FAR-EASTERN SHIPPING COMPANY PLC.
AND ITS SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS

31 December 2015

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

CONTENTS

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Auditors' Report

To the Shareholders and Board of Directors

FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)

We have audited the accompanying consolidated financial statements of FAR-EASTERN SHIPPING COMPANY PLC. (FESCO) (the "Company") and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statements of profit or loss, other comprehensive income, changes in equity and cash flows for 2015, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the

Audited entity: FAR-EASTERN SHIPPING COMPANY PLC. (FESCO)

Incorporated under the Laws of the Russian Federation on the basis of the act of the Head of Administration of Frunzenskiy district of Vladivostok (Primorskiy region) on 3 December 1992 №467 AOO.

Entered in the Unified State Register of Legal Entities on 28 December 2007 by Vladivostok Inter-Regional Tax of Frunzenskiy district of the Ministry for Taxes and Duties of the Russian Federation, Registration No. 1022502256127, Certificate series 25 No. 002932105.

75 Sadovnicheskaya street, Moscow, Russian Federation, 115035.

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

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

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

Member of the Self-regulated organization of auditors "Audit Chamber of Russia" (Association). The Principal Registration Number of the Entry in the State Register of Auditors and Audit Organisations: No.10301000804.

circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to express a qualified opinion on the fair presentation of these consolidated financial statements.

Basis for Qualified Opinion

As described in Note 14, the Group has deferred recognition of gain of USD 109 million on bonds bought back during April and May 2015.

Had this gain been accounted for as required by International Financial Reporting Standard IAS 39 *Financial instruments: recognition and measurement* other long-term liabilities would have been decreased and equity would have been increased by USD 109 million as at 31 December 2015. Additionally, net profit would have been increased by USD 109 million for the year then ended.

Opinion

In our opinion, except for the effects of the matter 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 2015, and its financial performance and its cash flows for 2015 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(e) to the consolidated financial statements which describes that the Group incurred a net loss of USD 166 million for the year ended 31 December 2015 and, as at that date, its current liabilities exceeded its current assets by USD 93 million. These conditions along with the other matters are described in Note 2(e), indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Klimanova L.V.
General director
JSC "KPMG"

28 April 2016

Moscow, Russian Federation

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Financial Position
As at 31 December 2015

USD mln	Note	31 December 2015	31 December 2014
ASSETS			
Non-Current Assets			
Fleet	5	78	92
Rolling stock	6	129	182
Other tangible fixed assets	7	173	221
Goodwill	4	89	114
Investments in associates and joint ventures	8	180	229
Other non-current assets	9	20	173
Total non-current assets		669	1,011
Current Assets			
Inventories	10	13	41
Accounts receivable	11	79	160
Current tax assets		8	6
Other current assets		-	2
Cash and cash equivalents	12	36	66
Total current assets		136	275
Total assets		805	1,286
EQUITY AND LIABILITIES			
Shareholders' Equity	16		
Share capital		57	57
Share premium		777	777
Accumulated losses		(280)	(113)
Reserves		(881)	(726)
Equity attributable to owners of the Company		(327)	(5)
Non-controlling interests		6	4
Total equity		(321)	(1)
Non-current liabilities			
Long term debt and finance lease obligations	14	773	1,068
Deferred tax liability	15	11	12
Other long term liabilities	14	113	7
Total non-current liabilities		897	1,087
Current Liabilities			
Accounts payable	13	91	150
Current tax liabilities		1	2
Short term debt and finance lease obligations	14	137	48
Total current liabilities		229	200
Total liabilities		1,126	1,287
Total equity and liabilities		805	1,286

A.Isurins, President__________ M.V.Sakharov, Vice President and CFO__________

Date: 28 April 2016

The accompanying notes on pages 12 to 49 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Profit or Loss
For the year ended 31 December 2015

USD mln	**Note**	**2015**	**2014**
Revenue	18	688	1,118
Operating expenses	19	(500)	(822)
Gross profit before depreciation and amortization		188	296
Depreciation and amortisation	5,6,7	(47)	(73)
Administrative expenses	20	(80)	(128)
Impairment loss	21	(12)	(56)
Goodwill impairment		-	(39)
Other income and expenses, net		7	4
Profit from operating activity		56	4
Interest expense		(96)	(114)
Foreign exchange gain/(loss)		32	(32)
Other finance (expences)/income, net	22	(139)	11
Other non-operating expenses		(9)	(9)
Share of profit of equity accounted investees	8	8	30
Loss before income tax		(148)	(110)
Income tax expense	15	(18)	(11)
Loss for the year		(166)	(121)
Attributable to:			
Owners of the Company		(167)	(123)
Non-controlling interests		1	2
Loss per share (in USD)	23	(0.057)	(0.042)

The accompanying notes on pages 12 to 49 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Statement of Other Comprehensive Income
For the year ended 31 December 2015

USD mln	**2015**	**2014**
Loss for the year	(166)	(121)
Other comprehensive loss:		
`		
Items that are or may be reclassified to profit or loss		
Effect of foreign currency translation	(154)	(508)
Revaluation reserve disposal		(11)
Revaluation of fleet	(1)	-
Other comprehensive loss for the year	(155)	(519)
Total comprehensive loss for the year	(322)	(640)
Total comprehensive loss attributable to:		
Ordinary shareholders of the Company	(322)	(637)
Non-controlling interests	-	(3)

The accompanying notes on pages 12 to 49 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Statement of Changes in Equity
For the year ended 31 December 2015

	Attributable to equity holders of the Company							
USD mln	**Share capital (Note 16)**	**Share premium (Note 16)**	**Retained earnings**	**Revaluation reserve**	**Translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2014	57	777	9	13	(224)	632	9	641
Loss for the year	-	-	(123)	-	-	(123)	2	(121)
Other comprehensive loss								
Effect of foreign currency translation	-	-	-	-	(503)	(503)	(5)	(508)
Release from revaluation reserve	-	-	1	(1)	-	-	-	-
Revaluation reserve disposal	-	-	-	(11)	-	(11)	-	(11)
Total other comprehensive loss	-	-	1	(12)	(503)	(514)	(5)	(519)
Total comprehensive loss for the year	-	-	(122)	(12)	(503)	(637)	(3)	(640)
Transactions with owners, recorded directly in equity								
Acquisition of non-controlling interests without a change in control	-	-	-	-	-	-	(2)	(2)
Total transaction with owners	-	-	-	-	-	-	(2)	(2)
Balance at 31 December 2014	57	777	(113)	1	(727)	(5)	4	(1)

The accompanying notes on pages 12 to 49 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Statement of Changes in Equity
For the year ended 31 December 2015
(Continued)

	Attributable to equity holders of the Company							
USD mln	**Share capital (Note 16)**	**Share premium (Note 16)**	**Retained earnings**	**Revaluation reserve**	**Translation reserve**	**Total**	**Non-controlling interests**	**Total equity**
Balance at 1 January 2015	57	777	(113)	1	(727)	(5)	4	(1)
Loss for the year	-	-	(167)	-	-	(167)	1	(166)
Other comprehensive loss								
Effect of foreign currency translation	-	-	-	-	(154)	(154)	(1)	(155)
Revaluation of fleet	-	-	-	(1)	-	(1)	-	(1)
Total other comprehensive loss	-	-	-	(1)	(154)	(155)	(1)	(156)
Total comprehensive loss for the year	-	-	(167)	(1)	(154)	(322)	-	(322)
Transactions with owners, recorded directly in equity								
Disposal of non-controlling interests without a change in control	-	-	-	-	-	-	2	2
Total transaction with owners	-	-	-	-	-	-	2	2
Balance at 31 December 2015	57	777	(280)	-	(881)	(327)	6	(321)

The availability of the Company's retained earnings for distribution to shareholders is determined by the Company's Charter and by Russian law and does not correspond with the figures shown above. The Company's retained earnings available for distribution under Russian Accounting Standards as at 31 December 2015 were USD 40 million (as at 31 December 2014 USD 60 million).

The accompanying notes on pages 12 to 49 form an integral part of these consolidated financial statements.

FAR-EASTERN SHIPPING COMPANY PLC.
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Consolidated Statement of Cash Flows
For the year ended 31 December 2015

USD mln	For the year ended 31 December 2015	2014
Cash flows from operating activities		
Loss for the year	(166)	(121)
Adjustments for:		
Depreciation and amortisation	47	73
Impairment (reverse)/ losses	12	95
(Profit)/loss on disposal of tangible fixed assets	(9)	3
Foreign exchange (gain)/loss	(32)	32
Net finance costs	235	103
Share of profit of equity accounted investees	(8)	(30)
Income tax expense	18	11
Other income and expense	-	2
Cash from operating activities before changes in working capital and provisions	97	168
Change in inventories	28	(11)
Change in trade and other receivables	81	-
Change in trade and other payables	(59)	15
Effect of exchange rate fluctuations in net current assets	(5)	(35)
Cash flows from operations before income taxes paid	142	137
Income tax paid	(18)	(21)
Cash flows generated from operating activities	124	116

The accompanying notes on pages 12 to 49 *form an integral part of these consolidated financial statements.*

FAR-EASTERN SHIPPING COMPANY PLC.
and its subsidiaries

Consolidated Statement of Cash Flows
For the year ended 31 December 2015
(Continued)

		For the year ended 31 December	
	Note	**2015**	**2014**
USD mln			
Cash flows from investing activities			
Vessels acquired	5	-	(9)
Expenditure on other fixed assets	6,7	(16)	(53)
Expenditure on drydocking	5	(3)	(5)
Proceeds on disposal of fleet	5	-	8
Proceeds on disposal of other fixed assets		11	4
Other non-current assets acquired		-	(6)
Dividends received		3	11
Finance lease received		2	3
Interest received		2	5
Net cash used in investing activities		(1)	(42)
Cash flows from financing activities			
Proceeds from borrowings		188	199
Proceeds from bonds		106	-
Repayment of borrowings		(164)	(239)
Redemption of bonds		(165)	-
Finance charges		(96)	(107)
Restricted deposits		(11)	-
Acquisition of non-controlling interests		-	(1)
Net cash used in financing activities		(142)	(148)
Effect of exchange rate fluctuations on cash and cash equivalents		(11)	(51)
Net decrease in cash and cash equivalents		(30)	(125)
Cash and cash equivalents at the beginning of the year		66	191
Cash and cash equivalents at the end of the year	12	36	66

The accompanying notes on pages 12 to 49 *form an integral part of these consolidated financial statements.*

1. Organisation and Trading Activities

Far-Eastern Shipping Company PLC. (FESCO or Company) was privatised and became a joint stock company governed by the laws of the Russian Federation on 3 December 1992. The Company's registered office and principal place of business is: 75 Sadovnicheskaya Str., Moscow, Russian Federation, 115035.

