367	(18,073)	12,800	2,273	(529)	140,320
Construction-in-progress	470,728	556,801	(5,072)	(436,727)	973	(747)	585,956
Total	**4,579,657**	**621,733**	**(114,649)**	**–**	**21,762**	**(11,416)**	**5,097,087**

Accumulated depreciation	Balance as at 1 January 2012	Depreciation charge for the year	Accumulated depreciation on disposals	Disposal of subsidiary	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	–	–	–	–	–
Buildings	(76,840)	(5,703)	249	528	(81,766)
Constructions	(458,226)	(27,428)	5,036	200	(480,418)
Roadbed	(203,369)	(5,709)	108	–	(208,970)
Superstructure	(449,672)	(60,858)	23,893	17	(486,620)
Operating equipment	(329,184)	(43,684)	1,277	939	(370,652)
Locomotives	(160,018)	(17,662)	1,026	33	(176,621)
Rolling stock, cargo	(93,931)	(11,552)	7,987	32	(97,464)
Rolling stock, passenger	(189,108)	(13,041)	1,140	–	(201,009)
Other fixed assets	(49,714)	(8,242)	5,344	97	(52,515)
Impairment	(4,111)	(2)	59	–	(4,054)
Total	**(2,014,173)**	**(193,881)**	**46,119**	**1,846**	**(2,160,089)**

7. Property, Plant and Equipment (continued)

31 December 2012 as restated (continued)

Net book value	Balance as at 31 December 2013	Balance as of 31 December 2012, as restated
	Rbls mln	*Rbls mln*
Land	11,842	13,898
Buildings	215,333	188,512
Constructions	734,882	496,908
Roadbed	282,883	243,929
Superstructure	363,161	333,156
Operating equipment	466,919	415,439
Locomotives	300,179	229,817
Rolling stock, cargo	129,356	106,949
Rolling stock, passenger	276,342	238,683
Other fixed assets	95,972	87,805
Construction-in-progress	402,595	585,956
Impairment	(3,359)	(4,054)
Total	**3,276,105**	**2,936,998**

During 2013, the Group recognized impairment loss of Rbls 8,428 million (2012: Rbls 5,188 million) for individual items of property, plant and equipment on the basis of management's assessment of probability of future sale or use of property, plant and equipment and construction-in-process projects. The Group also reversed the previously recognized impairment of Rbls 4,522 million (2012: nil).

During 2013, the Group issued the infrastructure bonds of Rbls 150,000 million (Note 16). The difference of Rbls 26,778 million between the fair value of bonds as at the initial recognition and the cash proceeds was recognized as government grants (Note 17). As at 31 December 2013, Rbls 16,449 million of the specified government grants were deducted from the carrying value of construction in progress acquired with the proceeds of the bonds.

In 2012 the Group received Rbls 22,817 million of government grants for capital repairs of railway infrastructure and other purposes, of which Rbls 17,365 million related to capitalized capital repairs for 2012.

Property, plant and equipment as at 31 December 2013 and 2012 include borrowing costs incurred in connection with the acquisition and construction of PP&E. Borrowing costs capitalized as PP&E during 2013 using a capitalization rate of 8.2% amounted to Rbls 26,514 million (2012: Rbls 23,720 million using capitalization rate of 7.6%).

Leased assets as at 31 December 2013 and 2012 included above, where the Group is a lessee under a finance lease, comprised the following:

	2013	2012 Restated
	Rbls mln	*Rbls mln*
Cost – capitalized finance leases	39,840	25,873
Accumulated depreciation	(2,840)	(4,465)
Net book value	**37,000**	**21,408**

7. Property, Plant and Equipment (continued)

31 December 2012 as restated (continued)

Included in leased assets above are assets with the aggregate cost of Rbls 17,626 million as at 31 December 2013 (2012: Rbls 10,203 million), which were obtained from related parties (Note 30). Refer to Note 20 for further details regarding finance leases.

8. Intangible assets other than goodwill

Intangible assets other than goodwill as at 31 December 2013 and 31 December 2012 comprised the following:

31 December 2013

Gross book value	Balance as at 1 January 2013	Additions	Disposals	Transfers	Additions through business combi-nations	Disposal of subsi-diaries	Effect of translation difference	Balance as at 31 December 2013
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	32,297	2,193	(642)	2,688	–	–	1,491	38,027
Brand	7,476	9	(32)	–	–	–	893	8,346
Contracts with customers (A)	20,570	–	–	–	375	–	2,324	23,269
Other intangible assets	12,343	1,953	(1,198)	447	–	(664)	651	13,532
Intangible assets under development	2,768	4,722	(361)	(3,135)	–	–	78	4,072
Total	**75,454**	**8,877**	**(2,233)**	**–**	**375**	**(664)**	**5,437**	**87,246**

Accumulated amortization	Balance as at 1 January 2013	Amortization charge for the year	Accumulated amortization on disposals	Disposal of subsidiaries	Effect of translation difference	Balance as at 31 December 2013
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	(6,752)	(4,656)	469	–	(701)	(11,640)
Brand	–	–	–	–	–	–
Contracts with customers (A)	(149)	(688)	–	–	(34)	(871)
Other intangible assets	(6,645)	(2,250)	887	134	(65)	(7,939)
Total	**(13,546)**	**(7,594)**	**1,356**	**134**	**(800)**	**(20,450)**

8. Intangible assets other than goodwill (continued)

31 December 2012

Gross book value	Balance as at 1 January 2012	Additions	Disposals	Transfers	Additions through business combinations	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	20,953	3,021	(208)	1,488	7,043	32,297
Brand	–	–	–	–	7,476	7,476
Contracts with customers (A)	258	–	–	–	20,312	20,570
Other intangible assets	11,471	2,036	(2,458)	994	300	12,343
Intangible assets under development	2,538	3,393	(1,222)	(2,482)	541	2,768
Total	**35,220**	**8,450**	**(3,888)**	**–**	**35,672**	**75,454**

Accumulated amortization	Balance as at 1 January 2012	Amortization charge for the year	Accumulated amortization on disposals	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	(4,484)	(2,611)	343	(6,752)
Brand	–	–	–	–
Contracts with customers (A)	(28)	(121)	–	(149)
Other intangible assets	(5,804)	(1,408)	567	(6,645)
Total	**(10,316)**	**(4,140)**	**910**	**(13,546)**

Net book value	Balance as at 31 December 2013	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*
Software	26,387	25,545
Brand	8,346	7,476
Contracts with customers (A)	22,398	20,421
Other intangible assets	5,593	5,698
Intangible assets under development	4,072	2,768
Total	**66,796**	**61,908**

(A) Contracts with customers comprising contractual customer relationships identified at acquisition of Gefco S.A., CJSC "Electro-com" and CJSC "MAGINFO" (Note 5) are measured at their fair values at the acquisition date and are being amortised on a straight line basis over the contractually agreed period of 10 to 38 years, taking into account the probability of renewal.

9. Other Financial Assets

Other financial assets as at 31 December 2013 and 31 December 2012 comprised the following:

Current

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Bank deposits	1,879	5,019
Loans issued to legal entities, net of impairment (A)	11,488	6,493
Other	2,510	5,622
Total other current financial assets	**15,877**	**17,134**

Non-current

	31 December 2013		
	Cost	Impairment	Carrying value
	Rbls mln	*Rbls mln*	*Rbls mln*
Loans issued to legal entities, net of impairment	729	(166)	563
Other	9,023	(3,947)	5,076
Total other non-current financial assets	**9,752**	**(4,113)**	**5,639**

	31 December 2012		
	Cost	Impairment	Carrying value
	Rbls mln	*Rbls mln*	*Rbls mln*
Loans issued to legal entities, net of impairment (A)	8,842	(341)	8,501
Other	7,318	(2,987)	4,331
Total other non-current financial assets	**16,160**	**(3,328)**	**12,832**

(A) As at 31 December 2013, current loans issued to legal entities included current portion of loans to OJSC "KIT Finance Investment bank" in the amount of Rbls 9,386 million (2012: current portion of Rbls 4,000 million and non-current portion of Rbls 7,955 million).

10. Inventories

Inventories as at 31 December 2013 and 31 December 2012 comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Raw materials	33,378	29,767
Spare parts and construction materials	59,187	61,858
Fuel and lubricants	10,489	9,529
Merchandise inventories	1,854	1,570
Other	14,025	17,627
Total	**118,933**	**120,351**
Less: provision for obsolete and damaged inventory	(6,121)	(4,517)
Total inventories, net	**112,812**	**115,834**

11. Prepayments and Other Current Assets

Prepayments and other current assets as at 31 December 2013 and 31 December 2012 comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Input VAT	15,013	17,993
Less: impairment (A)	(967)	(1,320)
	14,046	**16,673**
Advances paid to suppliers	12,879	14,403
Less: impairment	(2,118)	(2,014)
	10,761	**12,389**
Prepaid other taxes	6,130	9,652
Other current assets	17,192	18,872
Total prepayments and other current assets	**48,129**	**57,586**

(A) 100% allowance for impairment was recognized by the Group as at 31 December 2013 and 31 December 2012 with respect to input VAT related to abandoned construction projects.

12. Receivables

Receivables as at 31 December 2013 and 31 December 2012 comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Receivables for logistics services, net (A)	34,065	24,246
Receivables for transportation services, net (B)	6,309	5,609
Other accounts receivable, net (C)	37,663	34,865
Total receivables	**78,037**	**64,720**

(A) Receivables for logistics services, net as at 31 December 2013 and 2012 relate to receivables of Gefco Group. The increase in receivables for logistics services is represented mainly by receivables from General Motors for the new forth party logistics (4PL) services launched by Gefco Group in 2013.

(B) Receivables for transportation services, net as at 31 December 2013 and 31 December 2012 comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Receivables for transportation services	18,870	17,766
Less: allowance for impairment	(12,561)	(12,157)
Total receivables for transportation services, net	**6,309**	**5,609**

(C) Other accounts receivable, net as at 31 December 2013 and 31 December 2012 comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Other accounts receivable	62,969	53,060
Less: allowance for impairment	(25,306)	(18,195)
Total other accounts receivable, net	**37,663**	**34,865**

Receivables from Federal Agency on Railway Transport in the amount of Rbls 11,802 million as at 31 December 2012, previously reported as receivables for transportation services in 2012 consolidated financial statements were reclassified to other accounts receivable. These receivables were fully provided for by the Group as at 31 December 2012.

