Приложение № 5. Годовая консолидированная бухгалтерская (финансовая) отчетность Поручителя «РЕЙЛ ХОЛДИНГ ЛИМИТЕД» за 2015 год

RAIL HOLDING LIMITED

**Consolidated Financial Statements
for the Year Ended 31 December 2015
and Independent Auditor's Report**

RAIL HOLDING LIMITED

TABLE OF CONTENTS

RAIL HOLDING LIMITED

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE 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 Rail Holding Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2015, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, 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 IFRSs is 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 the financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group; and
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2015 were approved and authorised for issue by management on 24 May 2016.

On behalf of the Management:

Marina Savvidou
Director
Rail Holding Limited

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INDEPENDENT AUDITOR'S REPORT

To: Shareholder and Directors of Rail Holding Limited

We have audited the accompanying consolidated financial statements of Rail Holding Limited and its subsidiaries, which comprise the consolidated statement of financial position as at 31 December 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, 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.

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 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 on the fair presentation of these consolidated financial statements.

Opinion

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

Deloitte & Touche

24 May 2016
Moscow, Russian Federation

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS OF 31 DECEMBER 2015
Thousands of US Dollars

	Notes	31 December 2015	31 December 2014
ASSETS			
Non-current assets			
Property and equipment	6	358,027	515,146
Prepayments for property and equipment	7	119,951	31,452
Goodwill	5	34,279	-
Other intangible assets		88	9
Deferred tax assets	21	4,058	1,184
Investment in a joint venture	8	4,346	2,823
Loans receivable	12	363,479	134,939
Other receivables		3,609	533
Finance lease receivables		3,191	4,404
Total non-current assets		**891,028**	**690,490**
Current assets			
Inventories		4,569	38
Prepayments and other current assets	11	7,144	2,007
Trade and other receivables	10	19,077	114,087
Finance lease receivables		208	122
VAT receivable		1,411	7,652
Loans receivable	12	84,329	415,233
Investments in debt securities of a related party	9	23,269	38,835
Cash and cash equivalents	13	38,261	37,474
Total current assets		**178,268**	**615,448**
TOTAL ASSETS		**1,069,296**	**1,305,938**
EQUITY AND LIABILITIES			
Equity			
Share capital	14	1	1
Additional paid-in capital	14	89,267	32,681
Currency translation reserve		(116,336)	(72,252)
Retained earnings		132,959	188,538
Total equity		**105,891**	**148,968**
Non-current liabilities			
Borrowings	15	536,607	878,359
Deferred tax liabilities	21	4,145	8,236
Total non-current liabilities		**540,752**	**886,595**
Current liabilities			
Trade and other payables	16	40,888	46,025
Borrowings	15	378,482	222,639
Advances received from customers		3,283	1,711
Total current liabilities		**422,653**	**270,375**
Total liabilities		**963,405**	**1,156,970**
TOTAL EQUITY AND LIABILITIES		**1,069,296**	**1,305,938**

The accompanying notes on pages 8 to 40 are an integral part of the consolidated financial statements

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2015
Thousands of US Dollars

	Notes	2015	2014
Revenue	17	144,555	327,531
Direct expenses	18	(105,233)	(253,756)
Selling, general and administrative expenses	19	(10,526)	(5,093)
Other operating (expenses)/ income, net		(260)	281
Share of profit/ (loss) of the joint venture	7	2,591	(3,896)
Operating income		**31,127**	**65,067**
Finance income	20	44,633	29,642
Finance costs	20	(149,619)	(129,156)
Foreign exchange gain, net		18,283	235,274
(Loss)/ profit before tax		**(55,576)**	**200,827**
Income tax expense	21	(3)	(10,900)
(Loss)/ profit for the year		**(55,579)**	**189,927**
Other comprehensive loss:			
Effect of translation to presentation currency which will not be subsequently reclassified to profit or loss		(44,084)	(60,286)
Total comprehensive (loss)/ income for the year		**(99,663)**	**129,641**

