Open Joint Stock Company
“Federal Passenger Company”

Consolidated Financial Statements

As at 31 December 2013 and for the year then ended

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Consolidated Financial Statements

As at 31 December 2013 and for the year then ended

Contents

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Independent auditors' report

To the shareholders and the Board of Directors of
Open Joint Stock Company "Federal passenger Company"

We have audited the accompanying consolidated financial statements of Open Joint Stock Company "Federal Passenger Company" 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, the consolidated statement of 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 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 (IFRS), 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 auditors' 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.

Basis for qualified opinion

As described in Note 2 to the consolidated financial statements, in 2012, the Group completed its property, plant and equipment registers as at 1 January 2011 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. 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 2011, 2012 and 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 a cash-generating unit 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

15 April 2014

Open Joint Stock Company "Federal Passenger Company"

Consolidated Statement of Financial Position as at 31 December 2013

(All amounts are in millions of Russian Rubles)

	Notes	31 December 2013	31 December 2012 Restated*	1 January 2012 Restated*
ASSETS				
Non-current assets				
Property, plant and equipment	5	174,648	154,924	142,430
Investment property		161	482	168
Advances issued for acquisition of non-current assets	6	5,074	7,513	8,907
Intangible assets	7	1,597	1,510	645
Other non-current assets		113	97	50
Total non-current assets		**181,593**	**164,526**	**152,200**
Current assets				
Inventories	8	3,480	2,809	2,459
Prepayments and other current assets	9	4,611	3,961	5,769
Income tax receivable		757	1,929	1,098
Receivables	10	4,381	3,739	4,740
Short-term bank deposits	11	25	1,509	–
Cash and cash equivalents	12	15,267	13,717	5,674
Total current assets		**28,521**	**27,664**	**19,740**
Total assets		**210,114**	**192,190**	**171,940**
EQUITY AND LIABILITIES				
Equity attributable to equity holders of the parent				
Share capital	20	152,636	147,636	137,238
Accumulated deficit		(2,590)	(16,404)	(13,739)
Total equity attributable to equity holders of the parent		**150,046**	**131,232**	**123,499**
Non-current liabilities				
Net assets attributable to non-controlling participants in LLCs		29	20	339
Deferred tax liabilities	13	5,563	4,861	4,525
Long-term borrowings	14	9,330	7,972	893
Finance lease obligations, net of current portion		–	–	22
Employee benefit obligations	15	13,425	15,757	14,294
Other non-current liabilities	16	–	1,567	3,639
Total non-current liabilities		**28,347**	**30,177**	**23,712**
Current liabilities				
Trade and other payables	17	14,546	16,192	13,391
Advances received for transportation		8,081	7,425	6,344
Finance lease obligations, current portion		–	25	109
Taxes and similar charges payable (other than income tax)	18	1,873	2,112	2,145
Current portion of long-term borrowings	14	1,997	567	–
Derivative financial liabilities		–	17	–
Provisions and other current liabilities	19	5,224	4,443	2,740
Total current liabilities		**31,721**	**30,781**	**24,729**
Total liabilities		**60,068**	**60,958**	**48,441**
Total equity and liabilities		**210,114**	**192,190**	**171,940**

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

Akulov M.P. General Director

Muslovets A.A. Chief Financial Officer

30 March 2014

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

Open Joint Stock Company "Federal Passenger Company"

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			
Revenues from transportation	21	184,552	172,194
Other revenues	22	11,302	10,007
Total revenues		**195,854**	**182,201**
Operating expenses			
Railway infrastructure expenses	23	(64,928)	(62,840)
Wages, salaries and related contributions		(40,966)	(42,078)
Rent of locomotives and other rolling stock		(39,066)	(37,179)
Materials, repairs and maintenance		(20,160)	(18,052)
Depreciation and amortization	5, 7	(12,914)	(11,486)
Rolling stock equipping		(3,927)	(3,874)
Bedding and servicing expenses		(6,379)	(6,184)
Taxes other than income tax	24	(3,519)	(3,478)
Bank charges		(1,993)	(1,887)
Fuel		(989)	(1,041)
Electricity		(374)	(364)
Reversal of loss on impairment of property, plant and equipment	5	732	249
Bad debt recovery / (expense)		33	(610)
Other operating expenses	25	(7,969)	(7,861)
Total operating expenses		**(202,419)**	**(196,685)**
Operating loss before subsidies from federal budget		**(6,565)**	**(14,484)**
Subsidies from federal budget	26	23,239	29,559
Operating profit after subsidies from federal budgets		**16,674**	**15,075**
Finance expense and similar items		(692)	(530)
Finance income and similar items		787	984
Finance income and similar items, net	27	**95**	**454**
Other income	28	490	904
Other expenses	29	(1,731)	(4,221)
Foreign exchange loss, net		(168)	(58)
Profit before tax		**15,360**	**12,154**
Income tax expense	13	**(3,425)**	**(3,569)**
Profit for the year		**11,935**	**8,585**
Attributable to:			
Equity holders of the parent		11,935	8,585
Non-controlling interests		–	–
Earnings per share			
Basic, profit for the year attributable to ordinary equity holders of the parent		0.08	0.06
Diluted, profit for the year attributable to ordinary equity holders of the parent		0.08	0.06

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

Akulov M.P. General Director

Muslovets A.A. Chief Financial Officer

30 March 2014

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

Open Joint Stock Company "Federal Passenger Company"

Consolidated Statement of Comprehensive Income for the year ended 31 December 2013

(All amounts are in millions of Russian Rubles)

	Notes	2013	2012 Restated*
Profit for the year		**11,935**	**8,585**
Other comprehensive income			
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:			
Revaluation of property, plant and equipment at the date of transfer to investment property		54	216
Income tax effect		(10)	(43)
Revaluation of property, plant and equipment at the date of transfer to investment property net of tax		**44**	**173**
Re-measurement gains/(losses) on defined benefit plans	15	1,855	(1,087)
Income tax effect		(34)	76
Re-measurement gains/(losses) on defined benefit plans net of tax		**1,821**	**(1,011)**
Net other comprehensive income/(loss) not to be reclassified to profit or loss in subsequent periods		**1,865**	**(838)**
Other comprehensive income to be reclassified to profit or loss in subsequent periods:			
Net gain/(loss) on derivative financial instruments		17	(17)
Income tax effect		(3)	3
Net other comprehensive income/(loss) to be reclassified to profit or loss in subsequent periods		**14**	**(14)**
Other comprehensive income/(loss) for the year, net of tax		**1,879**	**(852)**
Total comprehensive income for the year, net of tax		**13,814**	**7,733**
Attributable to:			
Equity holders of the parent		13,814	7,733
Non-controlling interests		–	–
		13,814	**7,733**

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

Akulov M.P. — General Director

Muslovets A.A. — Chief Financial Officer

30 March 2014

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

Open Joint Stock Company "Federal Passenger Company"

Consolidated Statement of Changes in Equity
for the year ended 31 December 2013

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

		Attributable to equity holders of the parent			
		Share capital			
	Notes	Common shares	Amount	Accumulated deficit	Total equity
As at 1 January 2012		**137,238,246,306**	**137,238**	**(11,524)**	**125,714**
Changes in accounting policy	3	–	–	(2,215)	**(2,215)**
As at 1 January 2012 (restated*)		**137,238,246,306**	**137,238**	**(13,739)**	**123,499**
Profit for the period (restated*)		–	–	8,585	**8,585**
Other comprehensive income (restated*)		–	–	(852)	**(852)**
Total comprehensive income (restated*)		–	–	**7,733**	**7,733**
Increase in share capital	20	10,397,601,827	10,398	(10,398)	–
As at 31 December 2012 (restated*)	3	**147,635,848,133**	**147,636**	**(16,404)**	**131,232**
Profit for the period		–	–	11,935	**11,935**
Other comprehensive income		–	–	1,879	**1,879**
Total comprehensive income		–	–	**13,814**	**13,814**
Increase in share capital	20	5,000,000,000	5,000	–	**5,000**
As at 31 December 2013		**152,635,848,133**	**152,636**	**(2,590)**	**150,046**

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

Akulov M.P. — General Director

Muslovets A.A. — Chief Financial Officer

30 March 2014

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

Open Joint Stock Company "Federal Passenger Company"

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			
Profit before tax		15,360	12,154
Adjustments to reconcile profit before tax to net cash flows			
Depreciation and amortization	5,7	12,914	11,486
Bad debt expense		(33)	610
Loss on disposal of property, plant and equipment		1,683	3,589
Reversal of loss on impairment of property, plant and equipment	5	(732)	(249)
Financial income and similar items, net	27	(95)	(454)
Change in write-offs of obsolete and damaged inventories		41	(13)
Change in provision for legal claims		6	(32)
Foreign exchange loss, net		168	58
Change in employee benefit obligations	15	(476)	376
Other (income)/losses, net		(129)	43
Operating income before working capital changes		**28,707**	**27,568**
(Increase)/decrease in receivables		(554)	226
(Increase)/decrease in prepayments and other current assets		(650)	1,755
(Increase) in inventories		(579)	(385)
(Decrease)/increase in trade and other payables		(2,188)	2,512
Increase in advances received for transportation		655	1,080
(Decrease) in taxes and similar charges payable (other than income tax payable)		(239)	(33)
Increase in other current liabilities		764	1,702
Net cash from operating activities before income taxes		**25,916**	**34,425**
Income taxes paid		(1,598)	(4,027)
Net cash flows from operating activities		**24,318**	**30,398**

Continued on next page

Open Joint Stock Company "Federal Passenger Company"

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		(31,174)	(28,421)
Disposal of property, plant and equipment		96	189
Purchases of intangible assets		(903)	(579)
Bank deposits withdrawn/(placed)		1,484	(1,509)
Interest received		848	923
Net cash used in investing activities		**(29,649)**	**(29,397)**
Cash flows from financing activities			
Proceeds from long-term borrowings		6,050	7,702
Repayment of long-term borrowings		(3,290)	–
Issue of shares		5,000	–
Interest paid		(853)	(545)
Repayment of finance lease obligations, including finance charges		(26)	(115)
Net cash from financing activities		**6,881**	**7,042**
Net increase in cash and cash equivalents		**1,550**	**8,043**
Cash and cash equivalents at the beginning of the year	12	**13,717**	**5,674**
Cash and cash equivalents at the end of the year	12	**15,267**	**13,717**

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

Akulov M.P. — General Director

Muslovets A.A. — Chief Financial Officer

30 March 2014

(All amounts are in millions of Russian Rubles)

1. Description of Business and Russian Environment

Open Joint Stock Company “Federal Passenger Company” (“FPC” or “the Company”) was established on 3 December 2009 in connection with implementation of the Program of Railway Transportation Industry Restructuring (“the Program”) for the organization of effective passenger transportation in the long-haul passenger transportation segment. The Company is 100% less 1 share owned by the OJSC “Russian Railways” (OJSC “RZD” or “the Parent”). OJSC “Russian Railways” is 100% owned by the Russian Federation, which is the Company’s ultimate controlling party.

