Приложение № 4. Годовая консолидированная бухгалтерская (финансовая) отчетность Поручителя «ХОЛМ СЕРВИСЕЗ ЛИМИТЕД» за 2015 год

Holme Services Limited

Consolidated Financial Statements and Independent Auditor's Report
for the year ended 31 December 2015

HOLME SERVICES LIMITED

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2015

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Holme Services Limited (the "Company") and its subsidiaries (together the "Group") as of 31 December 2015, and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing this consolidated financial information, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with basis of preparation as described in Note 2;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards in the respective jurisdictions in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

Consolidated financial statements of the Group for the year ended 31 December 2015 were approved by management on 27 May 2016:

On behalf of the Management:

Xenia Koustai
Director
Holme Services Limited (BVI)

Stelios Panayides
Director
Holme Services Limited (BVI)

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INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of Holme Services Limited

We have audited the accompanying consolidated financial statements of Holme Services Limited and its subsidiaries (collectively – the "Group"), which comprise the statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

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

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 5 to the consolidated financial statements which indicates that USD 194,905 thousand or 39% of the Group's revenues for the year ended 31 December 2015 was derived from transactions with related parties and to Note 10 to the consolidated financial statements which indicates that USD 310,621 thousand or 61% of the Group's revenues for the year ended 31 December 2015 was derived from transactions with one customer.

Deloitte & Touche

27 May 2016

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2015
(US Dollar thousand)

	Note	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Investment in associates	6	5,979	-
Long-term loans		-	37
Guarantee deposit	11	24,446	-
Intangible assets	7	51,157	33,313
Property, plant and equipment	8	364,877	527,904
Prepayments for intangible assets		483	832
Deferred tax asset	22	26,054	24,425
Total non-current assets		**472,996**	**586,511**
Current assets			
Inventories	9	105,438	95,343
Trade and other receivables	10	75,444	80,491
Cash and cash equivalents	11	1,940	722
Total current assets		**182,822**	**176,556**
TOTAL ASSETS		**655,818**	**763,067**
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	37	37
Share premium	12	360,764	360,764
Currency translation reserve		(12,922)	(22,863)
Additional capital	12	(5,482)	(20,075)
Accumulated losses		(425,285)	(356,442)
Equity attributable to owners		**(82,888)**	**(38,579)**
Non-controlling interest		20	12
Total equity		**(82,868)**	**(38,567)**
Non-current liabilities			
Borrowings	13	295,153	473,083
Borrowings from related parties	5, 13	149,674	-
Finance lease liabilities – non-current portion		23	47
Other long-term liabilities		2,588	-
Total non-current liabilities		**447,438**	**473,130**
Current liabilities			
Borrowings – current portion of non-current borrowings	13	33,179	60,847
Trade, tax and other payables and accruals	15	254,319	262,944
Provisions	16	3,711	4,369
Finance lease liabilities – current portion		39	344
Total current liabilities		**291,248**	**328,504**
Total liabilities		**738,686**	**801,634**
TOTAL LIABILITIES AND EQUITY		**655,818**	**763,067**

The notes on pages 7 to 399 are an integral part of these consolidated financial statements.

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE GAIN FOR THE YEAR ENDED 31 DECEMBER 2015

(US Dollar thousand)

	Note	2015	2014
Revenue		505,753	578,052
Cost of sales	17	(478,402)	(627,746)
Gross profit/(loss)		**27,351**	**(49,694)**
General and administrative expenses	18	(30,716)	(28,787)
Other income	19	2,092	5,755
Other expenses	20	(6,286)	(9,539)
Operating loss		**(7,559)**	**(82,265)**
Finance income		260	167
Finance expenses	21	(69,880)	(133,974)
Loss before tax		**(77,179)**	**(216,072)**
Income tax benefit	22	8,336	46,658
Loss for the year		**(68,843)**	**(169,414)**
Other comprehensive gain/(loss):			
Items that will not be subsequently reclassified to profit or loss			
Exchange differences on translation to presentation currency		9,941	(757)
Total comprehensive loss for the year		**(58,902)**	**(170,171)**

The notes on pages 7 to 399 are an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
(US Dollar thousand)