13. Cash and Cash Equivalents

Cash and cash equivalents as of 31 December 2013 and 31 December 2012 comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Bank deposits and other cash equivalents in Russian Roubles and foreign currencies	88,604	134,227
Cash in Russian Rubles	17,847	20,332
Cash in foreign currencies (primarily in US Dollars, Euro)	8,308	4,540
Total cash and cash equivalents presented in the statement of financial position	**114,759**	**159,099**
Bank overdrafts	(1,187)	–
Cash and cash equivalents attributable to assets classified as held for sale	350	–
Total cash and cash equivalents presented in the statement of cash flows	**113,922**	**159,099**

14. Taxes and Similar Charges Payable (other than income tax)

Taxes and similar charges payable (other than income tax) as of 31 December 2013 and 31 December 2012 comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Settlements with social funds	20,543	19,992
VAT	4,808	5,346
Property tax	7,640	6,717
Personal income tax	4,441	4,012
Other taxes	1,130	900
Total taxes and similar charges payable (other than income tax)	**38,562**	**36,967**

15. Assets Classified as Held for Sale

Assets classified as held for sale as at 31 December 2013 included rolling stock in the amount of Rbls 1,317 million (2012: Rbls 2,298 million).

As at 31 December 2013, assets and liabilities of OJSC “First Nonmetallic Company” (Rbls 4,491 million and Rbls 2,006 million, respectively) and of OJSC “Vagonremmash” (Rbls 3,461 million and Rbls 1,637 million, respectively) were classified as assets held for sale and accounted for in accordance with IFRS 5 *Assets Held for Sale and Discontinued Operations*.

16. Long-Term and Short-Term Borrowings

The outstanding balances of short-term and long-term borrowings as at 31 December 2013 and 31 December 2012 comprised the following:

31 December 2013	**Original currency**	**Principal amount in original currency**	**Interest rate**	**Maturity of non-current portion**	**Current**	**Non-current**
		mln			*Rbls mln*	*Rbls mln*
Short-term bank loans						
Fixed rates						
Other banks	RUR	9,026	7.5%-14%		9,026	–
Variable rates						
EONIA+	EUR	26	2%		1,187	–
Long-term bank loans						
Fixed rates						
Other banks (C)	RUR	48,302	7.45%-13%	2015-2023	5,797	42,506
Deposit Insurance Agency	RUR	10,000	6.50%		9,855	–
Other banks	EUR	7	6.30%	2023	18	281
Variable rates						
MosPrime+	RUR	8,373	2.80%-2.85%	2019	1,595	6,778
EURIBOR+	EUR	388	0.09%-3.6%	2015-2020	3,368	13,850
Debt securities issued						
Loan participation notes (D)	US$	2,900	5.7%-5.739%	2017-2022	–	95,828
Loan participation notes (D)	GBP	650	7.487%	2031	–	35,074
Loan participation notes (D)	RUR	37,500	8.3%	2019	–	37,418
Loan participation notes (D)	CHF	675	2.177%-2.730%	2018-2021	–	24,773
Loan participation notes (D)	EUR	1,000	3.374%	2021	–	44,970
Bonds						
CPI+ (E)	RUR	160,000	1%-2.1%	2028-2043	–	133,308
Other (B)	RUR	190,951	0.1%-15%	2015-2028	31,501	159,277
Other borrowings						
Other	Other		0%-12%	2015-2021	4,323	1,242
Total					**66,670**	**595,305**

16. Long-Term and Short-Term Borrowings (continued)

31 December 2012	Original currency	Principal amount in original currency	Interest rate	Maturity of non-current portion	Current	Non-current
		mln			*Rbls mln*	*Rbls mln*
Short-term bank loans						
Fixed rates						
Other banks	RUR	8,131	8%-13.5%		8,131	–
Variable rates						
LIBOR+	CHF	600	1.5%		19,985	–
Long-term bank loans						
Fixed rates						
Other banks (C)	RUR	50,337	8.30%-13.50%	2014-2021	3,821	46,521
Deposit Insurance Agency	RUR	14,000	6.50%	2014	4,000	9,177
Other banks	US$	250	7.50%		7,587	–
Variable rates						
MosPrime+	RUR	5,722	2.80%-2.85%	2014-2019	404	5,318
EURIBOR+	EUR	228	0.09%-0.8%	2014-2020	1,491	7,400
LIBOR+ (A)	US$	170	0.75%-3.5%		5,145	–
Debt securities issued						
Loan participation notes (D)	US$	2,900	5.7%-5.739%	2017-2022	–	87,872
Loan participation notes (D)	GBP	650	7.487%	2031	–	31,759
Loan participation notes (D)	RUR	37,500	8.3%	2019	–	37,418
Bonds						
CPI+(E)	RUR	10,000	2.1%	2032	–	10,000
Other(B)	RUR	170,738	0.1%-15%	2014-2025	33,836	136,639
Other borrowings						
Variable rates						
EURIBOR+	EUR	320	6%		12,873	–
Other	Other		0%-12%	2014-2021	2,786	1,573
Total					**100,059**	**373,677**

(A) In 2008 the Group obtained a US Dollar denominated unsecured loan from a consortium of international banks led by West LB, subsequently renamed to Portigon AG. The loan bears interest calculated as LIBOR plus 0.75%. The Company signed cross-currency and interest rate SWAP agreements with several banks for the full amount of the loan. The loan was fully repaid in March 2013 and the related SWAP agreements were fully settled.

(B) Bonds, outstanding as at 31 December 2013, comprised series of bonds with face value of Rbls 1 thousand each. Coupon rate is paid semi-annually. The terms of certain bonds issued by the Group provide their bondholders with the right for early redemption within twelve months subsequent to 31 December 2013. Respectively, bonds of Rbls 14,920 million were classified as current as at 31 December 2013 (2012: Rbls 14,929 million).

In February, April and November 2013, the Group placed at the domestic market bonds with the aggregate nominal values of Rbls 5,000 million, Rbls 20,000 million and Rbls 15,000 million with the maturity of 5, 15 and 15 years and initial coupon rates 8.35%, 8.20% and 7.7%, respectively.

16. Long-Term and Short-Term Borrowings (continued)

(C) Other Ruble denominated long-term loans as at 31 December 2013 primarily comprised loans obtained from OJSC "VTB Bank" in the amount of Rbls 22,065 million, OJSC "Sberbank of Russia" in the amount of Rbls 16,474 million, OJSC "Sviaz-Bank" in the amount of Rbls 5,002 million and OJSC "Gazprombank" in the amount of Rbls 4,681 million. As at 31 December 2012, such loans primarily comprised loans obtained from OJSC "VTB Bank" in the amount of Rbls 35,878 million, OJSC "Sberbank of Russia" in the amount of Rbls 5,672 million, OJSC "Sviaz-Bank" in the amount of Rbls 4,969 million, OJSC "Gazprombank" in the amount of Rbls 955 million and OJSC "TransCreditBank" in the amount of Rbls 781 million.

(D) In April 2010, the Group placed Loan Participation Notes at Irish Stock Exchange with the aggregate nominal value of US$ 1,500 million (Rbls 49,095 million at the exchange rate as at 31 December 2013) with the maturity of 7 years and initial coupon rate 5.739%. The Company signed cross currency (US dollar to Swiss franc) and interest rate SWAP agreements with several banks for the full amount of Loan Participation Notes.

In March (initial issue) and in June 2011 (additional issue) the Group placed Loan Participation Notes at the Irish Stock Exchange with an aggregate nominal value of GBP 650 million (Rbls 35,074 million at exchange rate as at 31 December 2013) with the maturity of 20 years and coupon rate 7.487%. The Company has signed cross currency (Pound Sterling to Swiss franc) and interest rate SWAP agreements with several banks for the full amount of Loan Participation Notes.

In March (initial issue) and in October 2012 (additional issue) the Group placed Loan Participation Notes at Irish Stock Exchange with an aggregate nominal value of Rbls 37,500 million with the maturity of 7 years and coupon rate 8.3%.

In April (initial issue) and in October 2012 (additional issue) the Group placed Loan Participation Notes at Irish Stock Exchange with an aggregate nominal value of US$ 1,400 million (Rbls 45,822 million at exchange rate as at 31 December 2013) with the maturity of 10 years and coupon rate 5.7%. The Company has signed cross currency (US Dollar to Swiss Franc) SWAP agreements with several banks for the full amount of Loan Participation Notes.

In February 2013 the Group placed two tranches of Loan Participation Notes at SIX Swiss Exchange with nominal values of Swiss Francs 525 million (Rbls 19,268 million at exchange rate as at 31 December 2013) and 150 million (Rbls 5,505 million at exchange rate as at 31 December 2013) with the maturity of 5 and 8 years and coupon rates 2.177% and 2.730%, respectively.

In April 2013 the Group placed Loan Participation Notes at the Irish Stock Exchange with an aggregate nominal value of EUR 1,000 million (Rbls 44,970 million at exchange rate as at 31 December 2013) with the maturity of 8 years and coupon rate 3.374%.

16. Long-Term and Short-Term Borrowings (continued)

(E) In July 2012, the Company placed bonds series 32 with the nominal amount of Rbls 10,000 million at the domestic market bearing an interest rate of CPI[1] +2.1%.

In 2013, the Company placed six series of bonds with the nominal value of Rbls 25,000 million and CPI+1% coupon rate each and maturity varying from 15 to 30 years at domestic market. At the initial recognition the bonds were measured at fair value, determined based on market rate varying from 9.25% to 10.12% (Notes 7 and 17).

17. Other Non-Current Liabilities

Other Non-Current Liabilities as at 31 December 2013 and 31 December 2012 comprised:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Government grants (A)	10,329	–
Advances received for real-estate projects	1,958	1,643
Liabilities under service concession agreement	1,015	1,140
Other (B)	3,715	4,511
Total other non-current liabilities	**17,017**	**7,294**

(A) Government grants are represented by the balance of deferred income arising from bonds issued at a below-market interest rate (Note 16). Government grants are measured as the difference between the fair value of these bonds at initial recognition of Rbls 123,222 million and the cash proceeds of Rbls 150,000 million. As at 31 December 2013, Rbls 16,449 million of these government grants were deducted from the amount of construction in progress acquired with the proceeds of the bonds (Note 7).

(B) Included in other non-current liabilities as at 31 December 2013 is Rbls 1,233 million of non-current portion of the payable to non-state pension fund "Blagosostoyanie" under the agreement concluded by the Company and the fund in 2012 (2012: Rbls 2,956 million).

18. Provisions and Other Current Liabilities

Provisions and other current liabilities as at 31 December 2013 and 31 December 2012 comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Settlements with employees	56,084	57,492
Current liabilities under construction contracts	16,102	14,515
Provision for legal claims	12,468	6,565
Accrued interest on loans	10,750	8,046
Provision for tax liabilities	10,982	13,911
Provision for guarantees	3,615	3,273
Other liabilities	10,817	7,889
Total provisions and other current liabilities	**120,818**	**111,691**

[1] Consumer Price Index

18. Provisions and Other Current Liabilities (continued)

The movements of provisions and current liabilities under construction contract for the year ended 31 December 2013 were as follows:

	Tax liabilities	Legal claims	Provision for Guarantees	Liabilities under construction contract
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
As at 1 January 2013	13,911	6,565	3,273	14,515
Arising during the reporting period	4,306	11,213	6	–
Utilised	–	(1,920)	–	–
Unused amounts reversed	(7,235)	(3,482)	–	–
Effect of foreign currencies translation	–	92	336	1,587
As at 31 December 2013	**10,982**	**12,468**	**3,615**	**16,102**

19. Employee Benefits

Defined Contribution Plans

The Group makes contributions to the Pension Fund of the Russian Federation. In addition, the Group also provides a defined contribution plan to some of its employees administered by non-state pension fund "Blagosostoyanie".