The legal address of FPC is Mashi Porivaevoy Street, 34, 107078, Moscow, Russian Federation.

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

The Company’s subsidiaries are as follows:

Name of the subsidiary	The principal place of business	Nature of business	Group’s effective equity interest 31 December 2013	31 December 2012
“NapitkiTransService” LLC	Russia	Beverages sale	51%	51%
“Travel-Tur” LLC (A)	Russia	Tourism	50.01%	50.01%
“FPC-Logistika” JSC	Russia	Baggage transportation	100%	100%

Corporate Information

Subsidiaries of the Company are registered in the Russian Federation.

(A) In November 2011 FPC acquired 50.01% interest in LLC “RZD Travel”. In 2013 LLC “RZD Travel” was renamed to LLC “Travel-Tur”.

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 a 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, which 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.

1. Description of Business and Russian Environment (continued)

Pricing Policy

The Government of Russian Federation sets tariffs for the Company’s transportation services based on anticipated macroeconomic indicators and the Company’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 certain classes of passenger transportation (third- and fourth-class of long-haul passenger transportation).

The Company is required to price its regulated third- and fourth-class long-haul passenger transportation services on the basis of a detailed price lists set out in Tariff 156-t/1. Prices set out in Tariff 156-t/1 are subject to annual, and occasionally supplemental, indexation.

As discussed above, the Government of Russian Federation regulates tariffs for third- and fourth-class long-haul passenger transportation for the Company, while deluxe-, first- and second-class long-haul passenger transportation is unregulated and subject to market pricing. International tariffs for passenger transportation are set according to inter-governmental and interagency agreements, and vary according to the countries involved.

It is currently uncertain whether any 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 Russian ruble to 1 US dollar equated to 32.73 and 30.37 as at 31 December 2013 and 31 December 2012, accordingly. The exchange rate of the Russian ruble to 1 EUR equated to 44.97 and 40.23 as at 31 December 2013 and 31 December 2012, accordingly. The exchange rate of the Russian ruble to 1 Swiss Franc equated to 36.70 and 33.29 as at 31 December 2013 and 31 December 2012, accordingly.

As at 30 March 2014 the exchange rates were: Russian rubles 35.69 to 1 US dollar, Russian rubles 49.05 to 1 EUR and Russian rubles 40.24 to 1 Swiss franc.

Government Subsidies

The Company receives subsidies from federal government to compensate the effects of passenger transportation tariffs’ regulation. These subsidies are shown as a separate line item in the consolidated statement of profit or loss (Note 26, 33).

Liquidity

As at 31 December 2013, the Group’s current liabilities exceeded its current assets by Rbls 3,200 million. As a result, uncertainties exist as to the Group’s liquidity.

The Group is investing in expansion, modernization and maintenance of its property, plant and equipment. The Group financed investment activities through cash generated from operations and partially non-current borrowings.

1. Description of Business and Russian Environment (continued)

Liquidity (continued)

Management is addressing the Group’s liquidity needs by implementing the following measures:

- Continuous monitoring and management of credit portfolio structure aiming at extending its duration and maintaining even flows of borrowings repayment in future periods;
- Entering into long-term and medium-term agreements with local banks (including framework agreements) to ensure sufficient liquidity reserves for emergency cases (Note 14, 33);
- Obtaining approval of subsidies from federal government to compensate the effects of passenger transportation tariffs regulation (Note 26).

Through 2014, management believes that 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 all entities of the Group 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, unless otherwise indicated.

The Company 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, employee benefit obligations, provisions, deferred income taxes and accounting for subsidiaries.

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

Changes in Accounting Policy and Disclosures

New and Amended Standards and Interpretations

The accounting policies adopted in the preparation of the consolidated financial statements for the year ended 31 December 2013 are consistent with those followed in the preparation of the consolidated financial statements for the year ended 31 December 2012, except for the adoption of new standards and amendments to the standards and interpretations effective as of 1 January 2013.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

The Group applied, for the first time, certain standards and amendments that require restatement of comparative information presented in these consolidated financial statements and/or changes in the Group's accounting policy and disclosures. These include IFRS 10 *Consolidated Financial Statements,* IFRS 12 *Disclosure of Interest in Other Entities,* IFRS 13 *Fair Value Measurement,* IAS 19 *Employee Benefits (Revised 2011)* and amendments to IAS 1 *Presentation of Financial Statements.*

Several other new standards and amendments were applied for the first time in 2013. However, they do not impact the consolidated financial statements of the Group. These include IFRS 11 *Joint Arrangements,* IAS 28 *Investments in Associates an Joint Ventures* (Revised 2011), amended IFRS 7 *Financial Instruments: Disclosures,* and amendments resulting from Annual Improvements (issued in May 2012) to IFRS 1 *First-time Adoption of International Financial Reporting Standards,* IAS 16 *Property, Plant and Equipment* and IAS 32 *Financial Instruments: Presentation – Tax Effects of Distributions to Holders of Equity Instruments.*

The nature and the impact of new standards/amendments affecting the accounting policies, disclosures, financial position or performance of the Group are described below:

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 impact on the Group's perimeter of consolidation.

IFRS 12 Disclosure of Interests in Other Entities (New Standard)

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. The Group provides necessary disclosures in Note 1. Based on the analysis performed the Group does not have unconsolidated structured entities which would require disclosures under IFRS 12.

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 when fair value is required or permitted. The application of IFRS 13 had no material impact on the fair value measurements carried out by the Group. IFRS 13 also requires specific disclosures on fair values, some of which replace existing disclosure requirements in other standards. The Group provides necessary disclosures in Note 32.

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 recognized in OCI and permanently excluded from profit or loss; expected returns on plan assets that are no longer recognized in profit or loss, instead, there is a requirement to recognize 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 recognized in profit or loss at the earlier of when the amendment occurs or when the related restructuring or termination costs are recognized. Other amendments include new disclosures, such as, quantitative sensitivity disclosures.

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

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 (or 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)

An opening statement of financial position (known as the ‘third balance sheet’) 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.

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. The amendment affected presentation only and had no impact on the Group’s financial position or performance.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

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

Standards and interpretations issued but not yet effective

The standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group's financial statements are disclosed below. The Group intends to adopt these standards, if applicable, when they become effective.

IFRS 9 Financial Instruments

IFRS 9, as issued, reflects the first phase of the IASB's work on the replacement of IAS 39 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. On 19 November 2013 the IASB issued package of amendments to the accounting requirements for financial instruments. The amendments bring into effect a substantial overhaul of hedge accounting that will allow entities to better reflect their risk management activities in the financial statements; allow the changes to address the so-called 'own credit' issue that were already included in IFRS 9 *Financial Instruments* to be applied in isolation without the need to change any other accounting for financial instruments; and remove the 1 January 2015 mandatory effective date of IFRS 9, to provide sufficient time for preparers of financial statements to make the transition to the new requirements. In subsequent phases, the IASB is addressing hedge accounting and impairment of financial assets. The adoption of the first phase of IFRS 9 will have an effect on the classification and measurement of the Group's financial assets, but will not have an impact on classification and measurements of the Group's financial liabilities. The Group will quantify the effect in conjunction with the other phases, when the final standard including all phases is issued.

Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)

These amendments are effective for annual periods beginning on or after 1 January 2014 provide an exception to the consolidation requirement for entities that meet the definition of an investment entity under IFRS 10. The exception to consolidation requires investment entities to account for subsidiaries at fair value through profit or loss. It is not expected that this amendment would be relevant to the Group, since none of the entities in the Group would qualify to be an investment entity under IFRS 10.

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

These narrow scope 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's financial statements will be affected by this change. Quantification of the effect will be performed on implementation. No early application is planned.

2. Summary of Significant Accounting Policies (continued)

Changes in Accounting Policy and Disclosures (continued)

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 are effective for annual periods beginning on or after 1 January 2014. These amendments are not expected to be relevant to the Group.

IFRIC Interpretation 21 Levies (IFRIC 21)

IFRIC 21 clarifies that an entity recognizes a liability for a levy when the activity that triggers payment, as identified by the relevant legislation, occurs. 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. The Group does not expect that IFRIC 21 will have material financial impact on its financial statements.

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. The Group has not novated its derivatives during the current period. However, these amendments would be considered for future novations.

Principles of Consolidation

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2013.

Control is achieved when the Group 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.

Specifically, the Group controls an investee if and only if the Group has:

- power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee),
- exposure, or rights, to variable returns from its involvement with the investee, and
- the ability to use its power over the investee to affect its returns.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of profit or loss from the date the Group gains control until the date the Group ceases to control the subsidiary.

2. Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group. Assets, liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognises the assets (including goodwill) and liabilities of the subsidiary
- Derecognises the carrying amount of any non-controlling interest
- Derecognises the cumulative translation differences, recorded in equity
- Recognises the fair value of the consideration received
- Recognises the fair value of any investment retained
- Recognises any surplus or deficit in profit or loss
- Reclassifies the parent’s share of components previously recognised in other comprehensive income to profit or loss or retained earnings, as appropriate.

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 identifiable net assets. Acquisition costs incurred are expensed and included in administrative expenses.

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 and except for transactions described below.

When assets are acquired in the transactions under common control and payment is deferred beyond normal credit terms the resulting liability is recognized at its fair value at that date and the difference between the cash price equivalent and the total payment is recognized as credit to the equity. The assets are recognized at the nominal amount of consideration payable.

On extinguishment of financial liability to the party under common control the difference between the fair value of liability settled and its carrying value is recognized in profit or loss. Any difference between the fair value of assets transferred for settlement and the fair value of liability settled is recognized directly in equity as additional contribution or distribution accordingly.

2. Summary of Significant Accounting Policies (continued)

Principles of Consolidation (continued)

When provisions of the lease agreement with parties under common control where the Group is a lessee are modified the Group uses the original interest rate implicit in the lease to discount the revised minimum lease payments in order to calculate the new lease liability and recognises any change in the original lease liability as adjustment to the carrying amount of the asset.

Property, Plant and Equipment

Property, plant and equipment are recognized at historical cost of acquisition or construction less accumulated depreciation and impairment (the Group's approach to the accounting for impairment is described in *Significant Judgment, Estimations 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. Major renewals and improvements are capitalized, and the assets replaced are derecognized. When each major inspection is performed, its cost is recognized in the carrying amount of the plant and equipment as a replacement if the recognition criteria are satisfied. Costs other than those referred to above are recognized as an expense when incurred.

When assets are sold or retired, their carrying value is eliminated from the accounts and any gain or loss resulting from their disposal is included in the statement of profit or loss.

Depreciation is calculated on a straight-line basis over the asset's estimated useful life. Depreciation is charged to operating expenses in the respective period. The land is not depreciated.

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

Buildings	10-60
Constructions	10-100
Superstructure	20-25
Rolling stock, passenger	25-28
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.

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)

Borrowing Costs

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. All other borrowing costs are expensed in the period they occur. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are ready for their intended use. Borrowing costs include interest and other costs incurred in connection with the borrowing of funds.