	Share capital	Share premium	Additional capital	Currency translation reserve	Accumulated losses	Non-controlling interest	Total equity
Balance at 1 January 2014	**37**	**360,764**	**(20,075)**	**(22,106)**	**(187,028)**	-	131,592
Comprehensive loss:							
Loss for the year	-	-	-	-	(169,414)	-	(169,414)
Currency translation differences on translation to presentation currency	-	-	-	(757)	-	-	(757)
Total comprehensive loss for the year	-	-	-	**(757)**	**(169,414)**	-	**(170,171)**
Non-controlling interests arising on the set-up of NCP "The association of the enterprises of steel industry"	-	-	-	-	-	12	12
Balance at 31 December 2014	**37**	**360,764**	**(20,075)**	**(22,863)**	**(356,442)**	**12**	**(38,567)**
Comprehensive loss:							
Loss for the year	-	-	-	-	(68,843)	-	(68,843)
Currency translation differences on translation to presentation currency	-	-	-	9,941	-	-	9,941
Total comprehensive loss for the year	-	-	-	**9,941**	**(68,843)**	-	**58,902**
Shareholder's contribtuion (Note 12)	-	-	14,593	-	-	-	14,593
Increase in non-controlling interests	-	-	-	-	-	8	8
Balance at 31 December 2015	**37**	**360,764**	**(5,482)**	**(12,922)**	**(425,285)**	**20**	**(82,868)**

The notes on pages 7 to 399 are an integral part of these consolidated financial statements.

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
(US Dollar thousand)

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	621,569	556,891
Other proceeds	-	-
Cash paid to suppliers	(487,491)	(574,473)
Cash paid to employees	(43,201)	(65,520)
Other payments	(36,098)	(37,025)
Net cash generated by/(used in) operating activities	**54,779**	**(120,127)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in associates	(6,759)	-
Payments for property, plant and equipment to third parties	(5,672)	(4,650)
VAT refund received on property, plant and equipment	-	12
Payments for intangible assets	(27,470)	(1,475)
Government grants received	16,179	42,726
Interest received	260	209
Other proceeds	21	-
Net cash (used in)/generated by investing activities	**(23,441)**	**36,822**
CASH FLOWS FROM FINANCING ACTIVITIES		
Shareholder's contribution	13,156	-
Proceeds from borrowings received from third parties	-	78,081
Proceeds from borrowings received from related parties	91,459	116,865
Repayment of borrowings received from third parties	(57,608)	(53,906)
Payment for bank guarantee	(29,229)	-
Commissions and fees paid to banks	(109)	(2,855)
Interest paid	(47,022)	(63,003)
Net cash (used in)/generated by financing activities	**(29,353)**	**75,182**
Net increase/(decrease) in cash and cash equivalents	**1,985**	**(8,123)**
Effect of exchange rate changes on cash and cash equivalents	**(767)**	**(1,640)**
Cash and cash equivalents at the beginning of the year	**722**	**10,485**
Cash and cash equivalents at the end of the year	**1,940**	**722**

The notes on pages 7 to 399 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION ABOUT THE GROUP AND ITS ACTIVITY

Holme Services Limited (the "Company") is incorporated and domiciled in British Virgin Islands (BVI) as a private limited liability company on 11 January 2007. The Company's registered office is at Trident Chambers, Road Town, Tortola, British Virgin Islands.

During the reporting period, the Company and its subsidiaries (hereinafter collectively referred to as the "Group") were mainly involved in production of railway cars at the plant located in the Russian Federation (town of Tikhvin, Tikhvin region, Leningradskaya oblast) and in further development of the plant to achieve a higher production capacity.

The Company owns the following significant entities:

	31 December 2015		31 December 2014	
Company name	Country of residence	Interest, %	Country of residence	Interest, %
Raygold Limited	Cyprus	99.97%	Cyprus	99.97%
AFCT Advanced Freight Car Technology Limited ("AFCT")	Cyprus	99.97%	Cyprus	99.97%
Deanroad Limited ("Deanroad")	Cyprus	99.97%	Cyprus	99.97%
Rail1520 IP Limited	Cyprus	100.00%	Cyprus	100.00%
Pegadisa Management Limited	Cyprus	100.00%	Cyprus	100.00%
LLC "TM-Energosbyt"	Russia	0.00%	Russia	100.00%
CJSC "Tikhvin Railway Car Manufacturing Plant" ("TVSZ")	Russia	100.00%	Russia	100.00%

Until 2014, United Wagon Plc was the sole shareholder of the Company. On 22 December 2014, United Wagon Plc sold 100% of the Company's shares to JSC "Research and production corporation "United Wagon Company" (JSC "RPC UWC") (Russia).

Ultimately the Company is owned by a group of individuals, of which the most significant share belongs to Alexander Nesis.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance – The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards.

