

HOLME SERVICES LIMITED

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2014 (US Dollar thousand, unless otherwise stated)

13. BORROWINGS

		31 December 2014	31 December 2013
<i>Euro denominated short-term borrowings</i>			
Current portion of long-term borrowings from financial institutions		1,512	18,956
<i>RUB denominated short-term borrowings</i>			
Short-term borrowings from financial institutions		53,325	50,824
Current portion of long-term borrowings from financial institutions		6,010	80,764
Total short-term borrowings		60,847	150,544
		31 December 2014	31 December 2013
<i>Euro denominated long-term borrowings</i>			
Long-term borrowings from financial institutions		100,296	114,274
Less: current portion		(1,512)	(18,956)
<i>USD denominated long-term borrowings</i>			
Long-term borrowings from shareholder		-	108,850
Long-term borrowings from related parties		63,207	12,107
<i>RUB denominated long-term borrowings</i>			
Long-term borrowings from financial institutions		317,102	552,503
Less: current portion		(6,010)	(80,764)
Total long-term borrowings		473,083	688,014
	Interest rate as at 31 December 2014	31 December 2014	31 December 2013
<i>Borrowings from third parties</i>			
Bank Otkritie (Euro denominated credit line)	8%	100,296	114,274
VEB and EDB (RUB denominated credit line)	11.8%	317,102	552,503
EDB (RUR denominated credit line)	12%	53,325	50,824
<i>Borrowings from related parties</i>			
RAIL 1520 Finance Cyprus (USD denominated credit line)	6.4%	63,207	12,107
United Wagon Plc (USD denominated credit line)	5.5%	-	108,850
Total		533,930	838,558

Vnesheconombank ("VEB") and Eurasian Development Bank ("EDB"). The Group entered into a syndicated long-term loan agreement with VEB and EDB on 23 October 2008 (as amended and restated by amendment agreements of 30 December 2010, 15 August 2012, 25 October 2012, 30 April 2013, 24 December 2014). Availability limit was set as RUB 19,318,794 thousand; repayments started on 23 April 2012. In accordance with the latest amendment to the loan agreement, the interest rate was fixed at 12% (31 December 2013: 10%), the full repayment is scheduled for 31 December 2022. Under the terms and conditions of the agreement, the funds were made available to finance the construction of the railway car manufacturing plant and cannot be used for any other purpose.

The gross amount received under the borrowing agreement with VEB and EDB as at 31 December 2014 was USD 319,221 thousand (31 December 2013: USD 558,487 thousand). In the statement of financial position it is shown net of related amortised transaction costs of USD 2,119 thousand (31 December 2013: USD 5,984 thousand).

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The gross amount of interest accrued under the borrowing agreement in 2014 was USD 47,512 thousand (2013: USD 60,059 thousand), of which USD 7,000 thousand (31 December 2013: USD 11,679 thousand) was capitalized in construction in progress and was offset by related government grant in the amount of USD 1,289 thousand (Note 14). (31 December 2013: USD 5,368 thousand).

Bank Otkritie (previously, NOMOS-BANK). On 30 October 2008, the Group entered into four long-term loan agreements with Bank Otkritie:

Borrowing agreement No 537-8/KL (subject to the 5th addendum of 31 March 2014). Under the terms and conditions of this borrowing agreement, Bank Otkritie has undertaken to make available to the Group, under security (as described below) funds within the availability limit of EUR 25,500 thousand. The interest rate is fixed at 8% per annum to 30 March 2015 and at 10% per annum from 31 March 2015. The first repayment date was 30 June 2012 and the final is 31 October 2022.

The gross amount received from Bank Otkritie under the the agreement was USD 28,999 thousand as of 31 December 2014 (31 December 2013: USD 33,349 thousand). In the statement of financial position, the loan is shown net of related amortised transaction cost of USD 284 thousand (31 December 2013: USD 468 thousand).

Interest accrued under the borrowing agreement through 31 December 2014 was USD 2,576 thousand (31 December 2013: USD 2,968 thousand).

Borrowing agreement No 707-8/KL (subject to the 5th addendum of 31 March 2014). Under the terms and conditions of this borrowing agreement, Bank Otkritie has undertaken to make available to the Group, under security (as described below) funds within the availability limit of EUR 19,300 thousand. The interest rate is fixed at 8% per annum to 30 March 2015 and at 10% per annum from 31 March 2015. The first repayment date was 30 June 2012 and the final is 31 October 2022.