Intangible Assets

Intangible assets (primarily software) are initially measured at cost. Intangible assets are recognized if it is probable that the future economic benefits attributable to the asset will flow to the enterprise. 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 Judgment, Estimations and Assumptions* section below).

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 10 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 is accounted for by changing 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. The Group does not have intangible assets with indefinite useful lives.

Financial Assets and Liabilities

The Group's financial assets include:

- cash and cash equivalents;
- bank deposits and receivables;
- derivative financial instruments.

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;
- interest bearing loans and borrowings;
- derivative financial instruments.

2. Summary of Significant Accounting Policies (continued)

Financial Assets and Liabilities (continued)

Derivative Financial Instruments

The Group uses derivative financial instruments such as interest rate swaps to hedge its foreign interest rate risks, respectively. 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 recognized directly to the profit or loss, except for the effective portion of cash flow hedges, which is recognised in other comprehensive income.

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. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Cash and Cash Equivalents

Cash consists of cash on hand and balances with banks. Cash equivalents comprise highly liquid investments with original maturities of three months or less.

Net Assets Attributable to Non-controlling Participants in LLCs

Non-controlling interest in the Group's subsidiaries, established in the form of a limited liability company ("LLC"), do not satisfy the conditions of an equity instrument, since in accordance with the legislation of Russian Federation and charters, participants of those subsidiaries have a right to request the redemption of their interests in cash. Based on the provisions of the law determining the exit period, the net assets attributable to non-controlling participants in LLC had been presented within non-current liabilities. Share of non-controlling participants in profit or loss of those subsidiaries is presented in the statement of profit or loss as finance income or expense.

Revenue and Expense Recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when the payment is being made. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent.

2. Summary of Significant Accounting Policies (continued)

Revenue and Expense Recognition (continued)

The specific recognition criteria described below must also be met before revenue is recognised.

Transportation services

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

In respect of services related to baggage and 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. baggage or 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.

Rental Income

Rental income arising from operating leases on investment properties and rent of passenger cars is accounted for on a straight-line basis over the lease terms and is included in other revenue due to its operating nature.

Finance and Similar Income and Expense

Interest income and expense is 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 earned and interest expense, incurred by the Group, are treated as finance income and expense, respectively.

Government Subsidies

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. The Group provides further disclosures in Note 26.

Subsidies contributed towards the acquisition of an asset are deducted from the cost of those assets. Such subsidies are then recognized as income over the useful life of a depreciable asset by way of reduced depreciation charge.

2. Summary of Significant Accounting Policies (continued)

Employee Benefits

Defined benefit plans

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

In addition, the Group provides certain other retirement and post retirement benefits to its employees. These benefits are unfunded.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment, and the date that the Group recognizes 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 State Pension Fund, managed by the Russian Federation Social Security. 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 568 thousand rubles is taxed at 10% (2012: excess of annual gross salary of employee over 512 thousand rubles is taxed at 10%).

2. Summary of Significant Accounting Policies (continued)

Employee Benefits (continued)

Other long-term benefits

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. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost is charged to the statement of profit or loss, so as to attribute the total other long-term benefit cost over the service lives of employees in accordance with the benefit formula, which considers that these benefits are periodically paid to employees. Accordingly, the cost is recognized and obligation is accumulated on the basis of the ratio of years of service from the last payment date (or employment date in case there were no prior payments) till the reporting date divided by the total years of service from the last payment date (or employment date in case there were no prior payments) till the next payment date.

This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation. Actuarial gains and losses are recognised as income or expense within profit or loss in full as they arise.

Past service cost with regard to these benefits is recognized in the profit or loss immediately.

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 obligations.

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.

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.

2. Summary of Significant Accounting Policies (continued)

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 disclosure of contingent liabilities during the reporting period.

As a result of the uncertainties inherent in business activities, many items in financial statements cannot be measured with precision but can only be estimated. Estimation involves judgments based 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 defined benefit obligations and the related current service costs with regard to pension plans and other long-term employee benefits, amounts of write-downs for obsolete inventory, provision for legal contingencies and deferred taxation. Actual results could differ from these estimates.

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 outflows related primarily to wages and salaries expenses. 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 transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form or a lease, all aspects and implications of an arrangement are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for 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 estimate 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.

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 discussed below:

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 may be impaired. If any such indication exists, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

The Group represents one cash-generating unit (CGU or CGU FPC). The Group bases its impairment calculation on detailed budget and forecasts. These budgets and forecasts generally cover the period of three years and are further extrapolated for the mid-term period applying forecasted inflation rate, 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, passenger turnover and tariffs growth rates for the period up to and including the year 2030.

The Group determined recoverable amount of CGU FPC as of 31 December 2013 based on a value in use calculation.

The following key assumptions were used for calculation of CGU FPC recoverable amount:

- Discount rate is based on the specific circumstances of the Group and derived from its weighted average cost of capital (WACC) which takes into account both debt and equity. The cost of debt is based on the interest bearing borrowings of the Group and yield to maturity (YTM) of the Parent’s corporate bonds. Cost of equity takes into consideration beta factors evaluated based on publicly available market data;
- Projected cash inflows from passenger transportation up to 2016 are based on forecasted change in passengers’ turnover. Passenger turnover in further periods was considered stable at the level of 2016. Projected change in tariffs for passenger transportation for further periods was based on conservation scenario of Ministry of Economic Development;
- Projected cash inflows also include continuing government support in the form of subsidies in line with the amounts budgeted by the Government for the years 2014-2016;
- Projected cash outflows take into account forecasted decrease in operating expenses planned by the management in accordance with the Group’s costs reduction program.

In the result of impairment test performed by the Group as of 31 December 2013 the recoverable amount of CGU determined based on value in use calculation comprised Rbls 145,019 million which is 25,727 lower than carrying value of property, plant and equipment attributable to CGU.

The Group completed its property, plant and equipment registers as at 1 January 2011 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. However, 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 2011, 2012 and 2013.

The Group has not recorded identified CGU impairment loss estimated in the total amount of Rbls 25,727 million as it has not finalized its PP&E registers for the years 2011, 2012 and 2013 and respective carrying values as of 31 December 2013 at the date when these consolidated financial statements were authorized for issuance. Thus impairment loss determined as the excess of the carrying value of the cash generating unit over its recoverable amount may be revised upon final determination of the respective carrying value.

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

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

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 reorganization 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.

Long-term employee benefits – defined benefit plans

The present value of defined post-employment benefit obligations and related current service cost are determined in accordance with actuarial valuations, which rely on demographic and financial assumptions including 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. In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be affected materially. All assumptions are reviewed at each reporting date. More details are provided in Note 15.

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

2. Summary of Significant Accounting Policies (continued)

Estimates and Assumptions (continued)

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 Note 13, 24.

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 13.

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 and further details as to how they are measured are provided in Note 32.

Revaluation of investment property

The Group carries its investment property at fair value, with changes in fair value being recognised in the 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.

3. Correction of Reclassifications and Change in Accounting Policy

Reclassifications

Certain prior period amounts have been reclassified retrospectively to conform to the current year presentation as the Group believes that new presentation provides more relevant and reliable information to the financial statements users. The major reclassifications are described below:

As at 1 January 2012:

Consolidated Statement of Financial Position:

Receivables decreased by	Rbls 686 million
Trade and other payables decreased by	Rbls 686 million

As at 31 December 2012:

Consolidated Statement of Financial Position:

Advances issued for acquisition of non-current assets increased by	Rbls 896 million
Prepayments and other current assets decreased by	Rbls 896 million
Receivables decreased by	Rbls 743 million
Trade and other payables decreased by	Rbls 743 million

For the year ended 31 December 2012:

Consolidated Statement of Profit or Loss:

Wages, salaries and related contributions increased by	Rbls 866 million
Rent of locomotives and other rolling stock increased by	Rbls 1,367 million
Materials, repairs and maintenance decreased by	Rbls 873 million
Rolling stock equipping decreased by	Rbls 1,519 million
Fuel increased by	Rbls 10 million
Electricity increased by	Rbls 9 million
Other operating expenses increased by	Rbls 1,310 million
Other income decreased by	Rbls 457 million

Expenses previously disclosed in line items below are now presented as part of other operating expenses and rent of locomotives and other rolling stock:

Social expenses decreased by	Rbls 110 million
Commercial expenses decreased by	Rbls 150 million
Other rent expenses decreased by	Rbls 1,367 million

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

3. Correction of Reclassifications and Change in Accounting Policy (continued)

Restatement as a result of application of IAS 19R

In the current year the Group has applied IAS 19 *Employee Benefits* with an amendment adopted in June 2011 by the IAS Board. Changes to IAS 19 relate to the accounting for post-employment benefits and other long-term employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur. The amendments to the standard also clarify the structure and approaches to the definition of actuarial assumptions. Changes in actuarial assumptions and a change of approach to the date of recognition of past service costs had a major effect on the statement of financial position.

The Company adopted the revised IAS 19 retrospectively in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. Accordingly, the Company has adjusted the opening balance as at 1 January 2012. Data for 2012 have been restated as if the revised IAS 19 had always been applied as follows:

As at 31 December 2012:

Consolidated Statement of Financial Position	
Deferred tax liabilities decreased by	Rbls 220 million
Accumulated deficit increased by	Rbls 2,534 million
Employee benefit obligations increased by	Rbls 2,754 million

For the year ended 31 December 2012:

Consolidated Statement of Profit or Loss	
Wages, salaries and related contributions decreased by	Rbls 753 million
Income tax expense increased by	Rbls 61 million

Consolidated statement of comprehensive income (CSCI)	
Other comprehensive income not to be reclassified to profit or loss in subsequent periods	
Re-measurement gains (losses) on defined benefit plans increased by	Rbls (1,087) million
Related income tax effects increased by	Rbls 76 million

As at 1 January 2012:

Consolidated Statement of Financial Position	
Deferred tax liabilities decreased by	Rbls 205 million
Accumulated deficit increased by	Rbls 2,215 million
Employee benefit obligations increased by	Rbls 2,420 million

4. Segment Reporting

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

- *Domestic regulated long-haul passenger service segment* comprises third- and fourth-class passenger, baggage and mail transportation within Russian Federation borders where prices are set by the Company based on tariffs determined by Federal Tariff Service (FTS). Due to state regulation of these tariffs, the Company receives subsidies from federal budget.
- *Unregulated long-haul passenger service segment* comprises deluxe-, first- and second-class long-haul passenger transportation services within Russian Federation borders where the Company sets its own pricing policy and international passenger service where the tariffs are generally set according to inter-governmental and interagency agreements, and vary depending on the countries involved.
- *All other segments* include rent of passenger rolling stock and other property, rolling stock’s repair and maintenance for third parties, supplementary passenger services (tea, newspapers), surcharges for ticket sales, railway infrastructure services, servicing of rolling stock services and other services provided by the Group.

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 are located and significant part of the services (except for international transportation services) are provided in the Russian Federation.