Total amount recognized as an expense in respect of payments to defined contribution plans for the years ended 31 December 2013 and 2012 were as follows:

	2013	2012
	Rbls mln	*Rbls mln*
Pension Fund of the Russian Federation	113,152	98,943
Defined contribution plan "Blagosostoyanie"	7,015	5,866
Total expense for defined contribution plans	**120,167**	**104,809**

Defined Benefit Plans

The Group provides benefits to its employees through defined pension plans. The plans require contributions to be made to a separately administered non-state pension fund "Blagosostoyanie" and not-for-profit fund "Pochet".

19. Employee Benefits (continued)

Defined Benefit Plans (continued)

In order to be entitled to pension through the non-state pension fund “Blagosostoyanie” under a defined benefit plan an employee should meet a number of criteria, including the following:

1) An employee should be born before 1967;
2) An employee should join the pension plan by the due date, but not later than 1 July 2007;
3) An employee should make contributions to the pension plan at his/her own expense in addition to the contributions made by the Group;
4) An employee should reach a statutory retirement age and retire from the Group;
5) At the date of retirement an employee should have 15 years of service within the Group, including two years of continuous service.

Not-for-profit fund “Pochet” provides pensions to employees of the Group retired before the defined benefit plans provided through the non-state pension fund “Blagosostoyanie” referred to above were introduced.

Benefits accrued through pension plan administered by non-state pension fund “Blagosostoyanie” are partially funded, whilst benefits administered by not-for-profit fund “Pochet” are unfunded.

The Group provides a number of long-term employee benefits, such as long-service (loyalty) bonus. In accordance with the plan, periodic payment of accumulated bonus is made after three, five, ten, fifteen and each next five years of service. Loyalty bonus plan provides for a benefit of approximately one monthly salary for each year of service subsequent to the last payment of this bonus.

In addition, the Group provides other retirement, post employment and other long-term benefits to its employees, which comprise lump-sum payment upon retirement ranging from 1 to 6 monthly salaries and depending on the duration of the service period, free of charge long-distance transportation provided on the annual basis and free of charge sanatorium therapy to retired employees and some other. These benefits are unfunded.

19. Employee Benefits (continued)

Defined Benefit Plans (continued)

Almost all employees of the Group are eligible to some elements of the post employment and other long-term employee benefit program of the Group as at 31 December 2013 of which 58 thousand employees were considered as participants of the defined benefit pension plan administered by non-state pension fund "Blagosostoyanie" (2012: 73 thousand). In addition, there are approximately 358 thousand retired employees eligible for the post retirement benefit program of the Group provided through not-for-profit fund "Pochet" as at 31 December 2013 (2012: 404 thousand).

The amounts recognised in the consolidated statement of financial position are as follows:

As at 31 December 2013:

	Blago-sostoyanie	**Pochet**	**Other long-term benefits**	**Other post-employment benefits**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Defined benefit obligation	44,690	17,842	67,732	121,285	251,549
Fair value of plan assets	(9,996)	–	–	(594)	(10,590)
Net defined benefit liability	**34,694**	**17,842**	**67,732**	**120,691**	**240,959**

As at 31 December 2012, as restated:

	Blago-sostoyanie	**Pochet**	**Other long-term benefits**	**Other post-employment benefits**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Defined benefit obligation	55,567	21,106	67,492	128,735	272,900
Fair value of plan assets	(10,692)	–	–	(599)	(11,291)
Net defined benefit liability	**44,875**	**21,106**	**67,492**	**128,136**	**261,609**

19. Employee Benefits (continued)

Defined Benefit Plans (continued)

The amounts recognised in the consolidated statement of profit or loss (line *Wages, salaries and related contributions)* and in consolidated statement of other comprehensive income are as follows:

For the year ended 31 December 2013:

	Blago-sostoyanie	**Pochet**	**Other long-term benefits**	**Other post-employment benefits**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Service cost:	(140)	–	23,505	6,646	30,011
current service cost	1,531	–	23,005	6,067	30,603
past service cost	(1,671)	–	500	579	(592)
Net interest on the net defined benefit liabilities	2,306	1,376	3,192	8,397	15,271
Remeasurement gain	–	–	(3,335)	–	(3,335)
Net expense recognized in statement of profit or loss	**2,166**	**1,376**	**23,362**	**15,043**	**41,947**
Remeasurement (gain)/loss recognized in the other comprehensive income	**687**	**(2,494)**	**–**	**(11,571)**	**(13,378)**

For the year ended 31 December 2012, as restated:

	Blago-sostoyanie	**Pochet**	**Other long-term benefits**	**Other post-employment benefits**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Service cost:	1,649	–	25,373	5,588	32,610
Current service cost	1,554	–	25,319	4,920	31,793
Past service cost	95	–	54	668	817
Net interest on the net defined benefit liabilities	2,670	1,533	4,068	8,316	16,587
Remeasurement gain	–	–	(11,204)	–	(11,204)
Net expense recognized in statement of profit or loss	**4,319**	**1,533**	**18,237**	**13,904**	**37,993**
Remeasurement loss recognized in the other comprehensive income	**8,455**	**1,037**	**–**	**11,120**	**20,612**

19. Employee Benefits (continued)

Defined Benefit Plans (continued)

Changes in defined benefit obligation are as follows:

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Defined benefit obligation at 1 January 2012, as restated	54,690	21,012	68,180	110,402	254,284
Service cost:	1,649	–	25,373	5,588	32,610
current service cost	1,554	–	25,319	4,920	31,793
past service cost	95	–	54	668	817
Interest on the defined benefit obligation	3,458	1,533	4,068	8,316	17,375
Remeasurement loss/(gain):	8,780	1,037	(11,204)	11,120	9,733
actuarial losses from changes in demographic assumptions	179	724	–	988	1,891
actuarial losses/(gains) from changes in financial assumptions	8,896	1,338	(7,626)	10,895	13,503
experience adjustments	(295)	(1,025)	(3,578)	(763)	(5,661)
Additions through business combinations and disposal of subsidiaries	(704)	(323)	(696)	1,520	(203)
Benefits paid	(12,306)	(2,153)	(18,229)	(8,211)	(40,899)
Defined benefit obligation at 31 December 2012, as restated	**55,567**	**21,106**	**67,492**	**128,735**	**272,900**
Service cost:	(140)	–	23,505	6,646	30,011
current service cost	1,531	–	23,005	6,067	30,603
past service cost	(1,671)	–	500	579	(592)
Interest on the defined benefit obligation	2,996	1,376	3,192	8,397	15,961
Remeasurement loss/(gain):	572	(2,494)	(3,335)	(11,571)	(16,828)
actuarial losses/(gains) from changes in demographic assumptions	(109)	313	(122)	(131)	(49)
actuarial losses/(gains) from changes in financial assumptions	188	(906)	(3,198)	(8,720)	(12,636)
experience adjustments	493	(1,901)	(15)	(2,720)	(4,143)
Additions through business combinations and disposal of subsidiaries	(127)	(44)	(18)	(382)	(571)
Reclassification to liabilities, directly associated with the assets classified as held for sale	(215)	(79)	(31)	(616)	(941)
Effects of translation difference	–	–	12	341	353
Benefits paid	(13,963)	(2,023)	(23,085)	(10,265)	(49,336)
Defined benefit obligation at 31 December 2013	**44,690**	**17,842**	**67,732**	**121,285**	**251,549**

19. Employee Benefits (continued)

Defined Benefit Plans (continued)

Movements in the fair value of defined benefit pension plan assets during 2013 and 2012 were as follows:

	2013	2012 Restated
	Rbls mln	*Rbls mln*
Fair value of plan assets at 1 January	**(11,291)**	**(10,455)**
Return on plan assets:	(575)	(1,113)
interest income	(690)	(788)
cost of plan assets except expenses included in net interest	115	(325)
Contributions by employer	(48,038)	(40,083)
Additions through business combinations and disposal of subsidiaries	9	(539)
Reclassification to liabilities, directly associated with the assets classified as held for sale	32	–
Effects of translation difference	(63)	–
Benefits paid	49,336	40,899
Fair value of plan assets at 31 December	**(10,590)**	**(11,291)**

The major categories of plan assets administered by non-state pension fund “Blagosostoyanie” as a percentage of the fair value of total plan assets were as follows as at 31 December 2013 and 2012:

	31 December 2013	31 December 2012
Corporate bonds and stocks of Russian legal entities	57%	44%
Shares in closed investment funds	26%	33%
Cash equivalents and bank deposits	14%	16%
Other	3%	7%
Total	**100%**	**100%**

The Group is exposed to market risks arising from investments in closed investment funds and corporate stocks and credit risks arising from investments in corporate bonds and bank deposits.

As at 31 December 2013 and 2012 actuarial assumptions used were as follows:

	31 December 2013	31 December 2012
Discount rate	7.8%	7.2%
Average rate of employee turnover	5%	5%
Mortality rates:		
Mortality tables *based on*	*Russia* 2012	*Russia* 2011
Mortality rates are adjusted for estimates of mortality improvements in the future periods by	*17%*	*15%*

The Group assumes that salary will increase by 2.8% in 2014, 7.3% in 2015, 7.2% in 2016 and in subsequent years salary will increase in line with inflation rate in Russia. Most benefits to employees and retired employees depend on salary growth and changes in future consumer prices. The Group estimates future inflation rates in line with the assessments made by Economist Intelligence Unit.

19. Employee Benefits (continued)

Defined Benefit Plans (continued)

The increase in discount rate in 2013 resulted from an increase noted in the reporting period in the market yields of the government bonds.

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

Assumptions	**Sensitivity level**	**Increase/(decrease) of defined benefit obligation:**
		Rbls mln
Discount rate	-0.5 p.p.	7,419
	+0.5 p.p.	(6,893)
Average annual growth of salaries and fixed benefits	-0.5 p.p.	(8,056)
	+0.5 p.p.	8,028
Average rate of employee turnover	-0.5 p.p.	2,321
	+0.5 p.p.	(2,237)
Mortality rates	-10%	2,027
	+10%	(1,828)

The sensitivity analysis above is based on a method that extrapolates the impact on defined benefit obligation as a result of reasonable changes in key assumptions occurring at the end of the reporting period. Each change in significant assumption was analyzed separately, interdependencies were not taken into account.

The weighted average duration of the defined benefit plan obligation as at 31 December 2013 is 6.6 years (2012: 6.8 years). The expected contributions by the Group to the defined benefit plans in 2014 are Rbls 42,600 million.