The gross amount received from Bank Otkritie under the the agreement was USD 21,919 thousand as of 31 December 2014 (31 December 2013: USD 25,341 thousand). In the statement of financial position, the loan is shown net of related amortised transaction cost of USD 215 thousand (31 December 2013: USD 453 thousand).

Interest accrued under the borrowing agreement through 31 December 2014 was USD 1,945 thousand (31 December 2013: 2,297 thousand).

Borrowing agreement No 708-8/KL (subject to the 5th addendum of 31 March 2014). Under the terms and conditions of this borrowing agreement, Bank Otkritie has undertaken to make available to the Group, under security (as described below) funds within the availability limit of EUR 18,150 thousand. The interest rate is fixed at 8% per annum to 30 March 2015 and at 10% per annum from 31 March 2015. The first repayment date was 30 June 2012 and the final is 31 October 2022.

The gross amount received from Bank Otkritie under the the agreement was USD 20,151 thousand as of 31 December 2014 (31 December 2013: USD 23,341 thousand). In the statement of financial position the loan is shown net of related amortised transaction cost of USD 197 thousand (31 December 2013: USD 541 thousand).

Interest accrued under the borrowing agreement through 31 December 2014 was USD 1,801 thousand (31 December 2013: USD 2,184 thousand).

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Borrowing agreement No 709-8/KL (subject to the 5th addendum of 31 March 2014). Under the terms and conditions of this borrowing agreement, Bank Otkritie has undertaken to make available to the Group, under security (as described below) funds within the availability limit of EUR 26,250 thousand. The interest rate is fixed at 8% per annum to 30 March 2015 and at 10% per annum from 31 March 2015. The first repayment date was 30 June 2012 and the final is 31 October 2022.

The gross amount received from Bank Otkritie under the the agreement was USD 29,903 thousand as of 31 December 2014 (31 December 2013: USD 34,371 thousand). In the statement of financial position the loan is shown net of related amortized transaction cost of USD 293 thousand (31 December 2013: USD 666 thousand).

Interest accrued under the borrowing agreement through 31 December 2014 was USD 2,644 thousand (31 December 2013: USD 3,140 thousand).

Security. Under the above borrowing agreements with financial institutions, the Group provides the following types of security:

- Property, plant and equipment (Note 8);
- Intangible assets (Note 7);
- Inventories (Note 9);
- 100% shares in subsidiaries (Raygold Limited, TVSZ, AFCT, Deanroad).

Covenants. Under the terms of the above borrowing agreements with financial institutions, the Group is required to comply with a number of covenants and restrictions, including maintenance of certain financial ratios and other financial and non-financial conditions. Non-compliance with these covenants may result in negative consequences for the Group, including declaration of default. Management of the Group constantly monitors compliance with all applicable covenants and believes that the Group was in compliance with the covenants as at 31 December 2014.

As of 31 December 2013, TVSZ breached a covenant imposed by the credit facility agreement with VEB and EDB dated 23 October 2008 which required that a state registration be completed of the mortgage agreement in respect of 12 buildings constructed within the project for construction of the rail car manufacturing plant, except for the reconstructed buildings. Mortgage by operation of law over such buildings was duly created. The Group obtained consents from both lenders to provide the Group with a period of grace to rectify the breach, during which the lenders would not demand an immediate repayment. Accordingly, in the Group's consolidated statement of financial position as of 31 December 2013 the respective borrowing is classified as short-term or long-term based on its contractual maturity.

United Wagon Plc. In 2012, the Company received a USD loan from United Wagon Plc at the interest rate of 5.5% repayable in five years. On 1 October 2014, the loan agreement was amended and the loan was converted into RUB at the exchange rate ruling on that date. On 18 December 2014, a deed of novation was signed in respect of the loan agreement by United Wagon Plc, Rail Holding Ltd, a related party of the Company, and the Company. According to the deed of novation the obligation to repay the entire loan in the amount of RUB 6,343,810 thousand and accrued interest in the amount of RUB 547,703 thousand outstanding as of the date of the deed of novation was transferred from the Company to Rail Holding Ltd. The consideration payable by the Company to Rail Holding Ltd under the deed of novation in the amount of RUB 6,891,513 thousand (USD 122,498 thousand at the RUB/USD exchange rate effective as of 31 December 2014) is included in Trade, tax and other payables and accruals as Other payables to related parties (Note 15).