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 budgets;
- interest income;
- foreign exchange gains;
- gain on disposals and changes in fair value of financial assets;
- gain on disposal of property, plant and equipment (PP&E);
- gain on disposal of assets held for sale;
- penalties charged to customers;
- gain on disposal of controlling interest in subsidiaries
- other income.

4. Segment Reporting (continued)

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:

- interest expense;
- foreign exchange losses;
- loss on disposals and changes in fair value of financial assets;
- loss on disposal of PP&E;
- loss on disposal of assets 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;
- other expenses.

Segment result is measured as segment revenue less segment expense.

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

Year ended 31 December 2013

	Domestic regulated long-haul passenger transportation	Unregulated long-haul passenger transportation*	All other segments	Eliminations (A)	Adjustments (B)	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties	87,121	88,822	20,939	–	(1,028)	195,854
Inter-segment sales	–	106	457	(563)	–	–
Total revenue	**87,121**	**88,928**	**21,396**	**(563)**	**(1,028)**	**195,854**
Total expenses	**(106,090)**	**(88,119)**	**(15,529)**	**563**	**28,681**	**(180,494)**
Segment result	**(18,969)**	**809**	**5,867**	**–**	**27,653**	**15,360**

* *Unregulated long-haul passenger transportation revenue includes Rbls 59,879 million of revenue from deluxe-, first- and second-class long-haul passenger transportation services provided within the Russian Federation and Rbls. 29,049 of revenue generated from international passenger transportation (across borders of the Russian Federation).*

4. Segment Reporting (continued)

Year ended 31 December 2012

	Domestic regulated long-haul passenger transportation	Unregulated long-haul passenger transportation*	All other segments	Eliminations (A)	Adjustments (B)	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Sales to third parties	78,513	85,604	18,989	–	(905)	182,201
Inter-segment sales	–	–	432	(432)	–	–
Total revenue	**78,513**	**85,604**	**19,421**	**(432)**	**(905)**	**182,201**
Total expenses	**(103,296)**	**(86,675)**	**(14,621)**	**432**	**34,113**	**(170,047)**
Segment result	**(24,783)**	**(1,071)**	**4,800**	**–**	**33,208**	**12,154**

* *Unregulated long-haul passenger transportation revenue includes Rbls 58,009 million of revenue from deluxe-, first- and second-class long-haul passenger transportation services provided within the Russian Federation and Rbls. 27,595 of revenue generated from international passenger transportation (across borders of the Russian Federation).*

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

(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*
Total segment results	**(12,293)**	**(21,054)**
Amounts withheld from customers at return of transportation tickets according to transportation rules	335	311
Accrual of deferred income from Customer Loyalty Program RZD-Bonus (Note 19)	(173)	(8)
Net-off of rent income against bedding and servicing expenses provided by outsources	(1,077)	(1,011)
Other revenue adjustments	(113)	(197)
	(1,028)	**(905)**
Subsidies from federal and regional budgets not included in operational results of segments (Note 26)	23,239	29,559
Fixed assets adjustments (C)	6,492	6,427
Additional employee long-term benefit obligations (Note 15)	476	(376)
Free of change transportation, bonuses and other employee benefits	(851)	(828)
Reversal of loss on impairment of property, plant and equipment (Note 5)	732	249
Interest and other similar income (expenses), net, not included in operational results of segments (Note 27)	95	454
Claims (from) /to customers, net	67	85
Doubtful debt expense adjustment	33	(610)
Bank charges	(1,993)	(1,887)
Contributions to trade union, membership fees to professional associations	(260)	(217)
Foreign exchange loss, net, not included in operational results of segments	(168)	(58)
Net-off of rent income against bedding and servicing expenses provided by outsources	1,077	1,011
Other expenses adjustments	(258)	304
	28,681	**34,113**
Total adjustments to income before taxation	**27,653**	**33,208**
Profit before tax	**15,360**	**12,154**

4. Segment Reporting (continued)

(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.

The Group did not present disclosure of operating assets and liabilities, as well as breakdown of expenses included in reported segment result as they are not regularly provided to the chief operating decision maker in assessing segment performance and deciding how to allocate resources.

5. 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	Transfers	Disposals	Balance as at 31 December 2013
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	45	4	–	(8)	41
Buildings	13,334	358	2,763	(237)	16,218
Constructions	3,009	5	965	(156)	3,823
Superstructure	375	–	–	(5)	370
Operating equipment	11,877	3,048	133	(309)	14,749
Rolling stock, passenger	272,672	29,205	–	(5,640)	296,237
Other fixed assets	1,462	35	–	(63)	1,434
Construction-in-progress	7,226	537	(3,861)	–	3,902
Total	**310,000**	**33,192**	**–**	**(6,418)**	**336,774**

Accumulated depreciation and impairment	Balance as at 1 January 2013	Depreciation charge for the year	Reversal of impairment / (Impairment) for the year	Accumulated depreciation on disposals	Balance as at 31 December 2013
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	–	–	–	–	–
Buildings	(2,775)	(259)	92	64	(2,878)
Constructions	(1,546)	(179)	7	81	(1,637)
Superstructure	(132)	(9)	–	2	(139)
Operating equipment	(5,532)	(1,432)	306	143	(6,515)
Rolling stock, passenger	(144,360)	(10,404)	348	4,313	(150,103)
Other fixed assets	(731)	(138)	(21)	36	(854)
Total	**(155,076)**	**(12,421)**	**732**	**4,639**	**(162,126)**

In 2013 the Group recognized Rbls 732 million gain from partial reversal of impairment of Rbls 919 million recognized in 2012 as result of change of estimates regarding the recoverable amounts.

5. Property, Plant and Equipment (continued)

31 December 2012

Gross book value	Balance as at 1 January 2012	Additions	Disposals	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	45	–	–	45
Buildings	13,776	94	(536)	13,334
Constructions	3,036	57	(84)	3,009
Superstructure	375	–	–	375
Operating equipment	10,522	1,631	(276)	11,877
Rolling stock, passenger	259,286	22,171	(8,785)	272,672
Other fixed assets	1,463	22	(23)	1,462
Construction-in-progress	3,830	3,396	–	7,226
Total	**292,333**	**27,371**	**(9,704)**	**310,000**

Accumulated depreciation and impairment	Balance as at 1 January 2012	Depreciation charge for the year	Reversal of impairment / (Impairment) for the year	Accumulated depreciation on disposals	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Land	–	–	–	–	–
Buildings	(2,786)	(238)	247	2	(2,775)
Constructions	(1,429)	(149)	30	2	(1,546)
Superstructure	(123)	(9)	–	–	(132)
Operating equipment	(4,221)	(1,191)	(135)	15	(5,532)
Rolling stock, passenger	(140,746)	(9,633)	112	5,907	(144,360)
Other fixed assets	(598)	(128)	(5)	–	(731)
Total	**(149,903)**	**(11,348)**	**249**	**5,926**	**(155,076)**

Net book value	Balance as at 31 December 2013	Balance as at 31 December 2012	Balance as at 1 January 2012
	Rbls mln	*Rbls mln*	*Rbls mln*
Land	41	45	45
Buildings	13,340	10,559	10,990
Constructions	2,186	1,463	1,607
Superstructure	231	243	252
Operating equipment	8,234	6,345	6,301
Rolling stock, passenger	146,134	128,312	118,540
Other fixed assets	580	731	865
Construction-in-progress	3,902	7,226	3,830
Total	**174,648**	**154,924**	**142,430**

Borrowing costs capitalized as property, plant and equipment during the year ended 31 December 2013 amounted to Rbls 476 million (2012: Rbls 498 million) of which Rbls 97 million were capitalized on specific borrowings with capitalization rate of 9.7-10%.

Costs eligible for capitalization include borrowing costs incurred in connection with the acquisition and construction of PP&E on other than specific borrowings. Borrowing costs on other than specific borrowings were capitalized during 2013 using capitalization rate of 8.75% (2012: 8.72%).

5. Property, Plant and Equipment (continued)

Leased assets included above, where the Group is a lessee under a finance lease, comprised the following:

	31 December 2013	31 December 2012	1 January 2012
	Rbls mln	*Rbls mln*	*Rbls mln*
Rolling stock, passenger			
Gross book value	–	517	2,956
Accumulated depreciation	–	(134)	(635)
Net book value	**–**	**383**	**2,321**

6. Advances issued for acquisition of non-current assets

Advances for acquisition of non-current assets as at 31 December 2013 and 2012 comprised advance payments for purchase and modernization of rolling stock.

Advance payments as of 31 December 2013 included Rbls 2,777 million (31 December 2012: Rbls 5,871 million) of advance paid by the Parent to "OJSC "Tversrkoy vagonostroitelniy zavod", a related party of the Group. In July 2011 the Group entered into cession agreement with the Parent for the transfer of all rights and obligations under this agreement (Note 16).

7. Intangible assets

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

31 December 2013

Gross book value	Balance as at 1 January 2013	Additions	Disposals	Balance as at 31 December 2013
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	1,692	182	(86)	1,788
Other intangible assets	44	86	(5)	125
Software under development	–	323	–	323
Total	**1,736**	**591**	**(91)**	**2,236**

Accumulated amortization	Balance as at 1 January 2013	Amortization charge for the year	Accumulated amortization on disposals	Balance as at 31 December 2013
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Software	(226)	(433)	77	(582)
Other intangible assets	–	(60)	3	(57)
Total	**(226)**	**(493)**	**80**	**(639)**

7. Intangible assets (continued)

31 December 2012

Gross book value	Balance as at 1 January 2012	Additions	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*	*Rbls mln*
Software	689	1,003	1,692
Other intangible assets	44	–	44
Total	**733**	**1,003**	**1,736**

Accumulated amortization	Balance as at 1 January 2012	Amortization charge for the year	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*	*Rbls mln*
Software	(88)	(138)	(226)
Total	**(88)**	**(138)**	**(226)**

Net book value	Balance as at 31 December 2013	Balance as at 31 December 2012
	Rbls mln	*Rbls mln*
Software	1,206	1,466
Other intangible assets	68	44
Software under development	323	–
Total	**1,597**	**1,510**

8. Inventories

Inventories comprised the following:

	31 December 2013	31 December 2012
	Rbls mln	*Rbls mln*
Materials and supplies	758	873
Spare parts	2,012	1,491
Work clothes	282	132
Fuel and lubricants	211	179
Merchandise inventories	102	122
Other	312	168
Total	**3,677**	**2,965**
Less: write-downs for obsolete and damaged inventory	(197)	(156)
Total inventories, net	**3,480**	**2,809**

9. Prepayments and Other Current Assets

Prepayments and other current assets comprised the following:

	31 December 2013	31 December 2012 Restated*
	Rbls mln	*Rbls mln*
Input VAT	640	690
Advances paid to suppliers	466	394
Prepaid other taxes	2,255	1,751
VAT on advances paid for non-current assets	1,235	1,114
Other current assets	15	12
Total prepayments and other current assets	**4,611**	**3,961**

10. Receivables

Receivables comprised the following:

	31 December 2013	31 December 2012 Restated*	1 January 2012 Restated*
	Rbls mln	*Rbls mln*	*Rbls mln*
Receivables for transportation services, net (A)	2,276	1,786	3,534
Other accounts receivable, net (B)	2,105	1,953	1,206
Total receivables	**4,381**	**3,739**	**4,740**

(A) Receivables for transportation services comprised the following:

	31 December 2013	31 December 2012 Restated*	1 January 2012 Restated*
	Rbls mln	*Rbls mln*	*Rbls mln*
Receivables for transportation services	2,872	2,572	3,898
Less: allowance for impairment	(596)	(786)	(364)
Total receivables for transportation services	**2,276**	**1,786**	**3,534**

(B) Other accounts receivable comprised the following:

	31 December 2013	31 December 2012 Restated*	1 January 2012 Restated*
	Rbls mln	*Rbls mln*	*Rbls mln*
Other accounts receivable	2,359	2,161	1,226
Less: allowance for impairment	(254)	(208)	(20)
Total other accounts receivable	**2,105**	**1,953**	**1,206**

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

11. Short-term bank deposits

Bank deposits as of 31 December 2013 comprised a Russian Ruble denominated deposit of Rbls 25 million placed with OOO "Milleneum Bank" in October-December 2013. Bank deposits carry interest at rate of from 7 to 9.25% per annum maturing in April-May 2014 (31 December 2012: a Russian Ruble denominated deposit of Rbls 1,500 million placed with the OJSC "GazPromBank", a related party (refer to Note 30), in July 2012 with interest rate 8.3% per annum and maturing in January 2013).