20. Finance Lease Obligations

The Group entered into several finance lease agreements for cargo and passenger transport, locomotives and other operating equipment. The lease agreements are for periods from 2 to 20 years (2012: from 2 to 16 years) with the effective interest rate varying from 12% to 28% p.a. (2012: from 12% to 28%). Future minimum lease payments together with the present value of the net minimum lease payments as at 31 December 2013 and 2012 are as follows:

	2013		**2012**	
	Minimum lease payments	**Present value of lease payments**	**Minimum lease payments**	**Present value of lease payments**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Finance lease liabilities – minimum lease payments				
Not later than 1 year	10,965	10,177	6,242	5,664
Later than 1 year and not later than 5 years	24,040	15,985	13,712	6,960
Later than 5 years	26,369	7,412	13,424	5,573
Total minimum lease payments	**61,374**	**33,574**	**33,378**	**18,197**
Less: interest	(27,800)	–	(15,181)	–
Present value of minimum lease payments	**33,574**	**33,574**	**18,197**	**18,197**

20. Finance Lease Obligations (continued)

Representing lease liabilities	**2013**	**2012**
	Rbls mln	*Rbls mln*
Current	10,177	5,664
Non-current	23,397	12,533

Finance charges for the year ended 31 December 2013 amounted to Rbls 4,407 million (2012: Rbls 2,302 million) and are included in *Finance expense and similar items* in the consolidated statement of profit or loss.

The aggregate amount of finance lease liabilities on agreements signed with the Group's related parties (refer to Note 30 for definition) equated to Rbls 13,424 million as at 31 December 2013 (2012: Rbls 5,800 million). Effective interest rate on these agreements varies from 12% to 23% (2012: 13% to 24%); weighted average rate is approximately 17% (2012: 18%).

21. Equity

Share Capital

The share capital of the Company as of 31 December 2013 consists of 1,947,179,187 (2012: 1,887,709,216) authorized, issued and outstanding common shares with par value of Rbls 1 thousand.

In March 2012, the Company issued 40,160,952 additional shares with par value of Rbls 1 thousand for cash consideration of Rbls 40,161 million.

In December 2012, the Company issued 60,832,676 additional shares to the sole shareholder with par value of Rbls 1 thousand. The issue was approved by the shareholder for the purposes of financing construction of the transport infrastructure for Sochi XXII Olympic Games 2014, reconstruction of other transportation infrastructure and development of transportation system in Moscow region. Cash consideration received for these shares in December 2012 equated to Rbls 60,832 million.

In July 2013, the Company issued 31,745,352 additional shares with par value of Rbls 1 thousand. The issue was approved by the shareholder for the purposes of development of transportation system in Moscow region and railway infrastructure Mezhdurechensk-Taishet. Cash received in 2013 for these shares equated to Rbls 31,745 million.

In December 2013, the Company issued 27,724,619 additional shares to the sole shareholder with par value of Rbls 1 thousand. The issue was approved by the shareholder for the purposes of development of transportation system in Moscow region, development and reconstruction of the Baikal-Amur and Trans-Siberian rail lines and the reconstruction of Maxim Gorkiy-Kotelnikovo-Tikhoretskaya-Krymskaya route with a bypass around the Krasnodar railway junction. Cash consideration received for these shares in December 2013 equated to Rbls 27,725 million.

21. Equity (continued)

Share Capital (continued)

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from the net profit for the period as shown in the Company's Russian statutory financial statements.

In 2012, the shareholder of the Company approved dividends for 2011 in the amount of Rbls 4,205 million, which were fully paid during 2012.

The shareholder of the Company decided not to declare dividends for 2012.

22. Logistics Revenue and Purchased Freight Forwarding Logistics Services

Revenue from logistics services for the year ended 31 December 2013 mainly comprised revenues of Gefco Group.

Freight forwarding logistics services included in *Operating expenses* comprised logistics services purchased from third parties. For the year ended 31 December 2013, these expenses mainly related to purchases of Gefco Group.

23. Other Revenues

Other revenues for the years ended 31 December 2013 and 2012 comprised the following:

	2013	**2012**
	Rbls mln	*Rbls mln*
Repair of rolling stock	48,101	47,549
Sale of goods	36,159	31,446
Healthcare services	26,711	23,399
Telecommunication services	21,377	18,227
Construction services	17,751	7,560
Infrastructure services	15,223	12,208
Locomotive traction	11,443	11,904
Transit and sale of electrical and heat energy	10,625	10,395
Locomotive crew services	8,327	7,356
Rent of rolling stock and railway infrastructure objects	6,588	6,456
Social services	5,446	5,325
Information and IT services	2,508	2,360
Utility services	2,091	2,121
Other	28,792	28,458
Total other revenues	**241,142**	**214,764**

24. Taxes Other than Income Tax

Taxes other than income tax for the years ended 31 December 2013 and 2012 comprised the following:

	2013	2012
	Rbls mln	*Rbls mln*
Property tax (A)	33,363	24,508
Non-refundable VAT	5,581	4,909
Land tax	1,925	1,897
Other taxes	1,875	1,881
Total taxes other than income tax	**42,744**	**33,195**

(A) Increase in property tax resulted from the new property taxation rules enacted in Russia starting from 2013. These rules gradually decrease down to nil certain tax concessions, previously available to the Group with regard to its infrastructure assets, over the period 2013-2018.

25. Other Operating Expenses

Other operating expenses for the years ended 31 December 2013 and 2012 comprised the following:

	2013	2012
	Rbls mln	*Rbls mln*
Services related to construction	24,468	12,538
Security costs	18,224	16,377
Business trips and personnel education	15,090	12,104
Foreign railroads services	13,107	13,514
Cost of premises sold	7,451	4,789
Telecommunication fees	7,428	7,633
Railtrack and right-of-way maintenance expenses	6,409	7,171
Bedding and servicing expenses	6,379	6,382
Operating rent of rolling stock, including cargo cars	6,222	3,629
Rolling stock servicing and handling	5,850	8,185
Expenses related to provision of logistics services	5,249	4,031
Information and IT services	4,886	3,572
Consulting services	4,580	2,526
Fire safety maintenance	3,506	3,141
Insurance costs	2,433	2,005
Other	27,218	23,291
Total other operating expenses	**158,500**	**130,888**

26. Subsidies from Federal and Municipal Budgets

Subsidies from federal and municipal budgets for the years ended 31 December 2013 and 2012 comprised the following:

	2013	2012
	Rbls mln	*Rbls mln*
Subsidies received from federal budget for compensation of the effects of tariffs’ regulation – long distance passenger transportation	23,328	29,992
Subsidies for compensation of the effects of tariffs’ regulation from federal budget– suburban transportation	21,186	21,186
Subsidies received from federal budget for compensation of the effects of tariffs’ regulation – cargo transportation	–	360
Subsidies received from regional and municipal budgets and other subsidies	5,514	5,185
Total subsidies from federal and municipal budgets	**50,028**	**56,723**

27. Other Income

Other income for the years ended 31 December 2013 and 2012 comprised the following:

	2013	2012
	Rbls mln	*Rbls mln*
Income from rent of other property	8,753	7,402
Penalties charged to customers	2,258	1,961
Assets received free of charge	653	955
Gain on disposal of assets classified as held for sale, net (A)	118	6,781
Other income	5,171	6,866
Total other income	**16,953**	**23,965**

(A) In December 2012, the Group sold its remaining stake of 25% plus two shares of OJSC “Freight One” for cash consideration of Rbls 50,000 million and recognized a gain in amount of Rbls 1,670 million, net of related costs of Rbls 555 million.

In September 2012, the Company completed the second stage of the sale of its remaining equity stake stake of 25% plus one share of OJSC “TransCreditBank” to OJSC “VTB Bank” for total cash consideration Rbls 22,104 million and, taking into account execution of the related forward contract with the fair value of Rbls 4,146 million, recognized a gain in the amount of Rbls 5,065 million.

28. Other Expenses

Other expenses for the years ended 31 December 2013 and 2012 comprised the following:

	2013	2012
	Rbls mln	*Rbls mln*
Loss on disposal of property, plant and equipment, net	7,736	16,326
Change in provision for legal claims, net (Note 18)	7,731	3,515
Rent expenses	7,624	6,394
Penalties charged by customers	4,980	4,519
Loss on disposal of inventory, net	4,422	4,213
Bank charges	3,858	4,739
Contributions to trade union, membership in professional associations	3,557	3,442
Charity expenses	2,143	1,762
Impairment of investments in associates and joint ventures	19	2,228
Additional contribution to pension fund	–	8,367
Other expenses	5,168	5,890
Total other expenses	**47,238**	**61,395**

29. Income Taxes

The major components of income tax expense for the years ended 31 December 2013 and 2012 comprised the following:

	2013	2012 Restated
Consolidated statement of profit or loss	*Rbls mln*	*Rbls mln*
Current income taxes:		
Current income tax charge	(15,590)	(54,431)
Adjustments in respect of current income tax of previous periods and penalties related to income tax, net	(1,108)	(94)
Provision for income tax liabilities (Note 18)	2,929	3,190
Deferred taxes:		
Relating to origination and reversal of temporary differences	(9,485)	4,984
Income tax expense reported in the statement of profit or loss	**(23,254)**	**(46,351)**
Income tax recognized in other comprehensive income	(1,685)	1,874
Total income taxes	**(24,939)**	**(44,477)**

29. Income Taxes (continued)

Deferred tax, in millions of Russian Rubles, relates to the following:

	31 December 2012, as restated	Arising on business combinations	Disposal of subsidiaries	Reclassification to assets classified as held for sale	Recognized in other comprehensive income	Recognition and reversal of temporary differences in profit or loss	31 December 2013
Tax effects of taxable temporary differences							
Valuation of property, plant and equipment	(78,866)	3	472	492	(397)	(14,213)	(92,509)
Valuation of investments in subsidiaries, associates and joint ventures	(4,164)	–	–	–	57	54	(4,053)
Valuation of investment property	(2,010)	–	3	(1)	90	12	(1,906)
Valuation of intangible assets	(9,673)	(75)	94	–	(1,198)	1,364	(9,488)
Tax effects of deductible temporary differences							
Net employee defined benefit liabilities	21,685	–	(24)	(37)	53	(1,552)	20,125
Valuation of accounts receivable	1,673	–	(19)	(12)	–	644	2,286
Payables/Accruals	9,128	–	(23)	(32)	28	1,909	11,010
Valuation of derivative financial instruments	2,514	–	–	–	(3)	734	3,245
Other	44	8	(11)	67	(315)	1,563	1,356
Total net deferred tax (liability)/asset	**(59,669)**	**(64)**	**492**	**477**	**(1,685)**	**(9,485)**	**(69,934)**

	1 January 2012, as restated	Arising on business combination	Disposal of subsidiary	Recognized in other comprehensive income	Recognition and reversal of temporary differences in profit or loss	31 December 2012, as restated
Tax effects of taxable temporary differences						
Valuation of property, plant and equipment	(68,985)	(3,868)	950	–	(6,963)	(78,866)
Valuation of investments in subsidiaries, associates and joint ventures	(16,511)	–	–	–	12,347	(4,164)
Valuation of investment property	(2,341)	–	–	224	107	(2,010)
Valuation of intangible assets	796	(10,374)	–	–	(95)	(9,673)
Tax effects of deductible temporary differences						
Net employee defined benefit liabilities	21,364	447	(247)	1,632	(1,511)	21,685
Valuation of accounts receivable	4,341	–	(156)	–	(2,512)	1,673
Payables/Accruals	6,458	–	(83)	–	2,753	9,128
Valuation of derivative financial instruments	1,655	–	–	11	848	2,514
Other	(184)	169	42	7	10	44
Total net deferred tax (liability)/asset	**(53,407)**	**(13,626)**	**506**	**1,874**	**4,984**	**(59,669)**

29. Income Taxes (continued)

Movement of deferred tax of Rbls 1,912 million recognized in other comprehensive income for 2013 relates to the effects of translation to presentation currency (2012: nil).