Basis of preparation – The consolidated financial statements have been prepared on the historical cost basis, as explained in the accounting policies below. The Group maintains its accounting records in accordance with the laws, accounting and reporting regulations of the countries where the Group entities are domiciled. Accounting principles and financial reporting procedures in those jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, the financial statements of the Group entities have been adjusted to ensure that they are presented in accordance with IFRS.

These consolidated financial statements are presented in thousand of US dollars (hereinafter "USD thousand"), unless otherwise indicated.

Going concern – The Group's financial statements have been prepared on a going concern basis, which assumes that the Group will continue to be able to meet its liabilities as they fall due for the foreseeable future.

The Group's current liabilities as of 31 December 2015 exceeded current assets, and net deficit of working capital amounted to USD 108,426 thousand (31 December 2014: USD 151,948 thousand). Management expects further improvement in the Group's financial position.

In 2015, the Group continued its production activities. The 2015 volume of production (12,360 railcars) was in line with initial plans and higher than is required per a covenant on TVSZ credit facilities (10,000 railcars). Based on management forecasts, the minimum 2016 expected production volume of TVSZ would amount to 15,288 railcars. The planned increase in production volumes is expected to enable the Group to achieve profitability.

Management efforts to improve the Group's liquidity position also involve extending and refinancing the existing borrowings, negotiating advance payments from customers, reduction of advance payments to suppliers, extended trade credit periods and factoring.

Adoption of new and revised IFRSs

In the current year, the Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board ("IASB") and International Financial Reporting Interpretation Committee ("IFRIC") of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2015. The effect from their adoption has not resulted in any significant changes to measurement and presentation of disclosures in the financial statements of the Group.

Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Group's entities is the Russian Rouble ("RUB"). The consolidated financial statements are presented in US Dollars ("USD") which is the presentation currency used by the Group.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

(iii) Group companies

The results and financial position of all entities of the Group are translated into the presentation currency as follows:

(a) Assets and liabilities for each statement of financial position presented (i.e., including comparatives) are translated at the closing rate at the date of that statement of financial position;
(b) Income and expenses are translated at average exchange rates for the relevant period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and
(c) Equity components are presented at historic rates and all resulting exchange differences are recognised within other comprehensive income or loss and as a separate component of equity.

The translation exchange rates which have been used are as follows:

Exchange rate of RUB against USD (Central Bank of the Russian Federation)	**31 December 2015**	**31 December 2014**
As of the reporting date	72.8827	56.2584
Average rate for the respective period	60.9579	38.4217

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations are taken to other comprehensive income or loss. When a foreign operation is partially disposed of or sold, exchange differences that have been recorded in equity are recognised in profit or loss as part of the gain or loss on sale.

Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Company. They are de-consolidated from the date that control ceases. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns from its involvement with the investee; and
- Has the ability to use its power to affect its returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

The Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income or loss in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income or loss are reclassified to profit or loss.

Inter-company transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 *Impairment of Assets* as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs to sell) with its carrying amount, Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with IAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

The Group continues to use the equity method when an investment in an associate becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a group entity transacts with an associate of the Group, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Goodwill

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

Intangible assets

Intangible assets acquired are initially recognised by the Group at the cost of acquisition. After initial recognition intangible assets are measured at the cost of acquisition less amortisation and impairment losses.

Intangible assets with a definite useful life are amortised on a straight-line basis over their useful economic life and are reviewed for impairment whenever an impairment indicator is identified. Intangible assets with an indefinite useful life are not amortised and are reviewed for impairment on an annual basis.

The Group recognises intangible assets arising out of development when it can demonstrate all of the following:

- The technical feasibility of completing the asset so it will be available for use or sale;
- Its intention to complete, use or sell the asset;
- Its ability to use or sell the asset;
- How the asset will generate future economic benefits;
- The availability of adequate technical, financial and other resources to complete, use or sell the asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditure on research activities is recognised as an expense in the period in which it was incurred. Development expenditure, that does not meet the criteria of intangible assets, is charged to the statement of comprehensive income or loss when incurred.

No amortisation is charged for intangible assets that are in the phase of development. Amortisation begins when the asset is available for use, that is, when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Patents transferred from intangible assets under development to intangible assets subject to amortisation are amortised over their useful economic lives ranging between 51 to 174 months. Know-hows and production technology development costs are considered to have indefinite useful lives. Such assets are not amortised and are carried at cost less accumulated impairment losses. The ERP system development and installation costs are amortised over 120 months which is the best estimate of its useful economic life.

Expenditure, which enhances or extends the performance of intangible assets beyond their original specifications is recognised as a capital improvement and added to the original cost of the intangible asset.