12. Cash and Cash Equivalents

Cash and cash equivalents comprised the following:

	31 December 2013	**31 December 2012**
	Rbls mln	*Rbls mln*
Cash in Russian Rubles	2,733	1,078
Bank deposits and other cash equivalents in Russian Rubles	12,430	12,609
Cash in foreign currencies	104	30
Total cash and cash equivalents	**15,267**	**13,717**

13. Income Taxes

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

	2013	**2012 Restated***
	Rbls mln	*Rbls mln*
Current income tax:		
Current income tax expense	2,770	3,197
Deferred tax:		
Relating to origination and reversal of temporary differences	655	372
Income tax expense reported in profit or loss	**3,425**	**3,569**
Income tax recognized in other comprehensive income	**47**	**(36)**
Income tax expense	**3,472**	**3,533**
Effective income tax rate	22%	29%
Accounting profit before income tax	15,360	12,154
At statutory income tax rate of 20%	**3,072**	**2,431**
Non-deductible expenses for tax purposes and other effects:		
non-deductible employee benefits	213	217
non-deductible social expenses	216	254
non-deductible expenses from leased assets disposal	75	365
other effect, net	(151)	302
Total income tax reported in profit or loss in the consolidated statement of profit or loss	**3,425**	**3,569**

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

13. Income Taxes (continued)

Deferred tax relates to the following:

	1 January 2013 Restated*	Recognition and reversal of temporary differences in profit or loss	Recognition in other comprehensive income	31 December 2013
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Tax effects of taxable temporary differences				
Valuation of property, plant and equipment	(6,177)	(967)	–	(7,144)
Valuation of inventories	45	(62)	–	(17)
Investment property	(96)	73	(10)	(33)
Other	(80)	(14)	–	(94)
Tax effects of deductible temporary differences				
Employee benefit obligations	1,170	(186)	(34)	950
Valuation of intangible assets	28	90	–	118
Derivative financial instruments	3	–	(3)	–
Valuation of receivables	9	7	–	16
Payables and accruals	237	404	–	641
Total net deferred tax liability	**(4,861)**	**(655)**	**(47)**	**(5,563)**

	1 January 2012 Restated*	Recognition and reversal of temporary differences in profit or loss Restated*	Recognition in other comprehensive income Restated*	31 December 2012 Restated*
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Tax effects of taxable temporary differences				
Valuation of property, plant and equipment	(5,905)	(272)	–	(6,177)
Valuation of inventories	65	(20)	–	45
Investment property	(33)	(20)	(43)	(96)
Other	10	(90)	–	(80)
Tax effects of deductible temporary differences				
Employee benefit obligations	1,116	(22)	76	1,170
Valuation of intangible assets	5	23	–	28
Derivative financial instruments	–	–	3	3
Valuation of receivables	(87)	96	–	9
Payables and accruals	304	(67)	–	237
Total net deferred tax liability	**(4,525)**	**(372)**	**36**	**(4,861)**

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

14. Long-Term Borrowings

The outstanding balances of long-term borrowings comprised the following:

31 December 2013		Original currency	Principal amount in original currency	Interest rate per annum	Maturity of non-current portion	Current	Non-current
			Rbls mln			*Rbls mln*	*Rbls mln*
Fixed rates							
JSC GazPromBank	(A)	RUR	1,676	9.7%	2015-2021	112	1,564
JSC VTB	(D)	RUR	2,380	9.65%	2015-2018	476	1,904
Sberbank	(E)	RUR	2,571	8.5%	2015-2018	514	2,044
Other		RUR	40			–	40
Variable rates							
JSC VTB	(B)	RUR	4,700	MosPrime +1.8%	2015-2019	895	3,778
Total						**1,997**	**9,330**

31 December 2012		Original currency	Principal amount in original currency	Interest rate per annum	Maturity of non-current portion	Current	Non-current
			Rbls mln			*Rbls mln*	*Rbls mln*
Fixed rates							
JSC GazPromBank	(A)	RUR	855	10.0%	2014-2021	–	855
JSC VTB	(C)	RUR	3,000	10.2%	2014-2017	567	2,409
Other		RUR	40			–	40
Variable rates							
JSC VTB	(B)	RUR	4,700	MosPrime +2.8%	2014-2019	–	4,668
Total						**567**	**7,972**

(A) In October 2011 the Group has signed a secured long-term credit facility agreement, denominated in Russian ruble, with JSC GazPromBank for the total amount of Rbls 7,500 million to finance acquisition of passenger rolling stock from Patents Talgo S.L. Principal is to be repaid by equal quarterly instalments starting November 2014. Credit line is secured by the pledge of rolling stock to be acquired by the Group under the agreement with Patents Talgo S.L. As of 31 December 2013 the Group has drawn Rbls 1,676 million (31 December 2012: Rbls 855 million).

(B) In January 2012 the Group has signed an unsecured long-term loan agreement, denominated in Russian ruble, with JSC VTB for the total amount of Rbls 4,700 million to finance its operating, investment and financing activities and paid Rbls 38 million of commission. Principal is to be repaid by equal quarterly instalments starting January 2014. As of 31 December 2013 the Group has drawn Rbls 4,700 million.

14. Long-Term Borrowings (continued)

(C) In December 2012 the Group has signed an unsecured long-term credit facility agreement, denominated in Russian ruble, with JSC VTB for the total amount of Rbls 3,000 million to finance its operating, investment and financing activities. Principal is to be repaid by equal quarterly instalments starting January 2013. As of 31 December 2012 the Group has drawn Rbls 3,000 million and paid Rbls 24 million of commission. In September 2013 outstanding balance of loan liability was repaid in full.

(D) In September 2013 the Group has signed an unsecured long-term credit facility agreement, denominated in Russian ruble, with JSC VTB for the total amount of Rbls 2,500 million to finance its operating, investment and financing activities Principal is to be repaid by equal quarterly instalments starting December 2013.

(E) In November 2013 the Group has signed an non revolving credit line agreement, denominated in Russian ruble, with Sberbank for the total amount of Rbls 2,700 million to finance its operating, investment and financing activities and paid Rbls 13 million of commission. Principal is to be repaid by equal quarterly instalments starting December 2013.

15. Employee Benefits

The Group provides to its employees defined benefit and defined contribution pension plans. The plans require contributions to be made to a separately administered non-state pension fund "Blagosostoyanie" and not-for-profit fund "Pochet". Pension entitlements under defined benefit plans are accrued using the projected unit credit method.

In order to be entitled to pension through the non-state pension fund "Blagosostoyanie" (defined benefit pension plan) a person should meet a number of criteria, including the following:

1) An employee should make contribution to the pension plan at his/her own expense;
2) An employee (irrespective of the date of birth) should have at least 5 years of services with the Parent and its subsidiaries, during which an employee made contribution to the pension plan at his/her own expense;
3) An employee born before 1967 and joined the pension plan before 1 July 2007 – 15 years of services with the Parent and its subsidiaries;
4) an employee should retire from the Group.

All other employees making contributions to the pension plan at his/her own expense are participants of the defined contribution plan.

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.

15. Employee Benefits (continued)

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

Similarly to defined obligation pension plan, entitlements to such additional benefits are accrued using the projected unit credit method.

Defined contribution plans

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

	2013	2012
	Rbls mln	*Rbls mln*
Pension Fund of the Russian Federation	6,333	6,164
Defined contribution plan "Blagosostoyanie"	283	233
Total expense for defined contribution plans	**6,616**	**6,397**

Defined benefit plans

Almost all employees are entitled to some part of the post employment and other long-term employee benefit program of the Group and as at 31 December 2013 2.2 thousand employees were considered as participants of the defined benefit pension plan (31 December 2012: 2.7 thousand). In addition, there are approximately 31 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 (31 December 2012: 32 thousand).

In 2013 and 2012 due to the reduced number of employees the Group reduced the number of employees covered by the programs on 2% and 3% respectively. The total gain resulted from the curtailment recognised in the past service cost.