As at 31 December 2013 the Group has recognized deferred tax liability arising on taxable temporary differences associated with investments in subsidiaries, associates and joint ventures considered for disposal in foreseeable future in the aggregate amount of Rbls 4,053 million (2012: Rbls 4,164 million). Management concluded that it is impracticable to assess the remaining amount of temporary differences associated with investments in subsidiaries.

As discussed in Note 21, dividends may only be declared from the net profit as shown in the Company’s Russian statutory financial statements.

As at 31 December 2013, the Group did not recognize deferred tax assets in amount of Rbls 8,549 million (2012: Rbls 8,568 million).

There are no income tax consequences attached to the payment of dividends by the Group to its shareholder.

A reconciliation of theoretical income tax expense to the actual income tax expense recorded in the consolidated statement of profit or loss for the years ended 31 December 2013 and 2012 is as follows:

	2013	**2012 Restated**
	Rbls mln	*Rbls mln*
Accounting profit before income tax	**59,976**	**140,036**
At statutory income tax rate of 20% (2012: 20%)	**11,995**	**28,007**
Adjustments in respect to current income tax of previous years and penalties related to income tax, net	1,108	94
Provision for income tax liabilities	(2,929)	(3,190)
Non-deductible expenses for tax purposes and other effects:		
non-deductible employee benefits	4,022	5,598
non-deductible social expenses	4,498	4,506
other non-deductible expenses and other effects, net	4,560	11,336
At the effective income tax rate of 39% (2012: 33%)	**23,254**	**46,351**
Income tax expense reported in the consolidated statement of profit or loss	**23,254**	**46,351**

30. Related Party Transactions

As defined by IAS 24 *Related Parties Disclosures* the entity is related to a reporting entity if any of the following conditions applies:

a. The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

b. One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

c. Both entities are joint ventures of the same third party;

d. One entity is a joint venture of a third entity and the other entity is an associate of the third entity;

e. The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity;

f. The entity is controlled or jointly controlled by a person, that:

   i. has control or joint control over the reporting entity;

   ii. has significant influence over the reporting entity; or

   iii. is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.

In considering each possible related party relationship, attention is directed to the substance of the relationship, and 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.

30. Related Party Transactions (continued)

The most significant balances with related parties as at 31 December 2013 and 2012 are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

	2013		2012	
Related party, Nature of relations, Type of service/product	**Amounts receivable**	**(Amounts payable)**	**Amounts receivable**	**(Amounts payable)**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
OPERATING ACTIVITIES				
Transactions with associates and joint ventures (b)				
Attributed to sales and income				
Transportation services	262	(129)	822	(30)
Rent	714	(80)	267	(7)
Repairs and technical maintenance	450	(5)	103	(59)
Other	2,345	(126)	81	(43)
Attributed to purchases and expenses				
Acquisition of rolling stock and spare parts	4,236	(7,217)	7,413	(8,186)
Acquisition of equipment other than rolling stock	20	(781)	716	(2,160)
Transportation services	–	(362)	4	(300)
Design and exploratory work and construction	2	(2,311)	–	(939)
Repairs and technical maintenance	599	(3,772)	510	(3,239)
Other	26	(1,557)	77	(1,528)
Ministries of the Russian Federation (a)				
Attributed to sales and income				
Transportation services	783	(2,766)	1,002	(2,291)
Repairs and technical maintenance of rolling stock	174	–	31	–
Other	151	(115)	19	(77)
Attributed to purchases and expenses				
Security and fire safety services	–	(955)	–	(1,047)
Other	1	(315)	–	(16)
Transactions with State-controlled entities (a)				
Attributed to sales and income				
Transportation services	51	(6,440)	6	(8,324)
Electricity	268	–	477	–
Construction	3,595	(2,532)	324	(6,472)
Communication services	8	(1)	317	(515)
Other	469	(543)	150	(82)
Attributed to purchases and expenses				
Fuel	24	(3,436)	30	(3,435)
Electricity and heating	19	(101)	32	(89)
Settlement and cash services, encashment	1	(152)	6	(120)
Other	45	(1,409)	238	(1,447)
Transactions with entities under control or joint control of the Group's key management personnel (f)				
Attributed to sales and income				
Electricity	63	–	36	–
Other	7	–	39	–
Attributed to purchases and expenses				
Electricity and heating	38	(5,291)	62	(5,085)

30. Related Party Transactions (continued)

Related party, Nature of relations, Type of service/product	2013 Amounts receivable	2013 (Amounts payable)	2012 Amounts receivable	2012 (Amounts payable)
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
INVESTMENT ACTIVITIES				
Transactions with associates and joint ventures (b)				
Dividends received	–	–	53	–
FINANCING ACTIVITIES				
Deposit insurance agency (a)				
Loans received (Note 16)	–	(10,164)	–	(13,406)
State-controlled entities (a)				
Loans received	–	(67,170)	–	(59,015)
Ministries of the Russian Federation (a)				
Other liabilities	–	(478)	–	(1,132)
Associates and joint ventures (b)				
Loans received	–	–	–	(22)
OPERATIONS WITH PENSION FUNDS				
Pension funds (e)				
Payable to the pension fund	82	(4,963)	–	(4,853)

The most significant of transactions with related parties are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

Related party, Nature of relations, Type of service/product	2013 Sales/ income*	2013 (Purchases)/ (expenses)*	2012 Sales/ income*	2012 (Purchases)/ (expenses)*
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
OPERATING ACTIVITIES				
Transactions with associates and joint ventures (b)				
Attributed to sales and income				
Transportation services (A)	2,488	–	68,211	–
Rent	14,128	–	11,163	–
Repairs and technical maintenance (A)	9,562	–	28,548	–
Other	4,936	–	2,050	–
Attributed to purchases and expenses				
Acquisition of rolling stock and spare parts	–	(125,598)	–	(77,142)
Rent of rolling stock (A)		–		(1,757)
Acquisition of equipment other than rolling stock	–	(3,259)	–	(5,018)
Transportation services	–	(1,566)	–	(3,010)
Settlement and cash services, encashment	–	–	–	(2,954)
Design, exploratory work and construction	–	(7,455)	–	(2,467)
Repairs and technical maintenance of rolling stock (B)	–	(33,020)	–	(3,167)
Other	–	(6,842)	–	(7,750)

(A) The decrease in sales of transportation services and repairs and technical maintenance services is related mainly to the disposal of remaining equity stake in OJSC "Freight One", an associate of the Group prior to disposal.

(B) The increase in repairs and maintenance of rolling stock relates to the disposal of controlling interest in OJSC "Zheldorremash" in December 2012. As a result, OJSC "Zheldorremash" became an associate to the Group (Note 6).

30. Related Party Transactions (continued)

Related party, Nature of relations, Type of service/product	2013 Sales/ income*	2013 (Purchases)/ (expenses)*	2012 Sales/ income*	2012 (Purchases)/ (expenses)*
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Ministries of the Russian Federation (a)				
Attributed to sales and income				
Subsidies (Note 26)	50,028	–	56,723	–
Transportation services	12,048	–	20,563	–
Repairs and technical maintenance of rolling stock	2,387	–	702	–
Other	2,586	–	1,003	–
Attributed to purchases and expenses				
Security and fire safety services	–	(19,435)	–	(19,943)
Other	–	(122)	–	(117)
Transactions with State-controlled entities (a)				
Attributed to sales and income				
Transportation services	149,095	–	160,299	–
Electricity	3,423	–	5,199	–
Design, exploratory work and construction	14,910	–	5,815	–
Communication services	2,326	–	2,266	–
Other	4,959	–	3,095	–
Attributed to purchases and expenses				
Fuel	–	(49,157)	–	(38,833)
Acquisition of rolling stock	–	(2,848)	–	(19,779)
Settlement and cash services, encashment	–	(3,368)	–	(923)
Electricity and heating	–	(1,245)	–	(1,198)
Communication services	–	(1,808)	–	(1,887)
Other	–	(7,522)	–	(3,335)
Transactions with entities under control or joint control of the Group’s key management personnel (f)				
Attributed to sales and income				
Electricity	655	–	608	–
Attributed to purchases and expenses				
Electricity and heating	–	(132,561)	–	(120,687)
INVESTMENT ACTIVITIES				
Transactions with State-controlled entities (a)				
Sale of equty stake in OJSC “Transcreditbank”	–	–	20,365	–
Transactions with associates and joint ventures (b)				
Dividends received	1,846	–	1,362	–
OPERATIONS WITH PENSION FUNDS				
Pension funds (e)				
Pension contributions	608	(27,282)	447	(25,350)

* Amounts include VAT, where applicable.

30. Related Party Transactions (continued)

In the year ended 31 December 2013 the Group's companies maintained several accounts in state-controlled banks. The amount of cash and deposits held in these banks as at 31 December 2013 and 2012 comprised the following:

	2013	2012
	Rbls mln	*Rbls mln*
Cash and cash equivalents in state-controlled banks	86,495	129,715
Short term deposits in state-controlled banks	984	2,922
Total	**87,479**	**132,637**

Interest income from related parties comprised Rbls 2,993 million for the year ended 31 December 2013 (2012: Rbls 5,289 million). Interest expenses from related parties comprised Rbls 6,326 million for the year ended 31 December 2013 (2012: Rbls 3,682 million).

Loans obtained by the Group from related parties attract interest varying during the year ended 31 December 2013 from 0% to 14% (2012: 0% to 20%).

Related party guarantees issued and received as at 31 December 2013 and 31 December 2012 are presented below:

	2013	2012
	Rbls mln	*Rbls mln*
Amounts guaranteed by the Group in favor of related parties	5,371	6,403
Amounts guaranteed by the Group to related parties	8,975	11,527
Amounts guaranteed to the Group by related parties	11,276	6,497

Further, for the year 2013, the Group is entitled to receive tariff compensation of Rbls 2,525 million (2012: Rbls 1,100 million) from federal and regional ministries of the Russian Federation for transportation of certain categories of passengers. Accounts receivable balance outstanding regarding the tariff compensation for transportation of certain categories of passengers as at 31 December 2013 is Rbls 11,765 million (2012: Rbls 10,958 million). The Group recognised an impairment of Rbls 10,942 million relating to this accounts receivable balance outstanding as at 31 December 2013 (2012: Rbls 10,942 million).