Property, plant and equipment

Property, plant and equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses, where required. The historical cost of property, plant and equipment includes the expenditure related directly to the acquisition of assets and, in respect of qualifying assets, capitalised borrowing costs in accordance with the Group's accounting policies. Construction in progress is accounted for at purchase cost less provision for impairment, if required.

Repair and maintenance costs are charged to expenses when incurred. Costs for replacement of major assemblies or components of property, plant and equipment are capitalised and the replaced parts are retired.

Upon sale or retirement, the cost and related accumulated depreciation are eliminated from financial statements. Gains and losses on disposal of property, plant and equipment are recognised in profit or loss at the amount of the difference between disposal proceeds and carrying amount.

Depreciation

Depreciation is recognised so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land and assets under construction are not depreciated.

Depreciation is charged as from the time when an asset is available for use over the following useful economic lives.

	Useful life (number of years)
Production plant and buildings	20–50
Machinery, equipment and motor vehicles	2–31
Office equipment and furniture	1–10

The residual value of an asset is the estimated amount that the Group would currently obtain from 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 assets' residual values and useful lives are reviewed, and adjusted if appropriate, at least at each financial year-end.

Impairment of non-financial assets

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment. Assets that are subject to depreciation or amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

Leases

Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the inception of the lease at the lower of the fair value of the leased property 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 finance charges, are included in borrowings. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. Property, plant and equipment acquired under finance leases are depreciated over the shorter of the useful life of the asset or the lease term.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the statement of comprehensive income or loss on a straight-line basis over the period of the lease.

Classification of financial assets and financial liabilities

Financial assets

All the Group's financial assets fall into the category "loans and receivables". Loans and receivables are unquoted non-derivative financial assets with fixed or determinable payments other than those that the Group intends to sell in the near term. Loans and receivables comprise accounts receivable and loans issued.

Loans issued and receivables are initially recognised at their fair value and subsequently carried at amortised cost using effective interest method. A provision for impairment of loans issued and receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the instrument. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or delinquency in payments are considered indicators that the financial asset is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the loss is recognised in profit or loss. The uncollectible assets are written off against the allowance account. Subsequent recoveries of amounts previously written off are credited in profit or loss.

The Group derecognises financial assets when (i) the assets are redeemed or the rights to cash flows from the assets have otherwise expired or (ii) the Group has transferred substantially all the risks and rewards of ownership of the assets or (iii) the Group has neither transferred nor retained substantially all risks and rewards of ownership but has not retained control.

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

Financial liabilities

All of the Group's financial liabilities fall into the category "other financial liabilities" and are carried at amortised cost. Other financial liabilities (including borrowings and trade and other payables) are initially recognised at their fair value net of related transaction costs and are subsequently measured at amortised cost using the effective interest method.

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Inventories

Inventories are stated at the lower of cost or net realisable value. Cost is determined using the weighted average basis. Net realisable value is the estimated selling price in the ordinary course of business less cost of completion and selling expenses.

Prepayments

Prepayments classified as current assets represent advance payments to suppliers for goods and services. Prepayments for construction or acquisition of property, plant and equipment are classified as non-current assets. Prepayments to acquire assets are transferred to the carrying amount of the asset once the Group has obtained control of the asset and it is probable that future economic benefits associated with the asset will flow to the Group. Prepayments for services are written off to profit or loss when the services are received. Prepayments are carried at cost less provisions for impairment, if required. If there is an indication that the assets, goods or services relating to a prepayment will not be received, the carrying value of the prepayment is written down accordingly and a corresponding impairment loss is recognised in profit or loss for the year.

Value Added Tax (VAT)

Output value added tax related to sales is payable to tax authorities on the earlier of (a) collection of proceeds from customers or (b) delivery of goods or services to customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. Tax authorities permit the settlement of VAT on a net basis. VAT related to purchases where all the specified conditions for recovery have not been met yet is recognised in the statement of financial position and disclosed separately within accounts receivable, while input VAT that has been claimed is netted off with the output VAT payable. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

Cash and cash equivalents

Cash and cash equivalents include cash in hand, deposits held at call with banks and other short-term highly-liquid investments with original maturity of three months or less. Restricted cash balances are excluded from cash and cash equivalents for the purposes of the cash flow statement. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the financial year-end date are included in non-current assets.