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*
Present value of defined benefit obligations	1,576	1,504	3,990	6,704	13,774
Fair value of plan assets	(349)	–	–	–	(349)
Net pension liability	**1,227**	**1,504**	**3,990**	**6,704**	**13,425**

15. Employee Benefits (continued)

As at 31 December 2012

	Blago-sostoyanie	Pochet	Other long-term Benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Present value of defined benefit obligations	2,003	1,793	4,660	7,630	16,086
Fair value of plan assets	(329)	–	–	–	(329)
Net pension liability	**1,674**	**1,793**	**4,660**	**7,630**	**15,757**

Changes in the present value of 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 obligations at 1 January 2012	**1,947**	**1,674**	**4,170**	**6,653**	**14,444**
Service costs:	34	–	1,567	204	1,805
Current service cost	*63*	–	*1,606*	*367*	*2,036*
Past service cost	*(29)*	–	*(39)*	*(163)*	*(231)*
Costs arising on transfer of employees (i)	10	21	151	130	312
Interest on the defined benefit obligation	110	103	217	458	888
Re-measurement of the defined benefit obligation:					
Actuarial losses from change in financial assumptions	–	–	*316*	–	*316*
Other	–	–	*(605)*	–	*(605)*
Sub-total included in the consolidated profit or loss	***154***	***124***	***1,646***	***792***	***2,716***
Re-measurement of the defined benefit obligation:					
Actuarial losses from change in financial assumptions	*121*	*83*	–	*87*	*291*
Actuarial losses from change in demographic assumptions	*54*	*3*	–	–	*57*
Other	*153*	*150*	–	*383*	*686*
Sub-total included in the consolidated other comprehensive income	***328***	***236***	**–**	***470***	***1,034***
Settlement of liability	(426)	(241)	(1,156)	(285)	(2,108)
Defined benefit obligations at 31 December 2012	**2,003**	**1,793**	**4,660**	**7,630**	**16,086**

15. Employee Benefits (continued)

	Blago-sostoyanie	Pochet	Other long-term benefits	Other post-employment benefits	Total
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Defined benefit obligations at 31 December 2012	**2,003**	**1,793**	**4,660**	**7,630**	**16,086**
Service costs:	29	–	1,723	326	2,078
Current service cost	*57*	–	*1,750*	*432*	*2,239*
Past service cost	*(28)*	–	*(27)*	*(106)*	*(161)*
Costs arising on transfer of employees (i)	7	–	94	83	184
Interest on the defined benefit obligation	115	118	228	519	980
Re-measurement of the defined benefit obligation:					
Actuarial (gains) from change in financial assumptions	–	–	*(815)*	–	*(815)*
Actuarial (gains) from change in demographic assumptions	–	–	*(121)*	–	*(121)*
Other	–	–	*(287)*	–	*(287)*
Sub-total included in the consolidated profit or loss	***151***	***118***	***822***	***928***	***2,019***
Re-measurement of the defined benefit obligation:					
Actuarial (gains) from change in financial assumptions	*(108)*	*(79)*	–	*(648)*	*(835)*
Actuarial (gains)/losses from change in demographic assumptions	*(121)*	*25*	–	*(615)*	*(711)*
Other	*52*	*(193)*	–	*(174)*	*(315)*
Sub-total included in the consolidated other comprehensive income	***(177)***	***(247)***	**–**	***(1,437)***	***(1,861)***
Settlement of liability	(401)	(160)	(1,492)	(417)	(2,470)
Defined benefit obligations at 31 December 2013	**1,576**	**1,504**	**3,990**	**6,704**	**13,774**

15. Employee Benefits (continued)

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

	2013	2012*
	Rbls mln	*Rbls mln*
Fair value of plan assets at the beginning of the year	**329**	**150**
Interest on the assets	24	11
Return on plan assets, excluding amounts included in net interest on the net defined benefit liability	(6)	(53)
Assets arising on transfer of employees (i)	1	221
Contributions from the employer	2,471	2,108
Settlement of liability	(2,470)	(2,108)
Fair value of plan assets at 31 December	**349**	**329**

* *Movements in the net assets of defined benefit pension plan include the transfer of assets from previous employers. For 2012 under the terms of the pension plan assets formed during the period when some of employees of the Group worked in the parent company were recognized as the part of this transfer.*

(i) The costs and assets arising from transfer of employees represent the transfer of obligations on post-retirement benefits, which originated from the movement of employees from, as well as back to, the Parent. Net losses are the difference between the costs arising from transfer of employees and the assets arising from transfer of employees.

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:

	31 December 2013	31 December 2012	1 January 2012
Corporate bonds and stocks of Russian legal entities	57%	44%	44%
Shares in closed investment funds	26%	34%	34%
Cash equivalents and bank deposits	14%	18%	18%
Other	3%	4%	4%
Total	**100%**	**100%**	**100%**

Most benefits to employees and retired employees depend on wage growth and consumer price index. Defined benefit obligation of post-employment benefits in addition depend on changes in life expectancy of retired employees.

Plan assets under the defined benefit pension plan are subject to risks of financial market. Since retirement of a participant non-state pension fund Blagosostoyanie carries out all the risks of the plan with respect to this participant, thereby risks for the Group are reduced.

15. Employee Benefits (continued)

Actuarial assumptions used were as follows:

	31 December 2013	31 December 2012	1 January 2012
Discount rate	7.8%	7.2%	8.2%
Average rate of employee turnover	8.1%	5%	5%
Projected average growth of wages	5.0%	5.2%	5.7%
Projected average growth of benefits	5.0%	5.2%	5.2%
Average retirement age for men/women	61.3/56.4	58.3/56.4	58.3/56.4
Average life expectancy at state pension age for men/women (years)	17.1/26.7	16.6/26.3	15.9/25.5

The Group assumed that after 31 December 2013 salary will increase in line with inflation rate in Russia. The Group estimates future inflation rates in line with the assessments made by Economist Intelligence Unit.

The increase in discount rate in 2013 resulted from an increase noted in the reporting period in the market yields of government bonds. Expected turnover rate was adjusted to reflect current practice.

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

	Change in assumption	Change in obligations *Rbls mln*
Discount rate	-0.5%	424
	+0.5%	(394)
Rate of employee turnover per year, relative change	-10%	172
	+10%	(164)
Annual average growth of benefits and salary	-0.5%	(451)
	+0.5%	450
Average life expectancy, relative change	-10%	(122)
	+10%	136

The sensitivity analysis is based on realistic possible changes as of the end of the reporting year. Each change in a significant actuarial assumption was analyzed separately as part of the test. Interdependencies were not taken into account.

Weighted average duration of the defined benefit obligation is 6.8 years. The expected contributions to the plan for the next annual period is Rbls 2,204 million.

16. Other Non-Current Liabilities

In July 2011 the Group entered into cession agreement with the Parent. As a result of this cession the Group recognized advances issued to related party OJSC "Tversrkoy vagonostroitelniy zavod" in the amount of Rbls 6,907 (Note 6) millons and liability to the Parent in the amount of Rbls 5,787 million payable in quarterly instalments during 2011-2014.

Fair value of the liability to the Parent at cession inception date was estimated using present value of all future cash payments discounted at 10% p.a. The difference between the nominal amount and fair value of Rbls 1,119 million was accounted for as Parent's additional capital contribution. Unwinding of discount during 2013 amounted to Rbls 262 million (2012: Rbls 483 million) (Note 27).

In 2013 the Group repaid Rbls 1,800 million (2012: Rbls 3,000 million, 2011: Rbls 500 million) under the agreement, respectively. The remaining liability in the amount Rbls 1,514 million was classified as Trade and other payables (Note 17).

17. Trade and Other Payables

Trade and other payables comprised the following:

	31 December 2013	**31 December 2012 Restated***	**1 January 2012 Restated***
	Rbls mln	*Rbls mln*	*Rbls mln*
Accounts payable, trade	9,452	10,990	8,747
Short-term portion of liability under cession agreement (Note 16)	1,514	1,539	1,931
Other advances received	606	485	148
Accounts payable, other	2,974	3,178	2,565
Total	**14,546**	**16,192**	**13,391**

Accounts payable, other as of 31 December 2013 included payables related to settlements for tickets with other carriers of Rbls 1,781 million (31 December 2012: Rbls 1,949 million, 31 December 2011: Rbls 1,747 million).

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

Taxes and similar charges payable (other than income tax payable) comprised the following:

	31 December 2013	**31 December 2012**	**1 January 2012**
	Rbls mln	*Rbls mln*	*Rbls mln*
Settlement with social funds	688	920	1,018
VAT	26	6	–
Property tax	819	861	813
Personal income tax	327	313	288
Other	13	12	26
Total taxes and similar charges payable (other than income tax)	**1,873**	**2,112**	**2,145**

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

19. Provisions and Other Current Liabilities

Provisions and other current liabilities comprised the following:

	31 December 2013	**31 December 2012**	**1 January 2012**
	Rbls mln	*Rbls mln*	*Rbls mln*
Settlements with employees	4,419	4,393	2,712
Deferred Income	749	10	–
Provision for legal claims	10	–	26
Other	46	40	2
Total provisions and other current liabilities	**5,224**	**4,443**	**2,740**

In December 2013 Group received subsidy of Rbls 576 million from Federal Agency of Railway Transportation as support for passengers’ security program. In the year 2013 Group did not incur expenses provided by subsidy agreement as a result subsidies are accounted as at 31 December 2013 as deferred income in full amount.

In July 2012 Group introduced Customers Loyalty Program RZD-Bonus. According to Program customers, participants of Program, accumulate points for purchasing tickets for railway transportation provided by Group, Parent and partners. Accumulated points can be used by passengers to compensate cost of tickets at future purchases. In 2013 deferred income accrued in relation to Program increased by Rbls 165 million and amounted to Rbls 173 mln (31 December 2012: Rbls 8 mln).

20. Equity

Share Capital

The share capital of the Company as at 31 December 2013 consists of 152,635,848,133 (31 December 2012: 147,635,848,133, 1 January 2012: 137,238,246,306) authorized, issued and outstanding common shares with par value of Rbls 1. Shares are issued and fully paid.

On 17 May 2011 the extraordinary meeting of shareholders approved additional issue of 10,397,601,827 ordinary shares with par value of Rbls 1 in the aggregate amount of Rbls 10,398 million.

On 29 February 2012 the additional issue of shares was recorded in the register of the holders of registered securities and title to these 10,397,601,827 ordinary shares passed to OJSC “RZD” as consideration for Predecessor’s property, plant and equipment transferred on the Group formation. This transaction was recorded in these financial statements as transfer of equity form retained earnings to share capital. On 16 July 2012 related increase in share capital was registered with Federal Tax Service.

On 8 November 2013 the extraordinary meeting of shareholders approved additional all in cash issue of 5,000,000,000 ordinary shares with par value of Rbls 1 in the aggregate amount of Rbls 5,000 million.

20. Equity (continued)

As of 31 December 2013 these shares were paid. All registration procedures were completed in February 2014.

	31 December 2013	31 December 2012
Weighted average number of ordinary shares, mln	147,704	147,636
Profit for the year, Rbls mln	11,935	8,585
Basic earnings per share , Rbls per share	0.08	0.06
Diluted earnings per share, Rbls per share	0.08	0.06

Company does not possess any instruments (including contingently issuable shares) that could potentially dilute basic earnings per share in the future.

The Company shareholder structure was as follows:

	31 December 2013	31 December 2012	1 January 2012
OJSC "RZD"	100% less 1 share	100% less 1 share	100% less 1 share
OJSC "Baminvest"	1 share	1 share	1 share
Total	**100%**	**100%**	**100%**

In accordance with the Russian legislation, dividends may only be declared to the shareholders of the Company from accumulated undistributed and unreserved earnings as shown in the Company's Russian statutory financial statements. The Company had Rbls 6,028 million of such undistributed and unreserved profits as at 31 December 2013 (31 December 2012: profits Rbls 2,049 million, 1 January 2012: Rbls 347 million losses).