In 2013, the Group received a subsidy from federal budget for a compensation of the effects of tariffs' regulation in provision of infrastructure access to suburban passenger companies (Note 26). This subsidy is administered by the Federal Agency on Railway Transport ("the Agency"). As at 31 December 2013, accounts receivable balance outstanding from the Agency with regard to the excess of the services provided over the subsidy is Rbls 20,031 million (2012: Rbls 11,802 million). The Group recognised an impairment of Rbls 20,031 million relating to this accounts receivable balance outstanding as at 31 December 2013 (2012: Rbls 11,802 million).

30. Related Party Transactions (continued)

The aggregate amount of finance lease liabilities on agreements signed with the Group’s related parties equated to Rbls 13,424 million as at 31 December 2013 (2012: Rbls 5,800 million). Effective interest rate on these agreements varies from 12% to 23% p.a. (2012: from 13% to 24%). Leased assets with the aggregate cost of Rbls 17,626 million as at 31 December 2013 (2012: Rbls 10,203 million) were obtained from state-controlled and other entities considered related to the Company.

Key management personnel comprise members of the Management Board and the Board of Directors of the Company. Total remuneration paid to the members of the Management Board amounted to Rbls 1,518 million plus Rbls 277 million of related personal income tax for year ended 31 December 2013 (2012: Rbls 1,497 million plus Rbls 224 million of related personal income tax) and consists of short-term benefits. Total remuneration paid to the Board of Directors of the Company amounted to Rbls 39 million for year ended 31 December 2013 (2012: Rbls 44 million).

31. Commitments and Contingencies

Environment

The operations and earnings of the Group are affected by political, legislative, fiscal and regulatory developments. The nature and frequency of these developments and events associated with this risks, which generally are not covered by insurance, as well as their effect on future operations and earnings are not predictable.

In particular, implementation of the Reform Program approved by the Government in 2001, as well as its further stages to be completed by the end of 2015 as a part of implementation of the Strategy of the development of railway transportation till the year 2030 approved by the Government in 2008, is likely to have a significant effect on the operations of the Company.

The Reform Program’s ultimate purpose is the attraction of financing necessary to upgrade and replace existing property, plant and equipment and construct new railway lines and formation of competitive environment in passenger and cargo railway transportation and operation of cargo rolling stock. Upon completion of the Reform Program, the Company is expected to remain the sole owner and operator of its railway infrastructure network, facilitating formation of a competitive market for the operation of freight rolling stock and divesting controlling equity stakes in the majority of its subsidiaries in other operating segments (such as telecommunications, construction, railcar repair and other segments). During the year ended 31 December 2013, the Company continued to sell its stakes in subsidiaries and associates (Notes 5, 6 and 15) and attracted additional financing by issuance of bonds and loan participation notes (Note 16).

31. Commitments and Contingencies (continued)

Tariff Regulation Policy

Potential reforms in tariff-setting policy may have a significant effect on the Company's financial position and results of operations. The Company is continuously discussing the tariff setting policy, including both unification of such tariffs between domestic and foreign transportation and increases in the tariffs, with the Government of the Russian Federation.

As described in Note 1, in September 2013, the Government of the Russian Federation announced its plans to cancel tariffs indexation for natural monopolies in 2014 in order to support economic growth which has slowed significantly in the past few years. Following this announcement, in December 2013, the FST approved the cargo tariffs for 2014 at the same level as in 2013 and the cargo tariffs growth rates for 2015-2018 (inclusive) as the previous year's tariff increased by the expected rate of inflation in the previous year. The regulated passenger tariffs in 2014 will be indexed at inflation rate for 2013 decreased by 30%.

It is currently uncertain whether and when any further changes will be introduced in the tariff setting policy. These consolidated financial statements do not include any adjustments that might result from these uncertain effects. Such adjustments, if any, will be reported in the Group's consolidated financial statements in the period when they become known and estimable.

Taxation

Russia currently has a number of taxes imposed by both federal and regional governmental authorities. Applicable taxes include value added tax, corporate income tax (profit tax), property tax, personal income tax and social contributions, together with others.

The Russian tax, currency and customs legislation is subject to varying interpretations, and changes, which can occur frequently. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional or federal authorities. Latest changes as well as forthcoming changes in tax legislation of Russian Federation suggest that the tax authorities may take a more assertive position in its interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. As such, significant additional taxes, penalties and interest may be assessed. In addition, the complexities of the Group's organizational and business structure negatively affect the Group's ability to ensure proper application of certain provisions of tax laws, thus creating additional risks, and, as a consequence, tax-related contingent liabilities.

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.

Before 2012, Russian transfer pricing legislation in effect allowed the tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of all "controlled" transactions (except for those conducted at state regulated prices and tariffs), if the transaction price deviates upwards or downwards from the market price by more than 20%.

31. Commitments and Contingencies (continued)

Taxation (continued)

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the Russian tax authorities to apply transfer pricing adjustments and impose additional profits tax liabilities in respect of all "controlled" transactions if the transaction price differs from the market price.

The list of "controlled" transactions includes transactions with related parties (as defined for transfer pricing purposes) and certain types of cross-border transactions. For domestic transactions the new transfer pricing rules apply only if the volume of all transactions with related parties exceeds Rbls 3 billion in 2012 and Rbls 2 billion in 2013. In cases where the domestic transaction resulted in an accrual of additional profit tax liabilities for one party, another party could adjust its profit tax liabilities correspondingly based on the notification issued by authorized body in due course.

Current Russian transfer pricing rules have considerably increased the compliance burden for the taxpayers compared to the transfer pricing rules which were in effect before 2012 due to, inter alia, shifting the burden of proof from the Russian tax authorities to the taxpayers. These rules are applicable not only to the transactions taking place after 1 January 2012 but also to the prior transactions with related parties if respective income and expenses were recognized after 1 January 2012. Special transfer pricing rules apply to transactions with securities and derivatives.

In 2013 the Group determined its tax liabilities arising from "controlled" transactions using actual transaction prices.

Due to the uncertainty and limited current practice of application of the current Russian transfer pricing legislation, Russian tax authorities may challenge the level of prices applied by the Company under "controlled" transactions and accrue additional tax liabilities unless the Company is able to demonstrate the use of market prices with respect to "controlled" transactions and provide transfer pricing documentation as an evidence of the required reporting to the Russian tax authorities.

Management believes that it has adequately provided for tax liabilities in the consolidated financial statements as at 31 December 2013 (refer also to Notes 18 and 29). However, the general risk remains that relevant authorities could take different positions with regard to interpretative issues and the effect on the Group's financial statements could be significant.

31. Commitments and Contingencies (continued)

Claims and Potential Claims against the Group

The Group is subject to a number of court proceedings arising out of the normal course of its business. These proceedings primarily relate to application of transportation tariffs. As at 31 December 2013 a provision in respect of such proceedings, together with a provision for Federal Antimonopoly Service (hereinafter also − “FAS”) case as described below, of Rbls 12,468 million (2012: Rbls 6,565 million) was recognized by the Group (Note 18).

In December 2011, FAS has issued a ruling against the Company for violating antimonopoly legislation by not providing cargo transportation services to certain customers during the year 2011. In accordance with Russian legislation, the Company could be assessed with fines at 0.3-3% of cargo revenues, determined on the basis of standalone statutory financial statements of the Company for the year ending 31 December 2011. In November 2012, FAS completed the penalty assessment for the Company, resulting in imposition of the fine of Rbls 2,241 million, and notified the Company thereof.

The management of the Company challenged the FAS ruling at court with the decision taken in favour of the Company in the first two judicial instances in August and November 2012, respectively, however in April 2013 the court of cassation reversed the prior decisions and remanded the case. In September 2013, the court ruled in favour of the Company on the remanded case and this ruling was again appealed by FAS in the court of appeal which ruled not in favour of the Company in November 2013. The decision was confirmed by the court of cassation in March 2014.

As result of the above, the management of the Company has changed its assessment of the probability of unfavorable outcome of court proceedings from remote (as at 31 December 2012) to probable (as at 31 December 2013). Respectively, a provision of Rbls 2,241 million with regard to the outcome for this case was recognised in the consolidated statement of profit or loss for the year 2013.

Insurance

The Russian insurance industry is in a developing stage: insurance market capacity and low variety of product line does not completely meet customers’ needs with regard to the insurance of the property and liability risks. Compulsory insurance common in other parts of the world is being introduced in stages and may not be available for some types of insurance.

Management has approved insurance policy for the Group. This policy sets general principles for the Group in respect of major terms of insurance contracts.

31. Commitments and Contingencies (continued)

Insurance (continued)

During 2013, the Group continued to maintain insurance coverage regarding major categories of its property. The Group did not maintain insurance coverage on business interruption as management assessed insurance expenses to be significantly higher than potential losses associated with this risk.

Significant Purchase Commitments

Purchase commitments are disclosed including VAT, where applicable.

In 2008-2013, the Group has signed several long-term contracts for reconstruction of railroads, tunnels, bridges, contact system and telecommunication networks for the total amount of Rbls 134,786 million. The outstanding commitment under these contracts as at 31 December 2013 amounted to Rbls 51,134 million.

Starting 2007, the Group has entered into several long-term contracts for purchase of electric trains, rail track materials and other equipment and technical maintenance of locomotives cargo and passenger cars, platforms and carrier cars with the local and foreign providers, including contracts with related parties, for the total amount of Rbls 587,270 million (including EUR 2,513 million (Rbls 113,010 million at the exchange rate as at 31 December 2013)). Contracts concluded with related parties amounted to Rbls 277,941 million.

The outstanding commitment under these contracts as at 31 December 2013 amounted to Rbls 375,372 million (including EUR 1,614 million (Rbls 72,582 million at the exchange rate as at 31 December 2013)). The outstanding commitment under contracts with related parties as at 31 December 2013 amounted of Rbls 147,564 million.

In 2003 the Company entered into a long-term contract for purchase of railcar wheels in 2003-2015. As prescribed by the contract, the price of railcar wheels is annually indexed in accordance with the changes in industrial products price index in the Russian Federation. The approximate amount of deliveries under the contract expected after 31 December 2013 amounts to Rbls 51,793 million measured at current prices.

As at 31 December 2013, the Group had long-term contracts for construction of a joint motorway, railroad and other infrastructure in Sochi for the aggregate amount of approximately Rbls 44,088 million. As at 31 December 2013, the Company has outstanding commitments under these contracts in the amount of Rbls 15,849 million. In order to execute these contracts, the Group has signed several long-term contracts with suppliers and subcontractors. Purchase commitments under these contracts were Rbls 9,585 million as at 31 December 2013.