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Repayment. The schedule of repayment of borrowings for the five years ending 31 December 2019 and thereafter is as follows:

Year ended 31 December	
2015	60,847
2016	41,165
2017	49,697
2018	49,697
2019	53,252
Thereafter	279,272
Total	533,930

14. GOVERNMENT GRANTS

The Group received government grants from Ministry of Industry and Trade of the Russian Federation under the Government Program of refunding interest expenses related to bank loans for re-equipment of cars and vehicles manufacturing plants. The grants are approved by Ministry of Industry and Trade on an annual basis for the following year. As of the date of these financial statements, the grants have been approved for the year ending 31 December 2015.

In 2014, interest expenses on bank borrowings were approved for refund in the amount of USD 31,503 thousand (2013: USD 37,478 thousand), of which USD 26,113 thousand related to VEB and EDB borrowing agreement (2013: USD 31,647 thousand), and USD 5,390 thousand (2013: USD 5,831 thousand) – to Bank Otkritie borrowing agreement (Note 13). The grants were deducted from the cost of construction in progress in the amount of USD 2,431 thousand (2013: USD 10,438 thousand) as the borrowing costs, which these amounts of grants were intended to compensate, were included in cost of construction in progress.

The remaining amount of USD 29,072 thousand (2013: USD 27,040 thousand) was netted with expensed interest. At 31 December 2014, government grants in the amount of USD 630 thousand were not paid to the Group and included in other receivables (Note 10). The receivable was collected in full in March 2015.

15. TRADE, TAX AND OTHER PAYABLES AND ACCRUALS

	31 December 2014	31 December 2013
Other payables to related parties (Rail Holding Ltd) (Notes 6 and 13)	122,498	-
Trade accounts payable	51,921	59,547
Payables to related parties (Note 6)	47,662	180,237
Payable to banks under factoring agreements	32,624	42,508
Interest payable to related parties (Note 6)	1,888	492
Interest payable to financial institutions	1,441	-
Taxes payable	1,294	2,792
Other payables	3,616	5,518
Total trade, tax and other payables	262,944	291,094

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16. PROVISIONS

	31 December 2014	31 December 2013
Unused vacation provision	2,394	2,130
Warranty provision	1,492	154
Provision for annual bonuses	323	1,489
Provision for legal claims	38	-
Other	122	150
Total	4,369	3,923

Movement in provisions during the years ended 31 December 2014 and 2013 was as follows:

	Provision for annual bonuses	Unused vacation provision	Warranty provision	Provision for legal claims	Other	Total
Balance at 1 January 2013	1,140	1,371	43	1,174	70	3,798
Provision utilised for the year	(935)	(4,093)	(40)	-	(67)	(5,135)
Provisions reversed	-	-	-	(1,127)	-	(1,127)
Charges for the year	1,371	4,966	156	-	154	6,647
Foreign exchange translation gains and losses	(87)	(114)	(5)	(47)	(7)	(260)
Balance at 31 December 2013	1,489	2,130	154	-	150	3,923
Provision utilised for the year	(1,280)	(7,441)	(158)	-	(92)	(8,971)
Charges for the year	484	9,131	2,185	56	170	12,026
Foreign exchange translation gains and losses	(370)	(1,426)	(689)	(18)	(106)	(2,609)
Balance at 31 December 2014	323	2,394	1,492	38	122	4,369

17. COST OF SALES

	2014	2013 restated
Raw materials used in production	445,162	244,273
Payroll costs	95,595	59,349
Depreciation	74,598	42,658
Amortisation	3,187	1,900
Other	6,263	12,158
Movement in finished goods and work in progress	2,941	(17,101)
Total cost of sales	627,746	343,237

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18. GENERAL AND ADMINISTRATIVE EXPENSES

	2014	2013 restated
Management fees	13,056	8,382
Professional fees	3,641	1,330
Bank charges	2,279	419
Warranty provision (Note 16)	2,185	156
Travel expenses	2,108	259
Rent	436	344
Payroll costs	223	235
Other personnel costs	55	225
Building maintenance and utilities	44	-
Entertainment	35	2
Depreciation	9	146
Production start-up expenses	-	503
Other	4,716	3,171
Total general and administrative expenses	28,787	15,172