21. Revenues from transportation

Included in revenues from transportation for the years 2013 and 2012 are:

	2013	2012
	Rbls mln	*Rbls mln*
Passenger transportation	173,400	161,527
Russia	*142,497*	*132,239*
Abroad	*30,903*	*29,288*
Baggage and cargo transportation	9,067	9,315
Russia	*8,967*	*9,205*
Abroad	*100*	*110*
Tickets reissue and bookings charges	2,085	1,352
Total revenues from transportation	**184,552**	**172,194**

22. Other Revenues

Included in other revenues for the years 2013 and 2012:

	2013	2012
	Rbls mln	*Rbls mln*
Income from rent of passenger rolling stock and other property	2,658	2,462
Repair of rolling stock	2,322	2,287
Printed matter and tea	1,488	1,484
Surcharges for tickets sales	1,167	899
Railway infrastructure services	1,381	924
Servicing of rolling stock and personnel services	999	827
Locomotive traction services	358	316
Other services	929	808
Total other revenues	**11,302**	**10,007**

23. Railway Infrastructure Expenses

Infrastructure expenses incurred due to railways common infrastructure usage by the Company to transfer passengers, baggages and cargoes in the long-haul passenger trains. Infrastructure services are mainly comprised of provision of access to railway lines and stations, dispatcher's supervisory control over passenger traffic and automated tickets selling systems.

24. Taxes Other than Income Tax

Taxes other than income tax for the years 2013 and 2012:

	2013	2012
	Rbls mln	*Rbls mln*
Property tax	3,364	3,397
Land tax	9	8
Other taxes	146	73
Total taxes other than income tax	**3,519**	**3,478**

25. Other Operating Expenses

Included in other operating expenses for the year 2013 and 2012:

	2013	2012 Restated*
	Rbls mln	*Rbls mln*
Security and fire safety costs	1,939	1,690
Cost of foreign railways' services	1,579	1,497
Accounting services	1,197	1,145
Selling tickets expense	470	524
Transportation services	448	388
Business trips and personnel education	396	373
Telecommunication fees	313	306
Health monitoring expenses	264	259
Commercial expenses	201	150
Social expenses	124	110
Consulting services	89	145
Insurance expenses	88	52
Other expenses	861	1,222
Total other operating expenses	**7,969**	**7,861**

26. Subsidies from Federal Budget

Subsidies from federal budget for the years 2013 and 2012 comprised compensations of the effects of tariffs' regulation of third- and fourth-class long-haul passenger transportation services.

27. Finance Income and Similar Items, net

Finance income and similar items, net for the years 2013 and 2012 comprised the following:

	2013	2012
	Rbls mln	*Rbls mln*
Interest income	787	984
Unwinding of discount (Note 16)	(262)	(483)
Finance lease charges	(1)	(10)
Interest expense	(414)	(20)
Other	(15)	(17)
Total finance income and similar items, net	**95**	**454**

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

28. Other Income

Other income for the years 2013 and 2012 comprised the following:

	2013	2012 Restated*
	Rbls mln	*Rbls mln*
Gain on disposal of inventories	46	–
Penalties charged to customers	67	85
Change in provision for legal claims	–	32
Other	377	787
Total other income	**490**	**904**

29. Other Expenses

Other expenses for the years 2013 and 2012 comprised the following:

	2013	2012
	Rbls mln	*Rbls mln*
Loss on disposal of property, plant and equipment	(1,350)	(3,778)
Loss on disposal of inventories	–	(51)
Change in provision for legal claims	(6)	–
Contributions to trade union	(260)	(217)
Other	(115)	(175)
Total other expenses	**(1,731)**	**(4,221)**

In 2013 loss on disposal of property, plant and equipment included Rbls 377 million of loss occurred on returned of leased assets to the Parent on expiry of finance lease agreements (2012: Rbls 1,824 million).

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.

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

30. Related Party Transactions (continued)

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.

The Group entered into a variety of transactions with related parties during the years ended 31 December 2013 and 2012. The most significant of these transactions are as follows (for description of the nature of relationships between the Group and its related parties refer to definitions in a.-f. above):

Year ended 31 December 2013

			Year ended 31 December 2013		At 31 December 2013	
Related party	**Nature of relations**	**Type of service/ product**	**Sales/ income (A)**	**(Purchases)/ (expenses) (A)**	**Amounts receivable**	**(Amounts payable)**
			Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
1. Services rendered						
Parent company	(a)	Transportation	7,829	–	1,087	(3)
	(a)	Other	4,292	–	1,044	(124)
Subsidiaries of parent Company	(a)	Other	611	–	195	(10)
State controlled companies	(a)	Transportation	3,078	–	7	(2)
	(a)	Repair and other services	404	–	57	(2)
	(a)	Cash deposits placed	785	–	8	–
	(a)	Other	27	–	2	(48)
Ministries of the Russian Federation	(a)	Transportation and other	6,747	–	44	(1,047)
	(a)	Rent and other	411	–	105	–
	(a)	Subsidies for passenger transportation	23,239	–	–	–
Associates of Parent Company	(b)	Agent services	28	–	–	–
	(b)	Materials and finished goods	46	–	–	–
	(b)	Other	27	–	–	(1)
2. Purchases						
Parent company	(a)	Railway infrastructure	–	(76,407)	116	–
	(a)	Locomotives rent	–	(44,188)	–	(846)
	(a)	Cession agreement	–	–	–	(1,514)
	(a)	Fixed assets, materials and other services	–	(6,080)	67	(1,771)
Subsidiaries of Parent Company	(a)	Rolling stock	–	(769)	–	(1,420)
	(a)	Repair and other services	–	(8,255)	152	(854)
State controlled companies	(a)	Electricity	–	(48)	–	(7)
	(a)	Fuel, oil	–	(141)	6	(7)
	(a)	Sanitation-and-epidemiological services	–	(208)	–	(19)
	(a)	Security services and other	–	(327)	–	(28)
	(a)	Banking services	–	(2,087)	–	(106)
	(a)	Other services		(93)		(5)
Associates of Parent Company	(b)	Agent services	–	(222)	–	–
	(b)	Materials, finished goods	–	(217)	–	(7)
	(b)	Transportation services	–	(109)	–	(16)
	(b)	Security, fire and industrial security services	–	(125)	–	(33)
	(b)	Equipment	–	(175)	–	(41)
	(b)	Repair services	–	(1,478)	1	(60)
	(b)	Rolling stock	–	(16,575)	3,043	(705)
	(b)	Other	–	(60)	2	(6)
Rusenergosbit	(f)	Electricity	–	(218)	3	(6)
3. Financial liabilities						
State controlled companies	(a)	Loans payable	–	(881)	–	(11,316)
4. Pension funds	(e)	Pension contribution and contribution to finance activities	608	(1,020)	80	(63)

(A) Amounts include VAT, where applicable.

30. Related Party Transactions (continued)

Year ended 31 December 2012

Related party	Nature of relations	Type of service/ product	Year ended 31 December 2012 Sales/ income (A)	Year ended 31 December 2012 (Purchases)/ (expenses) (A)	At 31 December 2012 Amounts receivable	At 31 December 2012 (Amounts payable)
			Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
1. Services rendered						
Parent company	(a)	Transportation	7,643	–	554	–
	(a)	Other	3,910	–	1,042	(31)
Subsidiaries of parent Company	(a)	Other	520	–	127	(9)
State controlled companies	(a)	Transportation	2,848	–	2	(18)
	(a)	Repair and other services	349	–	23	(3)
	(a)	Cash deposits placed	974	–	72	–
	(a)	Other	24	–	1	–
Ministries of the Russian Federation	(a)	Transportation and other	7,190	–	251	(615)
	(a)	Rent and other	208	–	–	(73)
	(a)	Subsidies for passenger transportation	29,559	–	–	–
Associates of Parent Company	(b)	Agent services	51	–	–	–
	(b)	Materials and finished goods	35	–	–	–
	(b)	Other	14	–	–	(1)
2. Purchases						
Parent company	(a)	Railway infrastructure	–	(73,620)	–	(132)
	(a)	Locomotives rent	–	(43,215)	–	(1,003)
	(a)	Cession agreement	–	–	–	(3,053)
	(a)	Fixed assets, materials and other services	–	(7,663)	40	(2,215)
Subsidiaries of Parent Company	(a)	Rolling stock	–	(13,965)	–	(728)
	(a)	Repair and other services	–	(9,312)	168	(1,302)
State controlled companies	(a)	Electricity	–	(34)	–	(2)
	(a)	Fuel, oil	–	(126)	6	(5)
	(a)	Sanitation-and-epidemiological services	–	(208)	–	(16)
	(a)	Security services and other	–	(364)	–	(61)
	(a)	Banking services	–	(1,881)	–	(82)
	(a)	Other services	–	(72)	–	(6)
Associates of Parent Company	(b)	Agent services	–	(207)	–	–
	(b)	Materials, finished goods	–	(192)	–	(18)
	(b)	Transportation services	–	(111)	–	(16)
	(b)	Security, fire and industrial security services	–	(105)	–	(19)
	(b)	Equipment	–	(83)	1	(25)
	(b)	Repair services	–	(351)	20	(42)
	(b)	Rolling stock	–	(4,354)	6,472	(915)
	(b)	Other	–	(52)	2	(9)
Rusenergosbit	(f)	Electricity	–	(181)	4	(3)
3. Financial liabilities						
State controlled companies	(a)	Loans payable	–	(538)	–	(7,644)
4. Pension funds	(e)	Pension contribution and contribution to finance activities	447	(964)	–	(89)

(A) Amounts include VAT, where applicable.

30. Related Party Transactions (continued)

In the years 2013 and 2012 the Group’s companies maintained several accounts in state-controlled and associate banks of the Parent. The amount of cash and short term deposits held in these banks as at 31 December 2013 equated to Rbls 15,235 million (31 December 2012: Rbls 15,165 million), which comprised the following:

	2013	**2012**
	Rbls mln	*Rbls mln*
Cash and cash equivalents in state-controlled banks	15,235	13,665
Short term deposits in state-controlled banks	–	1,500
Total	**15,235**	**15,165**

Interest income from related parties comprised Rbls 785 million for the year ended 31 December 2013 (2012: Rbls 974 million).

Loans obtained by the Group from related parties attract interest varying from 8.5% to 9.95% during the year ended 31 December 2013 (2012: 10% to 10.27%).

Further, for the year ended 31 December 2013 the Group was entitled to receive tariff compensation of Rbls 1,882 million (2012: Rbls 1,597 million) for transportation of certain categories of passengers from the Ministry of Transportation of Russia. Accounts receivable balance outstanding regarding to the tariff compensation for transportation of certain categories of passengers as at 31 December 2013 is Rbls 402 million (2012: Rbls 499 million). The Company recognized an impairment of Rbls 372 million relating to this accounts receivable balance outstanding as at 31 December 2013 (2012: Rbls 494 million).

Key management personnel comprise General Director, other members of the Board of Directors of the Company and deputies of General Director. Total remuneration paid to the key management personnel as of the date of financial statements approval amounted to Rbls 114 million for year ended 31 December 2013 (2012: Rbls 108 million).

Finance lease liabilities recognized as of 31 December 2012 are fully represented by the agreements signed with the Group’s related parties.

31. Commitments and Contingencies

Tariff Regulation Policy

Potential reforms in tariff-setting policy may have a significant effect on the Company. 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.

It is currently uncertain whether any 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.

31. Commitments and Contingencies (continued)

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 and payroll (social) taxes, together with others.