The Company's immediate shareholders are several Cyprus entities and Mr. Ziavudin Magomedov is considered to be the Company's ultimate controlling party.

The principal activity of FESCO and its subsidiaries (the Group) has traditionally been shipping (ship owning, ship management, chartering out and line operating). In recent years FESCO has been transformed into an intermodal logistics Group, offering a full range of logistical solutions through a combination of shipping, rail, trucking and port services.

2. Basis of Preparation

(a) 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").

In addition to presenting the consolidated financial statements in USD, consolidated financial statements in RUB are presented in accordance with Russian reporting requirements.

The preparation of consolidated financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of selecting and applying accounting policies. The areas involving a higher degree of judgement or complexity, or areas where estimates are significant to the financial statements are disclosed in Note 2(c).

The significant accounting policies adopted by the Group have been consistently applied with those of the prior period taking into account adoption of new and revised standards effective as of 1 January 2015. Adoption of new and revised standards did not have material effect on consolidated financial statements of the Group.

The consolidated financial statements are prepared on the historical cost basis. Group's vessels are stated at fair value at each reporting date based on valuation performed by an independent professional appraiser as disclosed in Note 5. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset.

(b) Basis of consolidation

These consolidated financial statements include the accounts of FESCO and its subsidiaries. The principal subsidiaries of the Group are as follows:

Name	Country of Incorporation	Percentage Holding as at 31 December 2015	Activity
Bodyguard Shipping Company Limited	Cyprus	100%	Ship owning
Diataxis Shipping Company Limited	Cyprus	100%	Ship owning
Yerakas Shipping Company Limited	Cyprus	100%	Ship owning
Pacific Conlease Company Limited	Cyprus	100%	Containers owning
Carmina Maritime Ltd	Marshall Islands	100%	Ship owning
Udarnik Maritime Ltd.	Marshall Islands	100%	Ship owning
Marline Shipping Company Limited	Cyprus	100%	Ship owning
Marview Shipping Company Limited	Cyprus	100%	Ship owning
Astro-Moon Shipping Company Limited	Cyprus	100%	Ship owning
Anouko Shipping Company Limited	Cyprus	100%	Ship owning
FESCO Lines China, Co., Ltd.	China	100%	Shipping agency
Firm Transgarant LLC	Russia	100%	Holding company for transportation services group
FIT LLC	Russia	100%	Transport and forwarding services
VMTP PLC	Russia	95%	Commercial Port
Dalreftrans Co, Ltd	Russia	100%	Transport and forwarding services
FESCO Lines Hong Kong Limited	China	100%	Shipping agency
Arctic Ocean International Limited	BVI	100%	Corporate services
Valsta Ltd	Cyprus	100%	Holder of TransContainer share
Far East Capital Limited S.A.	Luxembourg	100%	Eurobonds Holder
Fesco Lines Korea Co., Ltd	South Korea	100%	Shipping agency
FESCO Lines Management Limited	Hong Kong	100%	Financial management
FESCO Ocean Management Limited	Cyprus	100%	Shipping operations
FESCO Integrated Transport North America INC.	USA	100%	Container freight services
Remono Shipping Company Limited	Cyprus	100%	Freight forwarder

Subsidiaries.
Subsidiaries are entities controlled by the Group. Control exists when the Group has the power over the investee, exposure or rights to variable returns from its involvement with the investee and the ability to use its power to affect the amount of investor's return. In assessing control, potential voting rights that currently are exercisable are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases. The accounting policies of subsidiaries have been changed where necessary to align them with the policies adopted by the Group.

Certain subsidiaries, associate companies and joint ventures that are neither individually nor in aggregate material to the results, cash flows or financial position of the Group are not consolidated. These investments are recorded as available-for-sale investments at fair value as estimated by management. Where it is not possible to estimate fair values reliably, they are recorded at historical cost less applicable impairment.

Joint ventures and associates (equity accounted investees).
Joint ventures are those companies and other entities in which the Group, directly or indirectly, undertake an economic activity that is subject to joint control. Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies Joint ventures and associates are accounted for using the equity method. The consolidated financial statements include the Group's share of the income and expenses of equity accounted investees, after adjustments to align the accounting policies with those of the Group, from the date that joint control/significant influence commences until the date that joint control/significant influence ceases. When the Group's share of losses exceeds its interest in an equity accounted investee, the carrying amount of that interest (including any long-term investments) is reduced to nil and the recognition of further losses is discontinued, except to the extent that the Group has an obligation or has made payments on behalf of the investee.

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

(c) Critical accounting estimates and judgements in applying accounting policies

The preparation of consolidated financial statements in conformity with IFRSs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates.
Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.
Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

1. Impairment of goodwill and tangible fixed assets, see Note 4 and Notes 5,6,7;
2. Determination of the fair value of the Group's fleet, see Note 5;
3. Impairment of other assets, see Note 9;
4. Going concern, see Note 2 (e);
5. Recognistion of gain/(loss) on financial liability derecognition, see Note 14

(d) Segmental reporting

The Group has five operating segments: shipping, which operates on a global basis; liner and logistics; railway transportation services which operate in Russia and other countries of the CIS, port services which include Russian-based port, sea terminal and bunkering services. A segmental analysis has been included in Note 17.

(e) Going concern

Since 2014, the Russian economy has been facing a ‘perfect storm’ of negative factors: a drop in crude oil prices, Ruble devaluation and sanctions, imposing restrictions for Russian companies and banks to access the international capital markets. The Russian container handling market declined by 9% p.a. in 2013-2015 (based on loaded containers) with the share of the Far East basin demonstrating the largest decline among the three basins. These factors have had a significant adverse impact on the revenue and profitability of the Group and resulted in a net loss of USD 166 million for the year ended 31 December 2015 and negative net current assets on a consolidated basis as at 31 December 2015 of USD 93 million.

In addition, part of the Group’s financing arrangements expire during the year ending 31 December 2016 and loan and lease liabilities and interest accrued of USD 213 million become payable during the year. Due to the above factors, management expects that the Group may face a liquidity shortfall in the second half of 2016. As a result, management performed a detailed cash flow analysis for the period from 2016 to 2023 to determine its ability to service its existing debt obligations over the next 12 months.

Taking into account the current market conditions and its projections, management considers that a restructuring of the Group’s debt is necessary. The Group expects to engage in discussions with holders of its Eurobonds and Ruble bonds and other lenders under its bilateral facilities in the near future with a view to negotiating a consensual resolution of its anticipated liquidity position. While the Group has not yet formulated a specific restructuring plan, management anticipates achieving its goal through, amongst others, a combination of a write-off or capitalization of near-term interest payments; an extension of the repayment terms of facilities due within the next 12 months; a deferral of principal amortization payments on amortizing obligations; and an extension, reduction and/or equitization of certain future payment obligations. The negotiation process will be conducted in accordance with international practice and supported by external advisors.

Beginning in 2015, management actions focused on cost optimization in respect of fleet operating costs and staff costs, conversion of cargo handling rates from Rubles into USD in the port division and optimization of capital expenditure. This allowed the Group to partially offset the EBITDA decline resulting from overall market saturation. Cost optimization programs are expected to continue into 2016 and beyond and are expected to result in an increase in the Group’s EBITDA. Management also expects further market improvements, including a container market recovery in 2016-2023 and associated volume increases and rate inflation that would, if they develop, likely have a positive impact on the Group’s financial performance. In addition, the Group has identified certain non-core assets that could be sold to generate additional cash to fund debt payments or repurchases. Management believes the above factors, together with the measures proposed to be taken, if successful, would allow the Group to generate sufficient free cash flow to service its interest obligations starting from the year ending 31 December 2018. Management’s analysis did not include an assessment of the Group’s ability to repay its debt following any extension of its term.

Should the proposed concessions from creditors described above not be accepted, the Group may not, at some point in the next 12 months, be able to fulfill its debt service obligations. This results in the existence of a material uncertainty, which casts significant doubt as to Group’s ability to continue as a going concern.

However, management has been advised that companies with positive free cash flow generation (excluding debt service) but with an overlevered capital structure have, on the basis of substantial relevant precedent, been able to successfully restructure their liabilities. Based on this advice and other considerations, management believes it can negotiate a consensual deal with its creditors and has therefore prepared these consolidated financial statements on a going concern basis. These financial statements do not include any adjustment should the Group be unable to continue as a going concern.