19. OTHER INCOME

	2014	2013
Reversal of doubtful debts provision	969	-
Rent	392	474
Gain from services rendered	349	28
Penalties received	250	39
Reversal of legal claims provision	-	1,127
Other	3,795	2,197
Total other income	5,755	3,865

20. OTHER EXPENSES

	2014	2013
Foreign exchange loss on operating activities	4,236	202
Loss from disposals of other assets	2,088	2,107
Penalties	893	-
Provision for doubtful debts (Note 10)	847	649
Losses on sale of foreign currency	254	311
Misappropriations and shortages	-	246
Other operating expenses	1,221	2,289
Total other expenses	9,539	5,804

21. FINANCE EXPENSES

	2014	2013
Net foreign exchange transaction losses	90,713	34,835
Interest expense on borrowings from third parties	27,972	21,175
Interest expense on borrowings from related parties	10,179	5,702
Commission on unused credit facilities	2,596	2,063
Bank charges	2,514	-
Total finance expenses	133,974	63,775

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22. TAX

Income tax expense recorded in the statement of comprehensive income comprises the following:

	2014	2013
Current tax	-	(8)
Deferred tax	46,658	(7,922)
Income tax expense for the year	46,658	(7,930)

The Company's income is not taxable in accordance with the legislation of British Virgin Islands. The income tax rate applicable to the Company's subsidiaries Raygold Limited and AFCT is 10%. The income tax rate applicable to subsidiary TVSZ is 20%. A reconciliation of the expected and actual tax charge is provided below:

	2014	2013
Loss before tax	216,072	200,841
Theoretical tax (expense)/credit at statutory tax rate of 10%	(2,384)	327
Theoretical tax credit at statutory tax rate of 20%	47,983	41,488
Tax effect of items which are not deductible or assessable for taxation purposes:		
Unrecognised tax loss carry forwards for the year	-	(49,031)
Non-taxable benefits / (non-deductible expenses)	1,059	(714)
Income tax expense for the year	46,658	(7,930)

The movement in the deferred tax accounts is as follows:

	1 January 2014	(Charged)/ credited to profit or loss	Currency translation reserve	31 December 2014
Tax effect of deductible/(taxable) temporary differences				
Loss carryforward	-	46,651	(14,791)	31,860
Property, plant and equipment	(7,765)	(1,771)	3,810	(5,726)
Accounts receivable	(2,949)	2,376	480	(93)
Borrowings	(1,622)	563	500	(559)
Provisions	782	595	(516)	861
Intangible assets	(2,046)	(1,556)	1,349	(2,253)
Inventories	-	(2,223)	705	(1,518)
Other	755	2,023	(925)	1,853
Net deferred tax asset/(liability)	(12,845)	46,658	(9,388)	24,425

	1 January 2013	(Charged)/ credited to profit or loss	Currency translation reserve	31 December 2013
Tax effect of deductible/(taxable) temporary differences				
Property, plant and equipment	(13,836)	5,299	772	(7,765)
Accounts receivable	4,514	(7,364)	(99)	(2,949)
Borrowings	(2,489)	721	146	(1,622)
Provisions	526	299	(43)	782
Intangible assets	(2,773)	558	169	(2,046)
Inventories	8,691	(8,341)	(350)	-
Other	(133)	906	(18)	755
Net deferred tax liability	(5,500)	(7,922)	577	(12,845)

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At 31 December 2014, the Group has unrecognised potential deferred tax assets in respect of unused tax loss carryforwards of USD 50,921 thousand (31 December 2013: USD 87,529 thousand). Tax loss carryforward period expires in 10 years after the year the loss is incurred as follows:

Year the tax loss carryforward period expires	As at 31 December 2014
2018	139
2019	692
2020	1,238
2021	7,444
2022	13,832
2023	27,576
Total	50,921

As of 31 December 2014, a deferred tax asset was recognised in the amount of USD 31,860 thousand with respect to the 2014 tax loss carried forward as it was assessed as probable that future taxable profit will be available against which the tax loss can be utilised. The carryforward period for the 2014 tax loss expires in 2024.