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

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

Current and deferred income tax

The income tax expense for the period comprises current and deferred tax. Tax is recognised in profit or loss, except to the extent that it relates to items recognised directly in equity. In this case the tax is also recognised in equity. Taxes other than on income are recorded within operating expenses.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the financial year-end date in the countries where the Group's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax is recognised on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred income tax is not recognised if it arises from the initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is recognised on temporary differences arising on investments in subsidiaries and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Revenue recognition

Revenue is measured at fair value of the consideration received or receivable and represents amounts receivable for the sale of goods and services in the ordinary course of the Group activities, net of value added taxes, returns and discounts.

The Group recognises revenue when the amount of revenue can be reliably measured, when it is probable that future economic benefits will flow to the entity and when specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement. Revenues earned by the Group are recognised on the following bases:

(i) Sales of goods

Sales of goods are recognised when significant risks and rewards of ownership of the goods have been transferred to the customer and collectability of the related receivable is reasonably assured.

(ii) Sales of services

Sales of services are recognised in the accounting period in which the services are rendered, by reference to completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iii) Interest income

Interest income is recognised on a time proportion basis using the effective interest method.

(iv) Rental income

Rental income is recognised on a straight-line basis over the lease term.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

Government grants

Government grants comprise compensation of interest expense under bank loans. Grants from the government are recognised at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to compensation of interest expense under bank loans are credited to profit or loss over the periods of the related interest expense unless this interest was capitalised into the cost of property, plant and equipment in which case they are deducted from the cost of the respective items of property, plant and equipment as government grants and credited to the profit or loss on a straight-line basis over the expected lives of these assets.

Share capital and share premium

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Share premium is the difference between the fair value of the consideration receivable for the issue of shares and the nominal value of the shares.

Shareholder capital contributions

Equity contributions made by shareholders, whereby shares are not issued, are recorded as additional capital within equity whereby such capital contributions do not carry any interest and any future return to the shareholder is at the Group's discretion.

Distributions to shareholders other than distributions of retained earnings, which bear no interest and whereby shares are not bought back by the Group, are recorded as a reduction in additional capital within equity.

Employee benefits

Wages, salaries, contributions to the Russian Federation state pension and social insurance funds, paid annual leave and sick leave, bonuses, and non-monetary benefits (such as health services and kindergarten services) are accrued in the year in which the associated services are rendered by the employees of the Group. The Group has no legal or constructive obligation to make pension or similar benefit payments beyond the payments to the statutory defined contribution scheme.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Management also makes certain judgements, apart from those involving estimations, in the process of applying the accounting policies. Judgements that have the most significant effect on the amounts recognised in the financial statements and estimates that can cause a significant adjustment to the carrying amount of assets and liabilities in future periods include:

Tax laws. Tax and foreign currency laws of the Russian Federation allow for different interpretations and are subject to alterations made frequently (Note 24).

Initial recognition of related party transactions. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 5.

Going concern. Management's judgement used in the assessment of the Group's ability to continue as a going concern is disclosed in Note 2.

Impairment of goodwill and intangible assets with indefinite useful lives. Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and intangible assets with indefinite useful lives has been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of the impairment analysis performed by management are presented in the Note 7.

(US Dollar thousand, unless otherwise stated)

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorisation of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective, and have not been early adopted.

New or amended standard or interpretation	**Effective date[1] -** for annual periods beginning on or after
IFRS 9 *Financial Instruments*	1 January 2018
IFRS 15 *Revenue from Contracts with Customers*	1 January 2018
IFRS 16 *Leases*	1 January 2019
Amendments to IFRS 11 - *Accounting for Acquisition of Interests in Joint Operations*	1 January 2016
Amendments to IAS 1 – *Disclosure Initiative*	1 January 2016
Amendments to IAS 16 and IAS 38 - *Clarification of Acceptable Methods of Depreciation and Amortisation*	1 January 2016
Amendments to IAS 16 and IAS 41 - *Agriculture: Bearer Plants*	1 January 2016
Amendments to IFRS 10 and IAS 28 - *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*	Date to be determined by the IASB[2]
Amendments to IFRS 10, IFRS 12 and IAS 28 – *Investment Entities: Applying the Consolidation Exception*	1 January 2016
IFRS 14 *Regulatory Deferral Accounts*	1 January 2016
Amendments to IAS 27 - *Equity Method in Separate Financial Statements*	1 January 2016
Annual Improvements to IFRSs 2012-2014 Cycle	1 January 2016
Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealised Losses*	1 January 2017

[1] Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 *Revenue from Contracts with Customers* has also been applied.
[2] The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

The new and amended standards which may have an effect on measurement, presentation of disclosure in the financial statements of the Group are described in more detail below:

IFRS 9, Financial Instruments, The key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognised financial assets that are within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income or loss, with only dividend income generally recognised in profit or loss.