3. Accounting Policies

(a) Functional and presentation currency

The presentation currency used in the preparation of these consolidated financial statements is the U.S. Dollar ("USD").
The functional currency of each Group entity is the currency of the primary economic environment in which the entity operates.
The results and financial position of each Group entity whose functional currency is different from USD, are translated into the presentation currency as follows:

i) assets and liabilities at each reporting date are translated at the closing rate at this date;
ii) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions);
and
iii) all resulting exchange differences are recognised as a separate component of equity. When a foreign operation is disposed of, in part or in full, the relevant amount in the translation reserve is transferred to the income statement.

Foreign exchange gains and losses arising from a monetary item receivable from or payable to a foreign operation, the settlement of which is neither planned nor likely to occur in the foreseeable future, are considered to form part of a net investment in a foreign operation and are recognised directly in equity.

None of the Group entities has a functional currency which is a currency of hyperinflational economy. All financial information presented in USD has been rounded to the nearest million.

The Russian rouble is not a fully convertible currency outside of the Russian Federation and, accordingly, any conversion of RUB amounts to USD should not be construed as a representation that RUB amounts have been, could be, or will be in the future, convertible into USD at the exchange rate shown, or at any other exchange rate.

At 31 December 2015, the official rate of exchange, as determined by the Central Bank of the Russian Federation, was USD 1 = RUB 72.8827 (31 December 2014 USD 1 = RUB 56.2584).

Fleet

The fleet is stated on an individual vessel basis at market value as assessed by independent professional valuers and supported by calculations of value in use.

Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. Revaluations are performed annually.

A revaluation increase is recognised in revaluation reserve in equity except to the extent that it reverses a previous revaluation deficit on the same asset recognised in the income statement, in which case it is recognised in the income statement. A revaluation decrease is recognised in the income statement except to the extent that it reversed the previous revaluation surplus on the same asset recognised directly in equity, in which case it is recognised directly in equity.

At the year end a portion of the revaluation reserve, which is equal to the difference between depreciation based on the revalued carrying amount of the asset and depreciation based on the asset's original cost is transferred from the revaluation reserve to retained earnings.

Other fixed assets are stated at cost less accumulated depreciation and impairment. Cost includes expenditure that is directly attributable to the acquisition of the asset.

Where an item of property, plant and equipment comprises major components having different useful lives, they are accounted for as separate items of property, plant and equipment. Dry-docking and special survey costs ("Dry-docking costs") are recognised as a separate component of the vessel and are capitalised as incurred during the period of the dry-docking programme.

Subsequent costs

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

Fleet depreciation

Depreciation is charged on a straight-line basis in the income statement on net book value less an estimated scrap value, based on anticipated useful lives of 25 years from date of building of the vessel.

Other fixed assets depreciation

Other fixed assets are depreciated on a straight line basis to their residual values at the following annual rates:

Buildings	3 – 10%
Rolling stock	4 – 20%
Machinery, equipment and other fixed assets	5 – 33%

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, where shorter, over the term of the relevant lease. Land is not depreciated.

Residual values
The residual value of an asset is the estimated amount that the Group would currently obtain from the disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. The residual value of an asset is nil if the Group expects to use the asset until the end of its physical life. The assets' residual values and useful lives are reviewed and adjusted if appropriate, at each balance sheet date.

(b) Impairment of non-financial assets

The carrying amounts of the Group's non-financial assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any indication of material impairment. If any such indication exists, recoverable amounts are estimated. For goodwill and intangible assets that have indefinite lives or that are not yet available for use, recoverable amount is estimated at each reporting date.

The recoverable amount of an asset or cash-generating unit is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The goodwill acquired in a business acquisition, for the purpose of impairment testing, is allocated to cash-generating units that are expected to benefit from the synergies of the combination.

An impairment loss is recognised whenever the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount. The impairment loss is recognised in the income statement unless it reverses a previous revaluation recognised in equity in which case it is recognised in equity.
Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the units and then to reduce the carrying amount of the other assets in the unit (group of units) on a pro rata basis.

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

(c) Dry-docking and special surveys

Dry-docking and special survey costs are capitalised and depreciated on a straight-line basis over a period of five years. Any unamortised amounts are derecognised when the next dry dock / special survey occurs or on disposal of the vessel to which the costs relate.

(d) Inventories

Inventories are stated at the lower of cost, calculated on a FIFO basis, and net realisable value. Inventories comprise bunkers, victualling stocks, stores, spares and materials for construction. Net realisable value is the estimated amount an item could be sold for less any selling expenses.

(e) Revenue recognition

The Group derives revenue from the following main sources:

- “freight and hire” revenue from sea transportation;
- agency fees for arranging transportation;
- provision of transportation services using own and leased wagons (operators’ business);
- revenue from stevedoring services;
- revenue from rentals;
- bunkering.

The Group recognises revenue on an accruals basis at the fair value of the consideration received or receivable. Revenue is presented in the income statement net of VAT and discounts.

Freight and hire
Revenue from transportation services rendered is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the number of days completed out of the total estimated number of days in a particular transportation route/charter. Estimated losses on transportation in progress are recognised at the time such losses become evident.

Transportation agency fee
In certain cases Group’s subsidiaries act as a legal intermediary for transportation organizations and pay transport fees on behalf of its clients. These fees, which are reimbursed by the Group’s clients, are not included in sales or cost of sales. Consequently, only the Group’s fees for intermediary activities are recognised as sales. Debtors and liabilities that occur in accordance with these activities are recognized as accounts receivable and accounts payable respectively.

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

The costs of sales for this type of activity generally includes transportation fees charged by transportation organizations for transportation of empty wagons (those are not re-charged to the counterparty), depreciation, repairs and maintenance costs for owned

Revenue from port and stevedoring services
Port and stevedoring services represent cargo handling and storage in port and terminal. The revenue is recognised in the income statement in proportion to the stage of completion of the transaction at the balance sheet date. The stage of completion is assessed by reference to the surveys of work performed.

Revenues from rentals
Revenue earned by the Group from rentals is recognised on a straight line basis over the term of the rent agreements.

(f) Classification of financial assets

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

Non-derivative financial instruments are recognised initially at fair value plus, for instruments not at fair value through profit or loss, any directly attributable transaction costs. Subsequent to initial recognition non-derivative financial instruments are measured as described below.

Cash and cash equivalents comprise cash balances and call deposits. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose of the statement of cash flows. Accounting for finance income and costs is discussed in note 3(t).

Held-to-maturity investments

If the Group has the positive intent and ability to hold debt securities to maturity, then they are classified as held-to-maturity. Held-to-maturity investments are measured at amortised cost using the effective interest method, less any impairment losses.

Available-for-sale financial assets

The Group's investments in equity securities and certain debt securities are classified as available-for-sale financial assets. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, and foreign exchange gains and losses on available-for-sale monetary items recognised directly in equity. When an investment is derecognised, the cumulative gain or loss in equity is transferred to the income statement.

Other

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

Derecognition of financial assets

The Company derecognises a financial asset only when the contractual rights to the cash flows from the asset expire; or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity.

(g) Financial liabilities and equity instruments issued by the Company

Debt and equity instruments are classified as either financial liabilities or as equity instruments in accordance with the substance of the contractual arrangement. An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs. Financial liabilities are classified as either financial liabilities at Fair Value Through Profit or Loss or “other financial liabilities”.

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Fair value is obtained through discounting future cash flows at the current market interest rate applied to financial instruments with similar terms. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

The Company derecognises financial liabilities when, and only when, the Company’s obligations are discharged, cancelled or they expire.

(h) Impairment of financial assets

A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortised cost is calculated as the difference between its carrying amount, and the present value of the estimated future cash flows discounted at the original effective interest rate. An impairment loss in respect of an available-for-sale financial asset is calculated by reference to its fair value.

Individually significant financial assets are tested for impairment on an individual basis. The remaining financial assets are assessed collectively in groups that share similar credit risk characteristics.

All impairment losses are recognised in the income statement. Any cumulative loss in respect of an available-for-sale financial asset recognised previously in equity is transferred to the income statement.

An impairment loss is reversed if the reversal can be related objectively to an event occurring after the impairment loss was recognised. For financial assets measured at amortised cost and available-for-sale financial assets that are debt securities, the reversal is recognised in the income statement. For available-for-sale financial assets that are equity securities, the reversal is recognised directly in equity.

(i) Ordinary shares

Ordinary shares are classified as equity. Incremental costs directly attributable to issue of ordinary shares and share options are recognised as a deduction from equity, net of any tax effects.

(j) Repurchase of share capital

When share capital recognised as equity is repurchased, the amount of the consideration paid, which includes directly attributable costs, net of any tax effects, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a deduction from total equity. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity, and the resulting surplus or deficit on the transaction is transferred to / from the share premium.

(k) Operating leases

Where the Group is a lessee
Where Group company is a lessee in a lease which does not transfer substantially all the risks and rewards incidental to ownership from the lessor to the Group, the total lease payments, including those on expected termination, are charged to profit or loss on a straight-line basis over the period of the lease.

Where the Group company is a lessor
Assets leased to third parties under operating leases are included in property, plant and equipment in the statement of financial position. They are depreciated over their expected useful lives. Rental income (net of any incentives given to lessees) is recognised on a straight-line basis over the lease term.