In 2010-2012, the Company entered into long-term contracts for rail track polishing, welding and repair services to be provided till the year 2030. The aggregate value of these contracts is Rbls 93,167 million. The outstanding commitment as at 31 December 2013 is Rbls 77,405 million.

31. Commitments and Contingencies (continued)

Operating Lease Commitments

The Groups’ subsidiaries have entered into non-cancellable operating lease contracts comprising mainly lease of office space and other manufacturing buildings, vehicles, production facilities and equipment. Future minimum lease payments under contracted operating leases are as follows:

	31 December 2013	31 December 2012
	Rbls mln	*Rbl mln.*
Not later than one year	6,996	5,319
Later than one year and not later than five years	10,568	8,264
Later than five year	2,656	2,847
Total minimum lease payments	**20,220**	**16,430**

32. Derivative Financial Instruments

The notional amounts and fair values of derivative instruments held as at 31 December 2013 and 31 December 2012 are set out in the following table.

	31 December 2013			31 December 2012		
	Notional amount	Fair values Asset	Fair values Liability	Notional amount	Fair values Asset	Fair values Liability
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Interest rate contracts						
Swaps – foreign	–	–	–	5,011	–	(43)
Swaps – domestic	–	–	–	4,700	–	(17)
Foreign exchange contracts						
Swaps – domestic	129,987	970	(16,396)	119,907	1,178	(13,124)
Foreign exchange – interest rate contracts						
Swaps – domestic	5,413	–	(801)	4,910	–	(565)
Securities contracts						
Forwards – domestic	4,295	–	(2,759)	3,895	–	(2,442)
Total derivative assets/(liabilities)		**970**	**(19,956)**		**1,178**	**(16,191)**

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies

The Group’s principal financial instruments comprise bank loans, finance leases, bonds, cash and bank deposits. The main purpose of these instruments is to raise finance for the Group’s operations. The Group has other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also holds available-for-sale investments and enters into derivative transactions.

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies (continued)

The Group is exposed to credit and liquidity risks and market risk.

Financial risks are monitored by Financial Risks Management Committee and Corporate Finance Department of the Company. Credit, currency and interest rate risks are regulated by corporate financial risks management code and policies. The Company also maintains centralized financial risk management policy at all subsidiaries.

Credit Risk

Credit risk is the risk that a counter party will fail to discharge an obligation and cause the Group to incur a financial loss.

Cash is placed in financial institutions, which are considered at a time of deposit to have minimal risk of default. Management monitors the creditworthiness of the banks in which it deposits cash and ensures that the deposits placed by RZD in each financial institution do not exceed approved upper limit. These limits are recalculated quarterly in accordance with corporate policies, which include qualitative and quantitative analysis of financial institutions' performance. These limits are monitored and approved by the Company's Financial Risks Management Committee.

Financial assets, which potentially subject the Group to credit risk, consist principally of trade receivables and loans given. The carrying amount of these financial assets, net of impairment, represents the maximum amount exposed to credit risk. With the exception for the matters discussed below, the Group has no significant concentrations of 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 impairment already recorded.

The largest debtor of the Group as at 31 December 2013 is PSA Peugeot Citroen (holds 25% stake in Gefco S.A., a subsidiary of the Group) with outstanding receivables of EUR 391.4 million (Rbls 17,601 million at exchange rate at 31 December 2013) due to the Gefco Group for logistics services. Other trade receivables of the Gefco Group of EUR 354.8 million (Rbls 15,955 million at exchange rate at 31 December 2013) as at 31 December 2013 are widely dispersed among numerous customers.

The largest part of the Company's sales of transportation services are made on prepayment basis. Accordingly, the Group's trade receivables, except for receivables of the Gefco Group, are originated by a limited number of customers, primarily governmental agencies. Further, certain of the Group's debtors for auxiliary products, such as heat and electricity, represent municipal enterprises and governmental organizations that experience financial difficulties. The most significant debtors of the Group, apart from PSA Peugeot Citroen, are:

- the Agency, which administers federal subsidies due to RZD for compensation of the effects of tariffs' regulation (Note 26); and
- the Ministry of Health and Social Development ("the Ministry"), which administers tariff compensations to RZD for transportation of certain categories of passengers.

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies (continued)

Credit Risk (continued)

Impairment allowance recognised by the Group primarily consists of receivables from the Agency and the Ministry (Note 30).

The Group has no practical ability to amend the legislation governing provision of infrastructure access to the suburban passenger companies and provision of the benefits to certain categories of passengers, or to terminate the supply to these counterparties. The Group continuously negotiates with federal, regional and municipal authorities the terms of these receivables collection.

The maximum exposure to credit risk is equal to the carrying amount of financial assets as at 31 December 2013 and 2012 which is disclosed below:

	2013	2012
	Rbls mln	*Rbls mln*
Cash and cash equivalents (excluding cash on hand)	114,754	159,093
Bank deposits	1,879	5,019
Loans issued	12,051	14,994
Receivables	78,037	64,720
Derivatives	970	1,178
Other	6,919	9,670
Total credit risk exposure	**214,610**	**254,674**

The table below summarizes the ageing analysis of financial assets that are either past due or individually determined to be impaired as at 31 December 2013 and 2012.

	2013		2012	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Not past due	107,325	(7,469)	102,081	(6,500)
Past due	34,511	(34,511)	27,178	(27,178)
less than one year	10,289	(10,289)	10,496	(10,496)
more than one year	24,222	(24,222)	16,682	(16,682)
Total	**141,836**	**(41,980)**	**129,259**	**(33,678)**

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies (continued)

Credit Risk (continued)

In the years ended 31 December 2013 and 2012, the movement in allowance for impairment was as follows:

Year ended 31 December 2013

	Balance as at 1 January 2013	**Charge for the year**	**Reversed**	**Utilized**	**Balance as at 31 December 2013**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Allowance on current financial assets					
Receivables for transportation services	(12,157)	(817)	201	212	(12,561)
Other accounts receivable	(18,195)	(10,329)	1,295	1,923	(25,306)
	(30,352)	**(11,146)**	**1,496**	**2,135**	**(37,867)**
Allowance on non-current financial assets					
Loans issued	(341)	(21)	14	182	(166)
Other financial assets	(2,985)	(962)	–	–	(3,947)
	(3,326)	**(983)**	**14**	**182**	**(4,113)**
Total	**(33,678)**	**(12,129)**	**1,510**	**2,317**	**(41,980)**

Year ended 31 December 2012

	Balance as at 1 January 2012	**Charge for the year**	**Reversed**	**Utilized**	**Balance as at 31 December 2012**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Allowance on current financial assets					
Receivables for transportation services	(21,181)	(487)	106	9,405	(12,157)
Other accounts receivable	(9,850)	(10,705)	1,622	738	(18,195)
	(31,031)	**(11,192)**	**1,728**	**10,143**	**(30,352)**
Allowance on non-current financial assets					
Loans issued	(236)	(159)	54	–	(341)
Other financial assets	(2,826)	(330)	171	–	(2,985)
	(3,062)	**(489)**	**225**	**–**	**(3,326)**
Total	**(34,093)**	**(11,681)**	**1,953**	**10,143**	**(33,678)**

Bad debt expense recognized in the consolidated statement of profit or loss comprised effect of allowance for impairment relating to financial assets charged or reversed for the year 2013 of Rbls 10,619 million (2012: Rbls 9,728 million), direct write-off of accounts receivable and other financial assets of Rbls 436 million (2012: Rbls 537 million) and allowance for impairment of advances issued and input VAT, reversed or written off for the year 2013 resulting in net loss of Rbls 363 million (2012: Rbls 637 million).

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies (continued)

Liquidity Risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities when due without incurring unacceptable losses or risking damage to the Group's reputation.

The Group manages liquidity risk by maintaining adequate cash reserves and borrowing facilities, by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities. The management monitors net debt to EBITDA and EBITDA to net interest costs as key financial ratios in accordance with the Group's debt management policy.

The Group prepares a financial plan on a monthly basis which ensures that the Group has sufficient cash on demand to finance expected operational expenses, financial obligations and investing activities. The Group developed standard payment periods in respect of trade accounts payable and monitors the timeliness of payments to its suppliers and contractors.

The following tables summarise the maturity profile of the Group's financial liabilities based on contractual undiscounted payments, including interest payments. Such undiscounted cash flows disclosed under the requirement of IFRS 7 *"Financial Instruments: Disclosures"* differ from the amounts included in the statement of financial position because the amounts in that statement are based on discounted cash flows. Thus, the information on the undiscounted cash flows of loans and borrowing presented below differs from the information on the carrying values of the loans and borrowings disclosed in the Note 16. Repayments, which are subject to notice, are treated as if notice were to be given immediately. Accordingly, the related liabilities were reported as payable within less than 1 year.

As at 31 December 2013	**Less than 1 year**	**1 to 3 year**	**Over 3 years**
	Rbls mln	*Rbls mln*	*Rbls mln*
Fixed-rate debts			
Loans and borrowings excluding interest	52,030	156,203	293,056
Interest on loans and borrowings	42,112	50,159	77,742
Derivative financial instruments			
- Contractual amounts payable	8,309	51,506	186,369
- Contractual amounts receivable	(9,626)	(53,605)	(169,077)
Finance lease liabilities	10,965	16,916	33,493
Variable-rate debts			
Loans and borrowings excluding interest	2,291	11,485	172,189
Interest on loans and borrowings	15,063	25,758	206,798
Non-interest bearing debts			
Trade and other payables	237,970	1,367	–
Other liabilities	3,615	–	–

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

As at 31 December 2012	Less than 1 year	1 to 3 year	Over 3 years
	Rbls mln	*Rbls mln*	*Rbls mln*
Fixed-rate debts			
Loans and borrowings excluding interest	59,829	119,903	232,633
Interest on loans and borrowings	38,756	43,392	71,944
Derivative financial instruments			
- Contractual amounts payable	7,590	14,956	205,055
- Contractual amounts receivable	(9,020)	(17,911)	(192,041)
Finance lease liabilities	6,242	9,143	17,993
Variable-rate debts			
Loans and borrowings excluding interest	39,979	3,646	19,711
Interest on loans and borrowings	1,882	2,180	6,349
Non-interest bearing debts			
Trade and other payables	247,328	2,956	–
Other liabilities	3,273	–	–

Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and equity prices, will affect the Group’s income or the value of its holdings of financial instruments. Market risk comprises equity, currency and interest rate risks.

Currency risk

The currency risk is the risk of losses due to adverse changes in foreign exchange rates with regard to the Group’s assets and liabilities denominated in foreign currencies.

The Group maintains centralized currency risk management system, which establishes risk policy towards certain currencies and prescribes regular analysis of foreign currency risk exposure. This analysis includes the assessment of open foreign exchange position, forecast modeling of exchange rates and the analysis of deviations between forecast and budget rates. The Group aims at maintaining a neutral open foreign exchange position through offset of outflows in a foreign currency by inflows in corresponding currency.