23. CAPITAL COMMITMENTS

Capital expenditure commitments. At 31 December 2014 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totalling USD 1,956 thousand (31 December 2013: USD 82,136 thousand). These commitments relate mostly to acquisition of equipment from the following contractors:

Operating lease. As at 31 December 2014, the Group leased the following land plots:

1. 503,476 sq. m. located at Promploschadka, 5, Town of Tikhvin, Tikhvin region, Leningradskaya oblast, from the Tikhvin municipal authority under a lease agreement that runs from 22 July 2008 until 20 January 2053,
2. 15,421 sq. m. located at Promploschadka, 2, Town of Tikhvin, Tikhvin region, Leningradskaya oblast, from the Tikhvin municipal authority under a lease agreement that runs from 3 October 2014 until 3 October 2063,
3. 2,487 sq. m. located at Promploschadka, 10, Town of Tikhvin, Tikhvin region, Leningradskaya oblast, from the Tikhvin municipal authority under a lease agreement that runs from 9 June 2012 until 20 June 2057, and
4. 21,845sq. m. located at Promploschadka, 2, Town of Tikhvin, Tikhvin region, Leningradskaya oblast, from SZIPK under a lease agreement that runs from 1 July 2014 until 31 May 2015.

The transfer of title to the land plots after the lease expiry is not stipulated under the agreement, so the land lease is classified as operating. The payment obligations under these land lease agreements are fixed in RUB and are listed below, translated at the exchange rates effective as at 31 December 2014 and 2013 respectively:

	31 December 2014	31 December 2013
Within one year	17	52
From one to five years	67	208
Over five years	578	1,203
Total	662	1,463

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24. CONTINGENCIES, COVENANTS AND OPERATING RISKS

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment. Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. In April 2014, an international credit agency Standard & Poor's downgraded Russia's long-term foreign currency sovereign rating from BBB to BBB- with a negative outlook. Fitch credit agency has also revised Russia's creditworthiness outlook from stable to negative. These developments, particularly if sanctions are further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Rouble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

Taxation. The government of the Russian Federation continues to reform the business and commercial infrastructure in its transition to a market economy. As a result, laws and regulations affecting business continue to change rapidly. These changes are characterized by unclear wording which leads to different interpretations and arbitrary application by the authorities. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events within the Russian Federation suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and assessments and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. It is therefore possible that significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued for all taxes that are applicable.

Russian transfer pricing legislation was amended starting from 1 January 2012 to introduce additional reporting and documentation requirements. The tax authorities may assess additional tax charges in respect of certain transactions, including but not limited to transactions with related parties, if they consider transactions to be priced not at arm's length.

Management believes that it has accrued for all taxes that are applicable based on its interpretations of the tax legislation. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management also assesses the maximum exposure from possible tax risks to be USD 25,044 thousand with respect to unrecognised deferred tax asset on tax loss carried forward and USD 7,627 thousand with respect to other taxes (31 December 2013: USD 28,775 thousand with respect to unrecognised deferred tax asset on tax loss carried forward and USD 6,343 thousand with respect to other taxes). No provisions were recorded with respect to possible tax risks. Management continues to monitor closely any developments related to tax risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Legal proceedings. From time to time and in the normal course of business, claims against the Group may be received. On the basis of its own estimates, management is of the opinion that no material losses will be incurred in respect of claims in excess of provisions that have been recorded in these financial statements. There are no current legal proceedings or other claims outstanding which could have a material effect on the results of operations and financial position of the Group.

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Environmental issues. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage. The Group undertook monitoring of the environment at the construction site and within the limits of its impact on the natural environment at an environmental survey stage. No adverse impact of the dump operations on the environment has been found.

25. FINANCIAL RISK MANAGEMENT

Risk management is being carried out by the Group in relation to financial (credit, market, currency, liquidity and interest rate), operating and legal risks. The main purpose of financial risk management is to determine risk limits and to further uphold the limits determined. Operating and legal risk management shall provide reliable performance of internal policy and procedures of the Group to minimise these risks.

Credit risk. The Group takes on exposure to credit risk, which is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Exposure to credit risk arises as a result of the Group's transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets on the balance sheet as follows:

	31 December 2014	31 December 2013
Trade and other receivables	56,573	21,561
Cash and cash equivalents	722	10,485
Total	57,295	32,046

As at 31 December 2014 and 2013, the Group's cash is held primarily with Otkritie Bank which has been operating in the Russian financial market since 1993.

Market risk. The Group takes on exposure to market risks. Market risks arise from open positions in foreign currencies and interest bearing assets and liabilities which are exposed to general and specific market movements. Management sets limits on the value of risk that may be accepted, which is monitored on a monthly basis. However the use of this approach does not prevent losses outside of these limits in the event of more significant market movements.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rate and changes in foreign currency rates.