(l) Finance leases

Where the Group is a lessee

Where a Group company is a lessee in a lease which transfers substantially all the risks and rewards incidental to ownership to the Group, the assets leased are capitalised in property, plant and equipment at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of future finance charges, are included in borrowings. The interest cost is charged to the income statement over the lease period using the effective interest method.

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

Where the Group is a lessor

Assets leased out under finance lease agreements are recognized in the statement of financial position and presented as receivable at an amount equal to the net investment in the lease. The income on the finance lease is recognized as interest income and is based on the pattern reflecting a constant periodic rate of return on the Company's net investment in the finance lease.

(m) Employee benefits

Defined contribution plans

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans, including Russia's State pension fund, are recognised in the income statement when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in future payments is available.

Defined benefit plans

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group's net obligation in respect of defined benefit pension plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and any unrecognised past service costs and the fair value of any plan assets are deducted. The discount rate is the yield at the reporting date on Russian Government bonds that have maturity dates approximating the terms of the Group's obligations and that are denominated in the same currency in which the benefits are expected to be paid. The calculation is performed annually by a qualified actuary using the projected unit credit method.
When the benefits of a plan are improved, the portion of the increased benefit relating to past service by employees is recognised in profit or loss on a straight-line basis over the average period until the benefits become vested. To the extent that the benefits vest immediately, the expense is recognised immediately in profit or loss.
The Group recognises all actuarial gains and losses arising from defined benefit plans in the other comprehensive income in the period in which they arise.

(n) Current and deferred income tax

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

Deferred tax assets and liabilities are calculated in respect of temporary differences using the balance sheet liability method. Deferred income taxes are provided for all temporary differences arising between the tax basis of assets and liabilities and their carrying values for financial reporting purposes. A deferred tax asset is recorded only to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax assets and liabilities are measured at tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted at the balance sheet date.
Deferred tax is not recognised for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognised for taxable temporary differences arising on the initial recognition of goodwill.

In determining the amount of current and deferred tax the Group takes into account the impact of uncertain tax positions and whether additional taxes, penalties and late-payment interest may be due. The Group believes that its accruals for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Group to change its judgment regarding the adequacy of existing tax liabilities; such changes to tax liabilities will impact the tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

(o) Provisions

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

(p) Earnings per share

The Group presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

(q) Goodwill arising on acquisition

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Goodwill on acquisition of subsidiaries is tested annually for impairment and carried at cost less accumulated impairment losses.

Negative goodwill (excess of the fair value of the share in net assets acquired over consideration paid) is recognised in the income statement.

Any excess of the consideration paid to acquire a non-controlling interest over the book value of the non-controlling interest is recognised in equity.

(r) Other intangible assets

Other intangible assets are recognised at cost less accumulated amortisation and impairment losses. Amortisation is charged on a straight line basis over the useful life (generally five years), representing management's estimate of the period during which the Group is expected to benefit from these assets.

(s) Dividends

Dividends are recognised as a deduction from equity in the period in which they are approved by the shareholders.

(t) Finance income and costs

Finance income comprises interest income on funds invested (including available-for-sale financial assets), dividend income, gains on the disposal of available-for-sale financial assets, changes in the fair value of financial assets at fair value through profit or loss, gains on bonds redemption.

Interest income is recognised as it accrues in the income statement, using the effective interest method. Dividend income is recognised in the income statement on the date that the Group's right to receive payment is established.

Finance costs comprise interest expense on borrowings, bonds related expenses, unwinding of the discount on provisions, dividends on preference shares classified as liabilities, changes in the fair value of financial assets at fair value through profit or loss and impairment losses recognised on financial assets. All borrowing costs are recognised in the income statement using the effective interest method, except to the extent that they relate to acquisition of qualifying assets, in which case they are capitalized in the cost of such assets.

Adoption of new and revised standards and interpretations

A number of new standards and interpretations are not yet effective as of the reporting date, and have not been applied in preparing these consolidated financial statements.

IFRS 9, published in July 2014, replaces the existing guidance in IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on financial assets, and the new general hedge accounting requirements. It also carries forward the guidance on recognition and derecognition of financial instruments from IAS 39.

IFRS 9 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and IFRIC 13 Customer Loyalty Programmes.

The core principle of the new standard is that an entity recognises revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The new standard results in enhanced disclosures about revenue, provides guidance for transactions that were not previously addressed comprehensively and improves guidance for multiple-element arrangements.

IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018, with early adoption permitted.

IFRS 16 replaces the existing lease accounting guidance in IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a lease, SIC-15 Operating Leases – Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. It eliminates the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Instead, there is a single, on-balance sheet accounting model that is similar to current finance lease accounting.

Lessor accounting remains similar to current practice – i.e. lessors continue to classify leases as finance and operating leases.

IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019, early adoption is permitted if IFRS 15 Revenue from Contracts with Customers is also adopted.

The Group is assessing the potential impact on its consolidated financial statements resulting from the application of these standards.

4. Goodwill

	Gross amount	Accumulated impairment loss	Carrying amount
		USD mln	
At 1 January 2014	290	(30)	260
Impairment	-	(39)	(39)
Translation difference	(120)	13	(107)
At 31 December 2014	170	(56)	114
Impairment			
Translation difference	(38)	13	(25)
At 31 December 2015	132	(43)	89

Goodwill has been allocated to groups of cash generating units (CGU's) which represent the lowest level within the Group at which goodwill is monitored by management for internal reporting purposes.

The carrying amount of goodwill, net of impairment, allocated to each CGU is as follows:

	31 December 2015	31 December 2014
	USD mln	
FIT LLC and its subsidiaries	2	2
FESCO ESF Limited and its subsidiaries	6	6
Commercial Port of Vladivostok (VMTP)	81	106
	89	114

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

The discount and growth rates used in the impairment testing for each CGU for the year 2015 were as follows:

2015	**Discount rate**	**Terminal growth rate**
FIT LLC and its subsidiaries	15,6%	2%
FESCO ESF Limited and its subsidiaries	11%	2%
Commercial Port of Vladivostok (VMTP)	16,85%	4%

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

The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term growth rate, consistent with the assumption that a market participant would make.
The key assumptions in respect of Commercial Port of Vladivostok (VMTP*)* CGU as the CGU to which most significant goodwill as allocated, are as follows:

- Revenue projections were made assuming average annual growth rate of 10% during the forecast period as result of increase in throughput of containers and other cargos and revenue rates inflation. Projected growth of throuput of containers is 4,5% in 2016, 18% in 2017 due to forecasted market recovery and 4,8% on average for furher projection period. Revenue rates inflation are based on forecasted inflation rates and RUR/USD exchanges rates for the projection period for 5,6% and (3%) respectively on average.
- Costs projections were made assuming stable EBITDA margin during the forecast period at the level of reporting period (32%-33%).

The projected volumes of throughput reflect past experience and management's estimates. The prices are estimated in accordance with the past performance of relevant CGUs and management's expectations of market development.
The discount rate was a post-tax measure estimated based on the industry average weighted-average cost of capital reflecting specific risks relating to the relevant CGU.

The results of sensitivity analysis for each CGU: Commercial Port of Vladivostok (VMTP), FIT LLC and its subsidiaries and FESCO ESF Limited and its subsidiaries show that there's significant headroom between carrying value and recoverable amount. Thus the impairment testing results are not sensitive to changes in discount rate and revenue.

5. Fleet

	Carrying value	
	31 December 2015	**31 December 2014**
	USD mln	
Fleet	68	80
Deferred dry docking expenses	10	12
	78	92
Total deadweight tonnage	268	268

	Valuation	Depreciation	Net Book Value
		USD mln	
At 1 January 2014	80	-	80
Depreciation charge for the year	-	(3)	(3)
Additions	8	-	8
Disposals	(4)	-	(4)
Revaluation	(4)	3	(1)
At 31 December 2014	80	-	80
Depreciation charge for the year	-	(3)	(3)
Revaluation	(12)	3	(9)
At 31 December 2015	68	-	68

The Group reviews the carrying value of the fleet on an annual basis. In determining an appropriate carrying value the Company relies on the opinion of expert third party valuers. The valuers determine by reference to recent sales transactions of similar vessels the amount a vessel could be sold for, assuming that the vessel is in reasonable condition. Management critically reviews the valuation arrived at by the valuers and also produces calculations of value in use based on discounted anticipated future cash flows.

The valuation basis utilised implicitly includes the value of dry docking in the overall valuation. Management, therefore, deducts the net book value of capitalised dry dock from the valuation and account, for such dry dock at historical cost less accumulated depreciation.

At 31 December 2015, the estimated scrap value of the Group's fleet was calculated based on an estimate of USD 280 per LWT (31 December 2014: USD 420). This change in accounting estimate was made in reaction to the decrease in international steel prices. This change in accounting estimate resulted in an increase in the depreciation charge for the year ended 31 December 2015 of USD 1 million.

The fleet includes 7 vessels, fully depreciated, with an aggregate scrap value of USD 10 million at 31 December 2015 (7 vessels with scrap value of USD 15 million at 31 December 2014).

Had the vessels been carried at the historical cost, the carrying amount would have been USD 64 million at 31 December 2015 (31 December 2014 – USD 70 million).

The fleet was revalued as at 31 December 2015 by independent professional brokers with reference to the observable market transactions with comparable vessels. The resulting revaluation decrease of USD 9 million has been recognised in the statement of profit or loss (USD 8 million decrease) and in the revaluation reserve (USD 1 million decrease).

At 31 December 2015, 9 vessels in the Group's fleet with a net book value of USD 41 million were insured for hull and machinery risks with western underwriters, a further 13 vessels with a net book value of USD 27 million were insured with Russian underwriters. The total insured value amounted to USD 92 million.