The Group is exposed to currency risk on selected receivables, payables and borrowings that are denominated in a currency other than the Group’s companies functional currencies. The currencies in which these transactions are denominated are primarily CHF, US dollars, GBP and Euro.

The Group manages its foreign currency risk by economically hedging material transactions, such as borrowings. It is the Group’s policy to negotiate the terms of the hedge derivatives to match as close as possible the terms of the hedged instrument.

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies (continued)

Market Risk (continued)

The Group hedges its exposure to fluctuations on the US Dollar denominated loan participation notes and borrowings by using foreign currency SWAP agreements (Note 16). As at 31 December 2013, the Group had hedged approximately 100% (2012: 87%) of its US Dollar denominated borrowings.

Sensitivity analysis

The following table demonstrates the sensitivity of the Group's income before taxation (IBT) to reasonably possible changes in the respective currencies with regard to its net monetary position[2] as at 31 December 2013 and 2012 after consideration of currency SWAPs referred to above, with all other variables held constant:

	2013		2012	
	Change in exchange rate	**Effect on IBT**	**Change in exchange rate**	**Effect on IBT**
	(%)	*Rbls mln*	*(%)*	*Rbls mln*
US$/Rbls	+20.0	66	+15.0	(2,071)
	-10.0	(33)	-15.0	2,071
EUR/Rbls	+20.0	(12,442)	+15.0	(616)
	-9.0	5,599	-15.0	616
CHF/Rbls	+20.0	(31,039)	+15.0	(20,923)
	-13.0	20,176	-15.0	20,923

Interest rate risk

The interest rate risk is the risk of financial losses due to adverse changes in the interest rates of the Group's financial assets and liabilities.

The Group borrows on both a fixed and variable rate basis and has other interest-bearing liabilities, such as finance lease liabilities. The Group incurs interest rate risk on assets and liabilities with variable interest rate.

In May 2011, the Group had adopted a formal policy with regard to acceptable exposure to fixed and variable interest rates. The Group periodically reviews current interest rates and uses the results of this analysis to decide whether attraction of fixed-rate or variable-rate borrowings is more beneficial for the Group. Further, the Group manages its exposure to variable interest rates by entering into interest rate SWAPs, in which the Group agrees to exchange, at specified intervals, the difference between variable and fixed rate interest calculated by reference to an agreed notional principal amount. At 31 December 2013, after taking into account the effect of interest rate SWAPs, approximately 77% of the Group's borrowings, including finance lease obligations, were at a fixed rate of interest (2012: 93%).

[2] Net monetary position comprises financial assets net of financial liabilities.

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies (continued)

Market Risk (continued)

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's income before taxation (IBT) (through the impact on variable-rate borrowings) for the years ended 31 December 2013 and 2012.

	2013		2012	
	Change in rate	**Effect on IBT**	**Change in rate**	**Effect on IBT**
	(%)	*Rbls mln*	*(%)*	*Rbls mln*
Variable interest financial liabilities	+1.5%	(2,401)	+1.5%	(521)
	-1.5%	2,401	-1.5%	521

Fair Value Measurement

The Group measures at fair value on a recurring basis certain financial instruments and investment property.

The Group discloses the fair value of its financial instruments as requested by IFRS 13 *Fair Value Measurement*.

The following table provides the fair value measurement hierarchy of the Group's assets and liabilities as at 31 December 2013.

	Fair value measurements using		
	Level 1 inputs	**Level 2 inputs**	**Level 3 inputs**
	Rbls mln	*Rbls mln*	*Rbls mln*
Assets measured at fair value			
Investment property	–	–	10,706
Derivative financial instruments	–	970	–
Assets for which fair values are disclosed			
Loans issued	–	12,406	–
Liabilities measured at fair value			
Derivative financial instruments	–	19,956	–
Liabilities for which fair values are disclosed			
Long-term fixed rate loans	–	57,389	–
Debt securities issued:			–
- Bonds	193,173	–	–
- Loan participation loans	244,105	–	–
Finance lease obligations	–	34,119	–
Other non-current liabilities	–	1,429	–

There were no transfers between Level 1 and Level 2 during 2013.

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies (continued)

Fair Value Measurement (continued)

As at 31 December 2012, the Group held the following financial instruments measured at fair value:

	Level 1	**Level 2**	**Level 3**
	Rbls mln	*Rbls mln*	*Rbls mln*
Assets valued at fair value			
Derivative financial instruments	–	1,178	–
Investment property			9,291
Liabilities valued at fair value			
Derivative financial instruments	–	16,191	–

The carrying amounts of financial instruments that are liquid or have a short term maturity (less than three months), such as cash and cash equivalents, short-term investments, short-term accounts receivable and payable, short-term loans receivable and payable, are assumed to approximate their fair value. This assumption is also applicable to all variable interest financial instruments.

As no readily available market exists for a part of the Group’s financial instruments, judgment is necessary in arriving at fair value, based on current economic conditions and specific risks attributable to the instrument.

With regard to fixed rate financial instruments, the fair value was estimated by comparing market interest rates when they were first recognised with current market rates offered for similar financial instruments. For CPI-linked bonds, the fair value at initial recognition was estimated using market interest rate at the date of recognition. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for deposits with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. For those notes issued where quoted market prices are not available, a discounted cash flow model is used based on a current interest rate yield curve appropriate for the remaining term to maturity.

Fair value of derivative financial instruments is calculated based on market conditions with adjustment for credit risk, i.e. including credit default swap (“CDS”) curves of banks and countries which are used as the basis for CDS curve of the Company.

The estimates presented herein are not necessarily indicative of the amounts the Group could realize in a market exchange from the sale of its full holdings of a particular instrument.

33. Fair Value Measurement, Financial Instruments and Risk Management Objectives and Policies (continued)

Fair Value Measurement (continued)

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2013.

	Carrying value excluding accrued interest	Accrued interest	Fair value
	Rbls mln	*Rbls mln*	*Rbls mln*
Financial assets			
Loans issued	11,793	258	12,406
Derivative financial assets (Note 32)	970	–	970
Financial liabilities			
Long-term fixed rate loans	58,457	286	57,389
Debt securities issued:			
- Bonds	190,778	4,001	193,173
- Loan participation notes	238,145	4,205	244,105
Finance lease obligations (Note 20)	33,574	–	34,119
Derivative financial liabilities (Note 32)	19,956	–	19,956
Other non-current liabilities (Note 17)	1,233	–	1,429

The following table summarizes differences between the carrying amounts and fair values of financial assets and liabilities of the Group as at 31 December 2012.

	Carrying value excluding accrued interest	Accrued interest	Fair value
	Rbls mln	*Rbls mln*	*Rbls mln*
Financial assets			
Loans issued	14,673	321	16,582
Derivative financial assets (Note 32)	1,178	–	1,178
Financial liabilities			
Long-term fixed rate loans	71,106	478	68,695
Debt securities issued:			
- Bonds	170,475	4,296	173,812
- Loan participation notes	157,049	2,559	177,816
Finance lease obligations (Note 20)	18,197	–	17,147
Derivative financial liabilities (Note 32)	16,191	–	16,191
Other non-current liabilities (Note 17)	2,956	–	2,678

Management believes that the carrying values of other financial assets and liabilities not detailed in the tables above approximate their fair values as at both 31 December 2013 and 2012.

Capital Management

Capital includes equity attributable to the equity holder of the parent entity.

The Group manages its capital structure in light of changes in economic conditions and may adjust it by issue of new shares and dividend payments to the shareholder.

34. Events after the Reporting Period

Borrowings

In March 2014, the Company placed at the Irish stock exchange 9 years loan participation notes with the nominal value of Euro 500 million (Rbls 22,485 million at the exchange rate as at 31 December 2013) and a coupon rate of 4.6% p.a.

In February 2014, the Group entered into two credit facility agreements with OJSC "Gazprombank". Under these credit facility agreements the Group can draw up to Rbls 10,000 million and US$ 74 million (Rbls 2,422 million at the exchange rate as at 31 December 2013). The loans under these credit facilities are available up to December 2016 and February 2018, respectively.

Subsequent to 31 December 2013, the Group entered into credit facility agreements with OJSC "Sberbank of Russia" with total available facility of Rbls 2,070 million and with OJSC "VTB Bank" with total available facility of Rbls 5,500 million. The loans under these credit facilities are available for the period from one to three years.

In March and April 2014, the Company has signed cross-currency (Russian Rouble to Swiss Franc) and interest rate SWAP agreement for the amount of Swiss Francs 369 million (Rbls 13,524 million at the exchange rate as at 31 December 2013) and 366 million (Rbls 13,432 million at the exchange rate as at 31 December 2013) maturing in June 2016 and November 2015, respectively.

Subsequent to 31 December 2013, the Company entered into the series of put and call option agreements for the sale and purchase of gas oil for a period up to and including December 2014. The exercise prices are fixed at predetermined dates quarterly.

Subsidiaries, Associates and Joint Ventures

In March 2014, the Company sold 25% equity stake in LLC "Aeroexpress", an associate, for cash consideration of Rbls 555 million. As a result, the Group's share in LLC "Aeroexpress" decreased to 25%.

Subsidies from Federal and Regional Budgets

The Government of the Russian Federation approved provision of the following subsidies to the Group for the year 2014:

- in the amount up to Rbls 26,030 million as subsidies for capital repairs of the infrastructure. This subsidy was received by the Company in full in April 2014;
- in the amount up to Rbls 24,375 million as a compensation for the effect of tariffs' regulation with regard to suburban transportation;
- in the amount up to Rbls 23,622 million as a compensation for the effects of tariffs' regulation with regard to long distance passenger transportation;
- other subsidies in the amount up to Rbls 2,258 million.

34. Events after the Reporting Period (continued)

Share Capital

In April 2014, the Government of the Russian Federation approved additional issue of 12,973,678 ordinary shares with par value of Rbls 1 thousand in the aggregate amount of Rbls 12,974 million. The purpose of the issue is to finance the following investment projects:

- Rbls 8,453 million for development of railway infrastructure Mezhdurechensk-Taishet;
- Rbls 2,917 million for reconstruction of M. Gorky – Kotelnikovo – Tikhoretskaya – Krymskaya route;
- Rbls 1,584 million for development of railway infrastructure of Moscow region;
- Rbls 20 million for other projects.

Commitments

Subsequent to 31 December 2013, the Group has signed several contracts for purchase of rolling stock in the total amount of approximately Rbls 159,359 million (including VAT).

Impact of Political Situation in Ukraine

Subsequent to 31 December 2013, the economic and political uncertainty in Ukraine increased significantly. Following the political instability in Ukraine and heightened geopolitical risk, international rating agencies revised their outlook of Russia’s sovereign credit rating in local and foreign currency from stable to negative and one of the international rating agencies decreased Russia’s sovereign credit rating in foreign currency, which may reduce the flow of potential investment, trigger rising capital outflows and other negative economic effects.

Management is monitoring these developments in the current environment and taking actions where appropriate. These and any further possible developments could impact results and financial position of the Group in a manner not currently determinable.