Currency risk. Foreign exchange risk arises when future commercial transactions or recognised assets or liabilities are denominated in the currency different from the functional currency of each entity in the Group. The Group attracts foreign currency denominated long-term borrowings and a considerable part of the contracts with the Group's suppliers of production equipment is denominated in foreign currency, thus the Group is exposed to foreign exchange risk. The table below summarises the Group's exposure to foreign currency exchange rate risk at the reporting date relative to the functional currency of the respective entities of the Group.

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	31 December 2014			31 December 2013		
	Monetary financial assets	Monetary financial liabilities	Net monetary position	Monetary financial assets	Monetary financial liabilities	Net monetary position
USD	39	(68,506)	(68,467)	3	(285,788)	(285,785)
EUR	382	(102,637)	(102,255)	82	(120,754)	(120,672)
Total	421	(171,143)	(170,722)	85	(406,542)	(406,457)

The sensitivity of the Group's financial results to reasonably possible changes in exchange rates applied at the reporting date relative to the functional currency of the respective entities in the Group, with all other variables held constant, is as follows:

At 31 December 2014, if the Russian Rouble had weakened/strengthened by 20% (2013: 10%) against the USD with all other variables held constant, the net loss of the Group for the year ended 31 December 2014 would have increased/decreased by USD 13,693 thousand (2013: USD 25,980 thousand).

At 31 December 2014, if the Russian Rouble had weakened/strengthened by 20% (2013: 10%) against the Euro with all other variables held constant, the net loss of the Group for the year ended 31 December 2014 would have increased/decreased by USD 20,451 thousand (2013: USD 10,978 thousand).

The exposure was calculated only for monetary balances denominated in currencies other than the functional currency of the Group entities.

Interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. All interest accrued and paid during 2014 and 2013 in relation to borrowings carried interest at a fixed rate. Therefore the management of the Group considers that there was no effect of fluctuations in the prevailing levels of market interest rates on its financial performance.

Liquidity risk. Liquidity risk is the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities.

The table below shows financial liabilities at 31 December 2014 and 2013 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position which is based on discounted cash flows.

The maturity analysis of financial liabilities as at 31 December 2014 is as follows:

	Less than 12 months	From 12 months to 5 years	More than 5 years	Total
Borrowings	(121,729)	(353,775)	(333,087)	(808,591)
Other financial payables	(226,943)	(47)	-	(226,990)
Total future payments, including principal and interest payments	(348,672)	(353,822)	(333,087)	(1,035,581)

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The maturity analysis of financial liabilities as at 31 December 2013 is as follows:

	Less than 12 months	From 12 months to 5 years	More than 5 years	Total
Borrowings	(232,046)	(803,651)	(15,231)	(1,050,928)
Other financial payables	(137,861)	(557)	-	(138,418)
Total future payments, including principal and interest payments	(369,907)	(804,208)	(15,231)	(1,189,346)

Capital risk management

The Group's objective when managing capital is to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Group is subject to externally imposed capital requirements which are raised in relation to the borrowings provided by financial institutions (Note 13) (requirements for payment and registration of additional share capital issue in accordance with the agreed schedule). According to conditions of borrowing agreements with Otkritie Bank, VEB and EDB in 2011 the additional share issue by subsidiary CJSC TVSZ increased its share capital by USD 185,000 thousand and in 2012 by USD 50,750 thousand. The Group has complied with all externally imposed capital requirements throughout 2014 and 2013 (Note 13).

26. FINANCIAL INSTRUMENTS

	31 December 2014	31 December 2013
Financial assets		
Cash	722	10,485
Trade and other receivables	56,573	21,561
Financial liabilities at amortised cost		
Borrowings	533,930	838,558
Trade and other payables	226,552	137,260
Finance lease obligation	391	1,158

Fair values. Except as detailed in the following table, management considers that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

	31 December 2014		31 December 2013	
	Carrying amount	Fair value	Carrying amount	Fair value
Bank loans	470,723	465,509	717,601	722,232
Loans from shareholder	-	-	108,850	106,948
Loans from related parties	63,207	58,694	12,107	12,428

27. EVENTS AFTER THE REPORTING DATE

On 9 February 2015, Timken UWC LLC, a new joint venture with Timken Lux Holdings II S. A. R. L., was registered.