Movements during the period on deferred dry docking expenses were:

	Cost	Depreciation	Net Book Value
		USD mln	
At 1 January 2014	18	(7)	11
Additions	5	-	5
Additions on acquisition	1	-	1
Charge for the year	-	(4)	(4)
Amortised dry dock write off	(2)	2	-
Release on disposal of fleet	(2)	1	(1)
At 31 December 2015	20	(8)	12
Additions	4	-	4
Charge for the year	-	(6)	(6)
Amortised dry dock write off	(4)	4	-
At 31 December 2015	20	(10)	10

6. Rolling Stock

	Cost	Depreciation	Net Book Value
		USD mln	
At 1 January 2014	647	(205)	442
Additions	12	-	12
Depreciation charge	-	(35)	(35)
Disposals	(7)	5	(2)
Impairment	(57)	-	(57)
Translation difference	(271)	93	(178)
At 31 December 2014	324	(142)	182
Additions	8	-	8
Depreciation charge	-	(18)	(18)
Disposals	(7)	6	(1)
Translation difference	(73)	31	(42)
At 31 December 2015	252	(123)	129

The Group performed impairment testing of Firm Transgarant and its subsidiaries rolling stock as at 31 December 2015 using discounted cash flow techniques to arrive at the recoverable amount of the fixed assets. The discount and growth rates used in the impairment testing were 17.26% and 4% respectively. The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The key assumptions for the years 2016-2020 were the following:

- Total revenues and costs were calculated assuming declining railcar fleet (without acquisition of new railcar fleet) and constant railcar utilization rates throughout the period (including owned and lease railcars) fixed at the level existed as at 31 December 2015;
- Gondola lease rates in are assumed to increase by 40% in 2016 in RUR equivalent. This estimate is based on the terms of the concluded contracts and management assessment of the current market conditions and further market developments. The assumption is also supported by considerable write-off of gondola railcars in 2015 in the rail transportation industry, weak construction volumes and respective alignment of demand and supply in the market. Starting from 2017 rates are expected to grow in line with Rouble inflation 5% annually thereafter.

Recoverable amount for Firm Transgarant LLC and its subsidiaries approximates its carrying value and, therefore, impairment loss on rolling stock was not recognized.

The results of sensitivity analysis are the following: increase in discount rate by 1% and decrease in revenue by 5% would result in impairment loss of USD 10 million and USD 8 million respectively.
Rolling stock includes assets held under finance leases with a net book value of USD 26 million (at 31 December 2014 – USD 37 million).

As at 31 December 2015, rolling stock with a net book value of USD 109 million was insured with Russian insurance companies. The total insured value is USD 266 million (31 December 2014 – USD 353 million with a net book value of USD 153 million).

7. Other Tangible Fixed Assets

	Buildings and Infrastructure	Plant, Machinery and Other	Assets under construction	Total
	USD mln			
Cost				
At 1 January 2014	224	254	31	509
Additions	1	7	28	36
Transfers from AUC	7	4	(11)	-
Disposals	-	(8)	(2)	(10)
Impairment	(5)	-	(4)	(9)
Translation difference	(80)	(74)	(13)	(167)
At 31 December 2014	147	183	29	359
Additions	1	8	7	16
Transfers from AUC	1	-	(1)	-
Disposals	-	(22)	-	(22)
Translation difference	(28)	(24)	(7)	(59)
At 31 December 2015	121	145	28	294
Depreciation				
At 1 January 2014	39	109	-	148
Depreciation charge for the year	6	21	-	27
Eliminated on disposal	-	(7)	-	(7)
Translation difference	(7)	(23)	-	(30)
At 31 December 2014	38	100	-	138
Depreciation charge for the year	4	14	-	18
Eliminated on disposal	-	(22)	-	(22)
Translation difference	(5)	(8)	-	(13)
At 31 December 2015	37	84	-	121
Net Book Value				
At 1 January 2014	185	145	31	361
At 31 December 2014	109	83	29	221
At 31 December 2015	84	61	28	173

Plant, machinery and other fixed assets include containers held under finance lease with a net book value of USD 1 million (31 December 2014– USD 5 million) and plant and machinery with a net book value of USD 7 million (31 December 2014 – USD 1 million).

8. Investments in Associates and Joint Ventures

Equity accounted investments represent investments in joint ventures and associates.

Name	Country of incorpo-ration	Percentage Holding	Activity	Classification
PJSC TransContainer	Russia	24.1%	Intermodal Container Operations	Associate
"Russkaya Troyka"	Russia	50%	Intermodal Container Operations	Joint Venture
Trans Russia Agency Japan Co. Ltd	Japan	50%	Agency services	Joint Venture
International Paint (East Russia) Limited	Hong Kong	49%	Ship Paint Production	Associate
"SHOSHTRANS" JVCSC	Uzbekistan	25%	Forwarding services	Associate
Fesco China Logistic Co.Ltd	China	50%	Forwarding services	Joint Venture
MB – Fesco Trans	Cyprus	49%	Forwarding services	Associate

Movements in joint ventures and associated companies consolidated on an equity basis are as follows:

	31 December 2015	31 December 2014
	USD mln	
Balance as at 1 January	229	370
Share of results of equity accounted investees	8	30
Dividends received	(4)	(13)
Translation differences	(53)	(158)
Balance as at 31 December	180	229

Summary financial information for equity- accounted investees, not adjusted for the percentage ownership held by the Group, is as follows:

	Reporting date	Current assets	Non-current assets	Total assets	Current liabilities	Non – current liabilities	Total liabilities	Income	Expenses	Profit/ (loss)
		USD mln								
2015										
TransContainer	31 December	102	740	842	93	119	212	725	(702)	23
Russkaya Troyka (joint venture)	31 December	4	22	26	2	6	8	11	(11)	-
Other companies	31 December	15	2	17	8	4	12	25	(21)	4
		121	764	885	103	129	232	761	(734)	27
2014										
TransContainer	31 December	124	975	1,099	99	190	289	1,036	(923)	113
Russkaya Troyka (joint venture)	31 December	8	30	38	5	8	13	20	(16)	4
Other companies	31 December	9	1	10	5	4	9	21	(20)	1
		141	1,006	1,147	109	202	311	1,077	(959)	118

The market value of PJSC TransContainer shares and GDR's held by the Group, based on the quotations in Moscow Stock Exchange and LSE at 31 December 2015 is USD 141 million. The above market value was below carrying value of the investments (USD 166 million), which may indicate possible impairment.

The Group performed impairment testing of investments in PJSC Transcontainer as at 31 December 2015 using discounted cash flow techniques to arrive at the recoverable amount of the investments. The recoverable amount is determined based on value in use calculations. These calculations are based on post-tax cash flow projections and all the assumptions in relation to growth rates are determined by reference to past performance and industry forecasts. The discount and growth rates used in the impairment testing were 15.5% and 4% respectively. The cash flow projections included specific estimates for five years and a terminal growth rate thereafter. The terminal growth rate was determined based on management's estimate of the long-term growth rate, consistent with the assumption that a market participant would make. Projections for the year 2016 were based on the company's budget. The key assumptions for the years 2016-2020 were the following:

- Revenue projections were made assuming price and volumes growth during the projection period. Prices are expected to grow by 5% in 2016 and by the inflation rate in 2017-2020 (average 5% p.a.). Volumes are assumed to grow by 2% in 2016 and by 2,6% on average thereafter which approximates GDP gowth multiplied by 1,4.
- Costs projections were made based on the forecast inflation rate (average 5% p.a.) and, in the case of variable costs, projected container transportation volumes.
- EBITDA projections were made assuming growth by 5% in 2016, 16% in 2017 and further average annual growth by 21% to reach EBITDA to revenue level of 41% in 2020.
- The projected volumes of transportation services and EBITDA margin provided reflect past experience and management's estimates. The prices are estimated in accordance with the past performance of the company and management's expectations of market development. The discount rate was a post-tax measure estimated based on the industry average weighted-average cost of capital reflecting specific risks relating to the company.

The recoverable amount of the investments in PJSC TransContainer approximate their carrying value (USD 166 million).
The results of sensitivity analysis are the following: increase in discount rate by 1% and decrease in revenue by 5% would result in impairment loss of USD 14 million and USD 10 million respectively.

Goodwill in amount of USD 14 million related to PJSC TransContainer is included into the investments in associates and joint ventures.

Subsequent to period end the market value of PJSC TransContainer shares and GDR's held by the Group, based on the quotations in Moscow Stock Exchange and LSE as at the middle of April 2016 increased to USD 170 million.

9. Other Non-Current Assets

	31 December 2015	31 December 2014
	USD mln	
Long term loans to related parties, at amortized cost	1	152
Restricted deposits	11	-
Lease right	4	6
Prepayments for fixed assets, at cost	1	5
Other intangible assets	1	6
Other equity investments	1	2
Other non-current assets	1	2
	20	173

As at 31 December 2015 management considered the loan issued to related parties for the amount of USD 161 million as non-recoverable based on assessment of related parties financial position estimate. As result the Group has recognised loss resulting from impairment of loans issued for the total amount of USD 161 million. The above amount was recognized as part of other finance costs (Note 22).

Prepayments for fixed assets represent prepayments for equipment.