The Russian tax, currency and customs legislation as currently in effect is vaguely drafted and is subject to varying interpretations, selective and inconsistent application and changes, which can occur frequently, at short notice and may apply retrospectively. Management's interpretation of such legislation as applied to the transactions and activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities may be taking a more assertive position in their interpretation and application of the legislation and assessments. It is therefore possible that transactions and activities that have not been challenged in the past may be challenged at any time in the future. As such, significant additional taxes, penalties and interest may be assessed by the relevant authorities. 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 and subject to review by the authorities in respect of taxes for a period of three calendar years immediately preceeding the year in which the decision to conduct a tax review is taken. Under certain circumstances tax reviews may cover longer periods.

Management believes that it has adequately provided for tax liabilities in the consolidated financial statements as at 31 December 2013 and 31 December 2012. 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 position could be significant.

Russian Transfer Pricing Legislation

The new Russian transfer pricing legislation, which came into force on 1 January 2012, allows the tax Russian authority 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 level of prices. The list of “controlled” transactions includes transactions performed with related parties and certain types of cross-border transactions. For domestic transactions the transfer pricing rules apply only if the amount of all transaction with related party exceeds Rbls 2 billion in 2013 and Rbls 3 billion in 2012. In cases where the domestic transaction resulted in an accrual of additional tax liabilities for one party, another party could correspondingly adjust its profit tax liabilities according to the special notification issued by the authorized body in due course.

The 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 in 2012 but also to the prior transactions with related parties if related income and expenses were recognized in 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.

31. Commitments and Contingencies (continued)

Russian Transfer Pricing Legislation (continued)

Due to the uncertainty and absence of current practice of application of the current Russian transfer pricing legislation the Russian tax authorities may challenge the level of prices applied by the Group under the “controlled” transactions and assess additional tax liabilities unless the Group is able to demonstrate the use of market prices with respect to the “controlled” transactions, and that there has been proper reporting to the Russian tax authorities, supported by appropriate available transfer pricing documentation.

Insurance

The Russian insurance industry is in developing stage: insurance market capacity and low variety of product line does not completely meet customers’ requirements. 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.

During 2013, the Group continued to maintain insurance coverage regarding major categories of its property.

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 the Group recognized provision in respect of such proceedings of Rbls 10 mln (31 December 2012 no provision in respect of such proceedings was recognized by the Group) (Note 19).

Purchase Commitments for Capital Expenditures and Repairs

Purchase commitments for capital expenditures and repairs are disclosed including VAT, where applicable.

	31 December 2013
	Rbls mln
Purchase of new rolling stock	15,914
Reconstruction of wagon depots	14
Construction of buildings	179
Purchase of intangible assets	125
Modernization and capital repairs of rolling stock	22,187
Total purchase commitments for capital expenditures and repairs	**38,419**

Purchase commitments for capital expenditures and repairs resulted from the contracts signed with related parties amounted to Rbls 32,922 million as of 31 December 2013.

32. Financial Instruments and Risk Management Objectives and Policies

The Group’s principal financial instruments comprise bank loans, finance leases obligations, 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 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.

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

The largest part of the Company’s sales of transportation services are made on prepayment basis. Accordingly, the Group’s trade receivables are originated by a limited number of customers, primarily parent company OJSC “RZD” and Ministries of Russian Federation, including Ministry of Transportation which administers partial compensation to the Company for rail transportation tariff for certain categories of passengers. Impairment allowance recognized by the Group primarily consists of receivables from Ministry of Transportation. The Group has no practical ability to amend the legislation governing provisions of subsidies to certain categories of passengers, or to terminate the supply to these counterparties. The Group continuously negotiates with federal authorities the terms of these receivables collection.

The maximum exposure to credit risk is equal to the carrying amount of financial assets which is disclosed below:

	31 December 2013	**31 December 2012**	**1 January 2012**
	Rbls mln	*Rbls mln*	*Rbls mln*
Cash and cash equivalents (excluding cash on hand)	15,247	13,700	5,652
Bank deposits	25	1,509	–
Receivables	4,381	3,738	4,740
Total credit risk exposure	**19,653**	**18,947**	**10,392**

32. Financial Instruments and Risk Management Objectives and Policies (continued)

Credit Risk (continued)

The table below summarizes the ageing analysis of financial assets that are either past due or individually determined to be impaired.

	31 December 2013		31 December 2012		1 January 2012	
	Gross amount	**Impairment**	**Gross amount**	**Impairment**	**Gross amount**	**Impairment**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*	*Rbls mln*
Not past due	4,381	–	3,739	–	4,740	–
Past due	850	(850)	994	(994)	384	(384)
less than one year	*850*	*(850)*	*994*	*(994)*	*384*	*(384)*
Total	**5,231**	**(850)**	**4,733**	**(994)**	**5,124**	**(384)**

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

	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	(786)	–	79	111	(596)
Other accounts receivable	(208)	(46)	–	–	(254)
Total	**(994)**	**(46)**	**79**	**111**	**(850)**

	Balance as at 1 January 2012	**Charge for the year**	**Balance as at 31 December 2012**
	Rbls mln	*Rbls mln*	*Rbls mln*
Allowance on current financial assets			
Receivables for transportation services	(364)	(422)	(786)
Other accounts receivable	(20)	(188)	(208)
Total	**(384)**	**(610)**	**(994)**

Decrease in allowance for impairment relating to financial assets as of 31 December 2013 resulted in recognition of benefit of Rbls 33 million (2012: Rbls 610 million expense) for the year 2013.

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 (earnings before interest, taxes, depreciation and amortization), and EBITDA to net interest costs as key financial ratios in accordance with the Group’s debt management policy.

32. Financial Instruments and Risk Management Objectives and Policies (continued)

Liquidity Risk (continued)

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, incluing interest payments. 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**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Fixed- rate debts				
Loans and borrowings	1,614	3,131	3,427	**8,172**
	1,614	**3,131**	**3,427**	**8,172**
Variable -rate debts				
Loans and borrowings	1,236	2,231	2,134	**5,601**
	1,236	**2,231**	**2,134**	**5,601**
Non-interest bearing debts				
Trade payables	9,452	–	–	**9,452**
Other liabilities	4,580	–	–	**4,580**
	14,032	**–**	**–**	**14,032**
Total	**16,882**	**5,362**	**5,561**	**27,805**

As at 31 December 2012	**Less than 1 year**	**1 to 3 year**	**Over 3 years**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Fixed- rate debts				
Loans and borrowings	905	1,769	2,229	**4,903**
Derivative financial instruments				
- Contractual amounts payable	345	–	–	**345**
- Contractual amounts receivable	(328)	–	–	**(328)**
Finance lease liabilities	26	–	–	**26**
	948	**1,769**	**2,229**	**4,946**
Variable -rate debts				
Loans and borrowings	483	2,238	3,717	**6,438**
	483	**2,238**	**3,717**	**6,438**
Non-interest bearing debts				
Trade payables	10,990	–	–	**10,990**
Other liabilities	4,979	–	–	**4,979**
Other non-current liabilities	–	1,607	–	**1,607**
	15,969	**1,607**	**–**	**17,576**
Total	**17,400**	**5,614**	**5,946**	**28,960**

32. Financial Instruments and Risk Management Objectives and Policies (continued)

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 cash flows or the fair 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.

As of 31 December 2013, 31 December 2012 and 31 December 2011 the Group was not exposed to currency risk due to absence of material cash, receivables, payables and borrowings that are denominated in a currency other than the Group’s functional currency.

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 assets and liabilities.

The Group borrowed on both fixed and variable rate basis during 2013 and has other interest-bearing liabilities, such as finance lease liabilities.

In August 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.

The following table demonstrated the sensitivity to a reasonably possible change in interest rates of the Group’s profit before tax (through the impact of variable-rate borrowings after consideration of interest rate SWAPs, with all other variables held contract) for the years ended 31 December 2013 and 2012:

2013

	Increase/decrease in % rate, %	Effect on profit before tax
		Rbls mln
RUR	+0.72%	+31
RUR	-0.72%	(31)

2012

	Increase/decrease in % rate, %	Effect on profit before tax
		Rbls mln
RUR	+1.09%	+2
RUR	-1.09%	(2)

32. Financial Instruments and Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments

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 bank deposits, short-term accounts receivable and payable are assumed to approximate their fair value. This assumption 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, their fair value was estimated by comparing market interest rates when they were first recognized with current market rates offered for similar financial instruments. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and maturity. For quoted debt issued the fair values are calculated based on quoted market prices. 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.

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	Fair value	Level of fair value hierarchy	Unrecognised gain
	Rbls mln	*Rbls mln*		*Rbls mln*
Financial assets				
Bank deposits	25	25	Level 2	–
Financial liabilities				
Long-term fixed rate loans	6,667	5,775	Level 2	892
Other long-term liabilities, including short-term portion	1,514	1,498	Level 2	16
Total				**908**

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	Fair value	Level of fair value hierarchy	Unrecognised gain
	Rbls mln	*Rbls mln*		*Rbls mln*
Financial assets				
Bank deposits	1,509	1,509	Level 2	–
Financial liabilities				
Long-term fixed rate loans	3,855	3,336	Level 2	519
Other long-term liabilities, including short-term portion	3,053	2,971	Level 2	82
Finance lease obligations	25	25	Level 2	–
Derivatives	17	17	Level 2	–
Total				**601**

32. Financial Instruments and Risk Management Objectives and Policies (continued)

Fair Value of Financial Instruments (continued)

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

The Group uses the following hierarchy for determining and disclosing the fair value of financial instruments by valuation technique:

- Level 1: quoted (unadjusted) prices in active markets for identical assets or liabilities;
- Level 2: techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly; and
- Level 3: techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

As of 31 December 2013 the Group had no financial instruments measured at fair value.

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

	Level 1	**Level 2**	**Level 3**	**Total**
	Rbls mln	*Rbls mln*	*Rbls mln*	*Rbls mln*
Liabilities valued at fair value				
Derivative financial instruments	–	17	–	17

Capital Management

Capital includes equity attributable to the equity holders of FPC.

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

33. Events After the Reporting Period

Borrowings

In February 2014 Company entered into credit line agreement with JSC GazPromBank with credit limit up to Rbls 10,000 million maturing in December 2016. In March 2014 Company has withdrawn Rbls 5,000 of total credit capacity under the agreement.

Bonds

In March 2014 the Group has registered issue of 5,000,000 of non-convertible callable bonds with the nominal value of RUR 1,000 each with 20 coupon periods of 182 days each. Coupon income is paid at the end of each coupon period. Placement of securities at the time of financial statement issue was not made.

33. Events After the Reporting Period (continued)

Government subsidies

In February 2014 Group signed an agreement with Russian Federation for provision of the subsidies for the year 2014 in the amount of Rbls 23,244 million as a compensation for the effects of tariffs’ regulation with respect to certain classes of long-haul passenger transportation.

Political situation in Ukraine

The Group has not made any changes to financial statements to take into account changes of political situation in Ukraine due to unpredictability of future political developments and possible economic consequences and effects of these developments on the financial statements of the Group.