10. Inventories

	31 December 2015	31 December 2014
	USD mln	
Bunkers	7	33
Stores and spares	2	3
Other stocks and raw materials	4	5
	13	41

11. Accounts Receivable

	31 December 2015	31 December 2014
	USD mln	
Trade debtors	39	70
VAT receivable	14	30
Prepayments to OJSC “Russian Railways”	8	12
Amounts due from associates and joint ventures	1	2
Other debtors and prepayments	21	51
Allowance for impairment	(4)	(5)
	79	160

12. Cash and Cash Equivalents

	31 December 2015	31 December 2014
	USD mln	
Bank accounts and cash in hand	36	66
	36	66

13. Accounts Payable

	31 December 2015	31 December 2014
	USD mln	
Trade creditors	37	65
Taxes payable, other than income tax	4	7
Interest payable	16	16
Other creditors and accruals	34	62
	91	150

14. Debt and Finance Leases Obligations

(a) Loans payable

	31 December 2015	31 December 2014
	USD mln	
Loans and other obligations comprise:		
Secured loans		
At fixed rate 5% - 10%	86	27
At fixed rate 10% - 15%	5	10
At variable rates 5%-10% above Libor/Euribor /Mosprime	40	89
	131	126
Unsecured loans		
At variable rate 13%	5	-
At fixed rate 5% - 10%	10	-
	15	-
Bonds		
Russian rouble bonds at interest rate 11%-19% p.a.	96	88
Eurobonds at interest rate 8%-8.75%	646	864
	742	952
Obligations under finance leases at fixed rate 6%-10.5%	3	9
Obligations under finance leases at fixed rate 10.5%-18.87%	19	29
	22	38
	910	1,116
Repayable within the next twelve months	137	48
Long term balance	773	1,068
	910	1,116

Market value of Eurobonds and bonds at the reporting date was USD 406 million and USD 91 million respectively.

During the year the Group paid Eurobond and bonds interest to the total amount of USD 63 million and USD 14 million respectively.

The carrying amount of pledged under debt obligations rolling stock, fleet and other fixed assets as at 31 December 2015 was USD 106 million.

During first and second quarter 2015 the Group redeemed Russian rouble bonds and Eurobonds with a nominal value of USD 57 million for total consideration of USD 43 million. The Group has derecognized the repurchased Russian rouble bonds and Eurobonds as Management considers that the Group's obligation was extinguished on the buyback. The buyback resulted in a gain of USD 14 million, which has been recognized in other financial income in the Statement of profit and loss.

In April and May 2015 the Group redeemed Eurobonds with a nominal value of USD 220 million for total consideration of USD 111 million. The buyback was partially financed by a loan obtained from an international bank in amount of USD 44 million. In accordance with the loan agreement the redeemed Eurobonds were transferred by the Group to the bank as collateral, which will be returned to the Group in February 2018 when the loan matures and is repaid by the Group. In case the Group does not comply with the terms of the loan agreement the Bank has the right to liquidate the collateral. The Group has derecognized the repurchased Eurobonds as Management considers that the Group's obligation was extinguished on the buyback. The buyback resulted in a gain of USD 109 million, which has been recognized in other long - term liabilities in the Statement of financial position as the loan agreement stipulates that recognition of the gain in the Statement of profit and loss should be deferred until the loan termination date when the collateral is returned to the Group.

In April 2015 the Group issued Russian rouble denominated exchange-traded, non-convertible bonds for a total amount of RUB 5 billion (approximately USD 100 million) that will be repaid in 2018. The interest rate is set at 19% for the first coupon period and equals to the effective key rate of the Bank of Russia increased by 5% p.a. for further five semi-annual coupon periods, but cannot be either less than 11% p.a. or more than 19% p.a. Bonds bear early redemption option in October 2016 based on issuer's option.

As at 31 December 2015 the Group was in compliance with covenants, except for covenants on loan raised with Unicreditbank. Total amount of the above loan is USD 5 million including long-term part of USD 3 million. After the reporting date the waiver has been obtained by the Group in respect of credit arrangement with the bank confirming that the bank does not claim earlier loan repayment and covering the reporting date as well. The long-term part of the loan for USD 3 million was recognized by the Group within long-term liabilities as stipulated in credit arrangement terms

For currency and maturity analysis of loans and other obligations see Note 25.

(b) Finance leases obligations

The Group partially finances the purchase of wagons and containers through leasing and sale-leaseback transactions with leasing companies.

All the lease agreements provide for ownership transfer of assets to the Group at the end of the lease terms for a nominal consideration.

The Group's finance leases mainly relate to acquisition of containers and railroad platforms.
The effective interest rate on the wagon lease liability is 8.33%-19.01% on obligations in roubles and 11.69%-14.94% on obligations in USD (2014: 13.9%-20.01% on obligations in roubles and 14,42% on obligations in USD) and on the container lease liability it is 6%-10,5% on obligations in USD (2014: 6%-10.5% on obligations in USD). Minimum lease payments and future interest element are estimated based on the rates applicable to each individual lease contract.

Lease payments as at each reporting date are scheduled as follows:

	31 December 2015		31 December 2014	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
	USD mln		USD mln	
Within one year	16	15	22	18
Two to five years	10	7	22	20
Over five years	-	-	-	-
	26	22	44	38
Less: future finance charges	(4)		(6)	
Present value of lease obligations	22		38	
Less current portion		(15)		(18)
Non-current portion		7		20

15. Current and Deferred Tax

Companies within the Group are subject to taxation in different jurisdictions. The most significant tax expense arises in entities incorporated in the Russian Federation.

	31 December 2015	31 December 2014
	USD mln	
Current tax expense		
Current period	17	29
	17	29
Deferred tax expense		
Origination and reversal of temporary differences	1	(18)
	1	(18)
Total income tax expense	18	11

Reconciliation of effective tax rate:

	31 December 2015		31 December 2014	
	USD mln	%	USD mln	%
Loss before income tax	(148)	100	(110)	100
Income tax at applicable tax rate of 20% (2014: 20%)	(30)	(20)	(22)	(20)
Effect of income taxed at different rates	(5)	(3)	(6)	(6)
Non-deductible expenses related to impairment	32	22	8	8
Income tax on dividends	1	1	1	1
Non-deductible expenses/non taxable income, net	19	11	28	25
Change in unrecognised deferred tax asset	1	1	2	2
	18	12	11	10

The Group's deferred tax liability mainly arises in entities incorporated in Russia and the effect of deferred taxation in other jurisdictions is not material.

Movements in temporary differences were the following:

	Balance 1 January 2015	Recognised in profit or loss	Translation differences	Balance 31 December 2015
	USD mln			
Vessels	(6)	1	-	(5)
Other fixed assets	(23)	(2)	5	(20)
Assets under construction	(1)	-	-	(1)
Accounts receivable	6	(3)	(1)	2
Accounts payable	3	3	(1)	5
Provisions, accruals and deferred income	3	(1)	-	2
Tax loss carry-forwards	6	1	(1)	6
	(12)	(1)	2	(11)

	Balance 1 January 2014	Recognised in profit or loss	Translation differences	Balance 31 December 2014
	USD mln			
Vessels	(4)	(2)	-	(6)
Other fixed assets	(65)	18	24	(23)
Assets under construction	1	(1)	(1)	(1)
Accounts receivable	4	3	(1)	6
Accounts payable	11	(4)	(4)	3
Provisions, accruals and deferred income	5	(1)	(1)	3
Tax loss carry-forwards	4	5	(3)	6
	(44)	18	14	(12)

Tax losses for which the deferred tax assets were recognized expire in year 2023 (USD 1 million), year 2024 (USD 3 million), year 2025 (USD 2 million) as at 31 December 2015 (31 December 2014 USD 6 million)**.**

Unrecognised deferred tax asset

The Group has unrecognized deferred tax assets at the amount of USD 8 million as of 31 December 2015 (31 December 2014: USD 11 million). Unrecognised deferred tax assets relate to tax losses carried forward that are not expected to be recoverable in the foreseeable future.

Unrecognised deferred tax liability

A temporary difference of USD 105 million relating to investments in subsidiaries and joint ventures has not been recognised as at 31 December 2015 (31 December 2014: USD 127 million) as the Group is able to control the timing of reversal of the difference, and reversal is not expected in the foreseeable future.

16. Shareholders' Equity

	31 December 2015	31 December 2014
	USD mln	
Authorised number of shares (1 Rouble per share)	3,643,593,000	3,643,593,000
Issued number of shares	2,951,250,000	2,951,250,000
Share capital (USD mln)	57	57

17. Business Segmental Analysis

For management purposes, the Group is organised into five major operating divisions – shipping, liner and logistics, railway services, ports and bunkering. The Group also includes certain companies that cannot be allocated to a specific division; these include investing and managing companies. These divisions are the basis on which the Group reports its operating segment information. The services provided by each of these divisions are as follows:

Shipping	The shipping division is involved in ship ownership, ship management, chartering out and provision of agency services. These activities are carried out on a cabotage, cross trade and import-export basis. The vessels operated by the shipping division are largely container vessels and bulk carriers.
Liner and Logistics	The Liner and logistics division operates liner services and provides freight forwarding services both for containers and break-bulk cargoes.
Railway Services	The railway services division provides services both as an operator and an agent. When acting as an operator it renders services for containerised and bulk cargoes using locomotives, railway wagons, hoppers, steel-pellet wagons and tank wagons owned by the division or leased by it under finance leases. In addition it uses rolling stock hired on short term operating leases.
Ports	The ports division owns and operates port facilities and container terminals in Russia and provides cargo handling, stevedoring, container storage and rental and related port services and facilities.
Bunkering	The bunkering division provides services of ship bunkering which involves transferring oil and fuel to and from a vessel and other supporting activity.

Segmental reporting information is submitted to management of the Group on a regular basis as part of the management reporting process. It is used to assess the efficiency of the segments and to take decision on the allocation of resources.

Segment information for the main reportable segments of the Group for the year ended 31 December 2015 is set out below.

	Shipping	Liner and Logistics	Railway services	Ports	Bunkering	Corporate	Investment in Trans-Container	Eliminations/ Adjustments	Total
	USD mln								
External sales	43	384	97	77	87	-	-	-	688
Inter-segment sales	40	1	8	39	28	-	-	(116)	-
Segment revenue	83	385	105	116	115	-	-	(116)	688
Segment expenses (*)	(60)	(366)	(87)	(54)	(113)	(26)	-	126	(580)
Segment result	23	19	18	62	2	(26)	-	10	108
Segment non-cash items:									
Depreciation and amortization	(11)	(7)	(19)	(10)	-	(1)	-	1	(47)
Impairment losses	(8)	-	-	-	-	(4)	-	-	(12)
Other material items of income/expense:									
Other financial income and expenses, net	12	(11)	1	13	-	(114)	-	(40)	(139)
Other income and expenses	2	12	2	(2)	(1)	6	-	(12)	7
Interest expense	(8)	(2)	(16)	(3)	(2)	(103)	-	38	(96)
Share of profit of equity accounted investees	1	1	-	-	-	-	6	-	8
Income tax expense	(1)	(4)	-	(12)	-	(1)	-	-	(18)

Segment information for the main reportable segments of the Group for the year ended 31 December 2014 is set out below.

	Shipping	Liner and Logistics	Railway services	Ports	Bunkering	Corporate	Investment in Trans-Container	Eliminations/ Adjustments	Total
	USD mln								
External sales	41	622	154	137	164	-	-	-	1,118
Inter-segment sales	40	1	11	49	54	-	-	(155)	-
Segment revenue	81	623	165	186	218	-	-	(155)	1,118
Segment expenses (*)	(73)	(585)	(124)	(92)	(208)	(44)	-	167	(959)
Segment result	8	38	41	94	10	(44)	-	12	159
Segment non-cash items:									
Depreciation and amortization	(10)	(11)	(36)	(15)	-	(1)	-	-	(73)
Goodwill impairment	-	-	(39)	-	-	-	-	-	(39)
Impairment losses	(1)	-	(46)	-	-	(9)	-	-	(56)
Other material items of income/expense:									
Other income and expenses	3	1	4	-	-	8	-	(12)	4
Interest expense	(1)	(2)	(22)	(4)	(5)	(101)	-	21	(114)
Share of profit of equity accounted investees	-	-	3	-	-	-	27		30
Income tax expense	(1)	(7)	14	(17)	(1)	1	-	-	(11)

Segmental assets and liabilities

	Assets		**Liabilities**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
	USD mln			
Shipping (Global)	103	126	30	21
Liner and logistics (Global)	93	145	47	85
Railway services (Russia)	204	256	19	42
Ports (Russia)	138	218	53	63
Bunkering (Russia)	7	62	5	14
Total of all segments	545	807	154	225
Goodwill	89	114	-	-
Other items not attributable to a specific segment	171	365	972	1,062
Consolidated	805	1,286	1,126	1,287

Other segmental information

	Acquisition of segment assets		**Investments in equity accounted investees**	
	31 December 2015	**31 December 2014**	**31 December 2015**	**31 December 2014**
	USD mln			
Shipping (Global)	5	17	1	-
Liner and logistics (Global)	1	4	4	3
Railway services (Russia)	10	20	9	13
Ports (Russia)	12	21	-	-
Investment in TransContainer	-	-	166	213
	28	62	180	229

(*) Segment expenses include operating expenses and administrative expenses.

18. Revenue

	2015	**2014**
	USD mln	
Transportation services (operators' business)	463	747
Bunkering	77	164
Port and stevedoring services	77	137
Hire and freight	53	41
Revenue from rentals	14	25
Agency fees	4	4
	688	1,118

19. Operating Expenses

	2015	2014
	USD mln	
Railway infrastructure tariff and transportation services	293	498
Bunkering	71	150
Payroll expenses	53	78
Voyage and vessel running cost	45	40
Operating lease	22	27
Stevedoring services	11	22
Non-profit based taxes	5	7
	500	822

20. Administrative Expenses

	2015	2014
	USD mln	
Salary and other staff related costs	50	88
Professional fees	8	11
Office rent	8	8
Other administrative expenses	14	21
	80	128

21. Impairment Losses

	2015	2014
	USD mln	
Fleet impairment charge (Note 5)	(8)	(1)
Intangible assets impairment	(4)	-
Other tangible fixed assets impairment charge	-	(55)
	(12)	(56)

22. Other Finance Income and Expenses, Net

	2015	2014
	USD mln	
Impairment of the loan to related party (Note 9)	(161)	-
Interest income	12	11
Bonds redemption (Note 14)	14	-
Other expenses	(4)	-
	(139)	11

23. Loss per Share

Basic earnings per share is calculated by dividing the earnings attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, excluding those held by Group companies.

	31 December 2015	31 December 2014
	USD	
Loss for the year	(167,065,000)	(123,550,000)
Weighted average number of shares in issue (note 16)	2,951,250,000	2,951,250,000
Loss per share	(0.057)	(0.042)

24. Contingencies and Commitments

(a) Operating lease commitments – where a Group company is the lessee

The Group leases rolling stock, berths and office premises under non-cancellable lease agreements. As at 31 December 2015 all operating lease agreements are for a period of less than 12 months with renewal options and are non-cancellable due to business reasons.

At 31 December 2015, the Group had the following outstanding commitments under non-cancellable operating leases.

	31 December 2015	31 December 2014
	USD mln	
Within one year	10	11
In two to five years	16	29
After five years	54	65
	80	105

(b) Taxation contingencies

The taxation system in the Russian Federation continues to evolve and is characterised by frequent changes in legislation, official pronouncements and court decisions, which are sometimes contradictory and subject to varying interpretation by different tax authorities.
Taxes are subject to review and investigation by a number of authorities, which have the authority to impose severe fines, penalties and interest charges. A tax year generally remains open for review by the tax authorities during the three subsequent calendar years; however, under certain circumstances a tax year may remain open longer. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive and substance-based position in their interpretation and enforcement of tax legislation.

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

These transfer pricing rules provide for an obligation for the taxpayers to prepare transfer pricing documentation with respect to controlled transactions and prescribe the basis and mechanisms for accruing additional taxes and interest in case prices in the controlled transactions differ from the market level.

The transfer pricing rules apply to cross-border transactions between related parties, as well as to certain cross-border transactions between independent parties, as determined under the Russian Tax Code (no threshold is set for the purposes of prices control in such transactions). In addition, the rules apply to in-country transactions between related parties if the accumulated annual volume of the transactions between the same parties exceeds a particular threshold (RUB 3 billion in 2012, RUB 2 billion in 2013, and RUB 1 billion in 2014 and thereon).

Currently there is lack of practice of applying the transfer pricing rules by the tax authorities and courts, however, it is anticipated that transfer pricing arrangements will be subject to very close scrutiny potentially having effect on these consolidated financial statements.

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

In addition, a number of new laws introducing changes to the Russian tax legislation have been recently adopted. In particular, starting from 1 January 2015 changes aimed at regulating tax consequences of transactions with foreign companies and their activities were introduced, such as concept of beneficial ownership of income, etc. These changes may potentially impact the Group's tax position and create additional tax risks going forward. This legislation is still evolving and the impact of legislative changes should be considered based on the actual circumstances.

(c) Business environment

Part of the Group's operations is located in the Russian Federation and Ukraine. Consequently, the Group is exposed to the economic and financial markets of the Russian Federation and Ukraine which display characteristics of an emerging market. The legal, tax and regulatory frameworks continue development, but are subject to varying interpretations and frequent changes which together with other legal and fiscal impediments contribute to the challenges faced by entities operating in the Russian Federation. The consolidated financial statements reflect management's assessment of the impact of the Russian and Ukrainian business environment on the operations and the financial position of the Group. The future business environment may differ from management's assessment.

The recent conflict in Ukraine and related events has increased the perceived risks of doing business in the Russian Federation. The imposition of economic sanctions on Russian individuals and legal entities by the European Union, the United States of America, Japan, Canada, Australia and others, as well as retaliatory sanctions imposed by the Russian government, has resulted in increased economic uncertainty including more volatile equity markets, a depreciation of the Russian Ruble, a reduction in both local and foreign direct investment inflows and a significant tightening in the availability of credit. In particular, some Russian entities may be experiencing difficulties in accessing international equity and debt markets and may become increasingly dependent on Russian state banks to finance their operations. The longer term effects of recently implemented sanctions, as well as the threat of additional future sanctions, are difficult to determine.

Further economic and political developments are currently unpredictable and their severe adverse affect on the Ukrainian economy may continue.

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

25. Fair Value and Risk Management

Fair Values

Management of the Group believes that the fair values of financial assets and liabilities shown in the in the statement of financial position as at 31 December 2015 approximate their carrying amounts except for the following borrowings:

	Market value USD mln	Book value USD mln	Difference USD mln
Bonds	497	742	(245)
Total	**497**	**742**	**(245)**

Market value of the Eurobonds and bonds was determined based on Bloomberg and MICEX respectively.

As at 31 December 2014 the fair values of financial assets and liabilities shown in the statement of financial position approximated their carrying amounts.

The basis for determining fair values is disclosed in note 3.

Capital Risk Management

The Group manages its capital to ensure that it can continue to operate and expand their operations while at the same time maximising returns to shareholders.
The Group is not subject to externally imposed capital requirements other than those included, from time to time, in the financial covenants associated with bank borrowing and those, imposed by the Russian legislation.

During the reporting year Russian Rouble had significantly depreciated against US dollar. As at 31 December 2015 Rouble to US dollar rate decreased almost 25% since 01 January 2015. The effect of the above devaluation has resulted in recognition of currency translation reserve in amount of USD 154 million and as consequence total liabilities exceeded total assets by USD 321 million.
This negative effect is technical by its nature and doesn't effect to the Group's ability to continue as a going concern.

Major categories of financial instruments.

The Group's principle financial liabilities comprise borrowings, finance leases, trade and other payables.

The main risks arising from the Group's financial instruments are market risk which includes foreign currency and interest rate risk, credit and liquidity risks.

The Board of Directors has overall responsibility for the establishment and overseeing of the Group's risk management framework. The Group Audit Committee is responsible for developing and monitoring the Group's risk management policies.

The Group's Audit Committee oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group. The Group Audit Committee is assisted in its oversight role by Internal Audit. Internal Audit undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Audit Committee.

(a) Credit risk

Credit risk is the risk that a customer may default or not meet its obligations to the Group on a timely basis, leading to financial losses to the Group.

Trade and other receivables

The Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. The demographics of the Group's customer base, including the default risk of the industry and country in which the customer operates, has less of an influence on a credit risk. There is no concentration of credit risk with a single customer.

Each company within the Group establishes its own credit policy taking into account the specifics of the sector and the company's customer base.

The majority of the Group's customers have been transacting with the Group companies for many years and losses arising from this category of customer are infrequent.

Policies established by Group companies for new customers will generally involve some form of credit check based on the available information. Where a customer is not deemed creditworthy, the Group will generally only offer services on a prepayment basis.

The Group has provided fully for all receivables over one year because historical experience is such that receivables that are past due beyond one year are generally not recoverable.

The Group's maximum exposure to credit risk in relation to each class of recognised financial asset is the carrying amount of those assets as stated in the balance sheet and was as follows:

	31 December 2015	**31 December 2014**
	USD mln	
Long term loans issued to a related party	1	152
Accounts receivable	79	160
Current tax assets	8	6
Other current assets	-	2
Cash and cash equivalents	36	66
	124	386

The ageing profile of trade receivables was:

	31 December 2015		**31 December 2014**	
	USD mln			
	Total book value	**Allowance for impairment**	**Total book value**	**Allowance for impairment**
Current	33	-	62	-
Overdue 90 days	2	-	4	-
Overdue 91 days to one year	2	(1)	2	-
Overdue more than one year	2	(2)	2	(2)
	39	(3)	70	(2)

During the year, the Group had the following movement in allowance for trade receivables:

	31 December 2015	31 December 2014
	USD mln	
Balance as at 1 January	2	17
Uncollectible receivables written off during the year	-	(16)
Change in allowance	1	1
Balance as at 31 December	3	2

Other assets of the Group with exposure to credit risk include cash and advances to suppliers. Cash is placed with reputable banks. Advances to suppliers mainly include prepayments for transportation services and prepayments to Russian Railway. Management does not expect these counterparties to fail to meet their obligations.

(b) Market risk

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

Currency risk

The Group is exposed to currency risk on sales, purchases, finance leases and borrowings that are denominated in a currency other than the respective functional currencies of Group entities, primarily the RUB and USD.
In respect of other monetary assets and liabilities denominated in foreign currencies, the Group ensures that its net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates when necessary to address short-term imbalances.

At 31 December 2015, the Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity:

	USD	RUB	Other currencies
		USD mln	
Assets			
Other non-current assets	2	-	-
Accounts receivable	6	1	1
Bank and cash balances	12	-	4
Intra-group assets	42	47	64
	62	48	69
Liabilities			
Accounts payable	11	5	1
Loans and other obligations	1	-	68
Intra-group liabilities	15	100	64
	27	105	133
	35	(57)	(64)

Other currencies include EURO primarily.

At 31 December 2014, the Group had the following monetary assets and liabilities denominated in currencies other than the functional currency of the respective Group entity.

	USD	RUB	Other currencies
		USD mln	
Assets			
Other non-current assets	2	-	-
Accounts receivable	15	2	3
Other current assets	2	-	-
Bank and cash balances	27	-	1
Intra-group assets	10	3	-
	56	5	4
Liabilities			
Accounts payable	6	5	1
Loans and other obligations	2	-	89
Intra-group liabilities	46	1	-
	54	6	90
	2	(1)	(86)

Foreign currency sensitivity analysis

The table below details the Group's sensitivity to strengthening/weakening of USD against the RUB by 20% which represents management's assessment of the possible change in foreign currency exchange rates.

	RUB/USD impact			
USD mln	**31 December 2015**	**31 December 2015**	**31 December 2014**	**31 December 2014**
	RUB/USD +20%	**RUB/USD -20%**	**RUB/USD +20%**	**RUB/USD -20%**
Profit or (loss)	(12)	12	-	-

Interest rate risk

Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Fair value interest rate risk is the risk that the value of a financial instrument will fluctuate due to changes in market interest rates.

The Group's interest risk mainly arises from its debt obligations in particular non-current borrowings. Borrowing at variable rates exposes the Group to cash flow interest rate risk. Lending at fixed rates or the purchase of debt instruments at fixed rates expose the Group to changes in the fair value.

The Group reviews its debt portfolio and monitors the changes in the interest rate environment to ensure that interest payments are within acceptable levels. Information relating to interest rates on the Group's borrowings is disclosed in Note 14.

Structure of interest rate risk.

At the reporting date the interest rate profile of the Group's interest-bearing financial instruments, excluding the effect of derivative financial instruments, was:

	Carrying amount	
	31 December 2015	31 December 2014
	USD mln	
Fixed rate instruments		
Cash and cash equivalents	2	6
Loans and promissory notes receivable	1	15
Finance lease receivable	-	2
Debt and Finance Leases Obligations	(769)	(1,027)
	(766)	(1,004)
Variable rate instruments		
Loans receivable	-	138
Borrowings	(141)	(89)
	(141)	49

Interest rate sensitivity analysis

Group's results are not sensitive to changes in Libor/Euribor/Mosprime rates.

(c) Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group has in place a detailed budgeting and cash flow forecasting process to help ensure that it has sufficient cash to meet its payment obligations.

Loans, borrowings, finance lease and other payables

	Carrying value	Minimum future payment	Less than 3 month	3-6 month	6-12 month	1-5 years	Later than 5 years
	USD mln						
As at 31 December 2015							
Debt and interest payable	904	1,050	26	51	120	853	-
Finance leases	22	26	12	1	3	10	-
Trade and other payables	63	63	63	-	-	-	-
Defined benefit obligations	1	1	-	-	-	-	1
Total	988	1,138	99	52	123	863	1

	Carrying value	Minimum future payment	Less than 3 month	3-6 month	6-12 month	1-5 years	Later than 5 years
	USD mln						
As at 31 December 2014							
Debt and interest payable	1,094	1,404	23	32	66	958	325
Finance leases	38	44	5	5	12	22	-
Trade and other payables	104	104	104	-	-	-	-
Defined benefit obligations	2	2	-	-	-	-	2
Total	1,238	1,554	132	37	78	980	327

26. Related Party Transactions

For the purposes of these financial statements, parties are considered to be related if both parties are under common control or one party has the ability to control the other party or exercise significant influence over the other party in making financial or operational decisions.

During the period eight individuals were considered to be the Group's key management and directors (2014 – eleven individuals). Their remuneration during the period was as follows:

	31 December 2015	31 December 2014
	USD mln	
Salaries	3	4
Bonuses	-	2
	3	6

	31 December 2015	31 December 2014	Nature of balances
	USD mln		
Statement of financial position			
Associates	1	2	Trade receivables
Joint Venture Company	1	1	Loan issued
Joint Venture Company	1	1	Interest receivable
Joint Venture Company	-	2	Finance lease receivable
Related through common shareholder	1	152	Loan issued
Related through common shareholder	(10)	-	Loan payable
Related through common shareholder	-	2	Trade receivables
Related through common shareholder	-	(9)	Trade payables

	31 December 2015	**31 December 2014**	**Nature of transactions**
	USD mln		
Statement of Profit or Loss			
Associates purchases	(4)	(9)	Agency services, rent and other expenses
Associates sales	4	5	Agency services, rent and other income
Joint Venture Company purchases		(4)	Agency ,transportation and stevedoring services
Joint Venture Company sales	(1)	1	Transportation services
Joint Venture Company	-	1	Finance lease and interest income
Related through common shareholder	(161)	-	Loan impairment
Related through common shareholder	20	77	Sale of bunker
Related through common shareholder	(11)	6	Transportation services (expenses)/income
Related through common shareholder	10	9	Interest income
Related through common shareholder	(4)	(4)	Other related services

27. Events subsequent to the reporting date

In April 2016 the Group refinanced its loan obligations with Sberbank with a new credit line obtained from it with the total maximum credit limit of RUR 1 150 million (approximately USD 17 million) repayable in January 2017.

In March 2016 the Group concluded new gondola cars lease contract to rent out a complete fleet of gondola cars.

In March 2016, the Group paid partial prepayment to the total amount of EUR 5,5 million under Repurchase Agreement (REPO) with VTB Bank because security to loan ratio fell below the level fixed therein.