The accompanying notes on pages 8 to 40 are an integral part of the consolidated financial statements

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2015
Thousands of US Dollars

	Share capital	Additional paid-in capital	Currency translation reserve	(Accumulated deficit)/ retained earnings	Total
Balance at 1 January 2014	**1**	**182,587**	**(11,966)**	**(1,389)**	**169,233**
Profit for the year	-	-	-	189,926	189,926
Effect of translation to presentation currency	-	-	(60,286)	-	(60,285)
Total comprehensive income for the year	**-**	**-**	**(60,286)**	**189,926**	**129,642**
Contribution from shareholders (Note 14)	-	94,524	-	-	94,524
Distribution to shareholders (Note 14)	-	(244,430)	-	-	(244,430)
Balance at 31 December 2014	**1**	**32,681**	**(72,252)**	**188,538**	**148,968**
Loss for the year	-	-	-	(55,579)	(55,579)
Effect of translation to presentation currency	-	-	(44,084)	-	(44,084)
Total comprehensive loss for the year	**-**	**-**	**(44,084)**	**(55,579)**	**(99,663)**
Contribution from shareholders (Note 14)	-	56,586	-	-	56,586
Balance at 31 December 2015	**1**	**89,267**	**(116,336)**	**132,959**	**105,891**

The accompanying notes on pages 8 to 40 are an integral part of the consolidated financial statements

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2015
Thousands of US Dollars

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/ profit before tax	**(55,576)**	**200,827**
Adjustments for:		
Depreciation	27,338	40,253
Impairment loss recognized on receivables and prepayments	4,534	-
Impairment loss on loans granted	1,211	-
Share of (profit)/ loss of the joint venture	(2,591)	3,896
Non-operating foreign exchange loss, net	(18,283)	(235,274)
Finance costs	149,619	129,156
Finance income	(44,633)	(29,642)
	61,619	**109,216**
Movements in working capital:		
Decrease/ (increase) in trade and other receivables	84,054	(169,974)
(Increase)/ decrease in VAT receivable, prepayments and other current assets	(340)	3,215
Increase in inventories	(1,279)	-
Increase in trade and other payables	12,108	15,256
Increase/ (decrease) in advances received from customers	1,759	(1,553)
Cash generated by/ (used in) operations	157,921	(43,840)
Income tax paid	(4,503)	-
Interest paid	(137,124)	(100,388)
Net cash generated by/ (used in) operating activities	**16,294**	**(144,228)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment, including prepayments	(134,221)	(361,206)
Proceeds from return of prepayments for property and equipment	24,049	113,353
Purchase of investments in debt securities of a related party	(55,854)	(38,794)
Proceeds from sale of investments in debt securities of a related party	46,437	152,830
Loans granted	(360,102)	(504,955)
Cash proceeds from redemption of loans granted	363,237	15,816
Net cash outflow on acquisition of subsidiaries	(26,243)	-
Interest received	33,580	24,737
Net cash used in investing activities	**(109,116)**	**(598,219)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from capital contributions	56,586	94,524
Proceeds from borrowings	82,561	1,932,462
Repayment of borrowings	(20,300)	(1,225,305)
Net cash generated by financing activities	**118,847**	**801,681**
Net increase in cash and cash equivalents	**26,025**	**59,234**
Cash and cash equivalents at the beginning of the year	**37,474**	**10,504**
Effect of exchange rate changes	(25,238)	(32,264)
Cash and cash equivalents at the end of the year	**38,261**	**37,474**

Non-cash transactions: in 2014 the Group made a distribution of capital to its sole shareholder (United Wagon Plc) in the amount of USD 244,430 thousand. The amount was offset with loans receivable from shareholders.

The accompanying notes on pages 8 to 40 are an integral part of the consolidated financial statements

Thousands of US Dollars

1. GENERAL INFORMATION

Rail Holding Limited (hereinafter – the "Company") is a company limited by law incorporated in the British Virgin Islands (hereafter referred to as "BVI") on 30 June 2011.

The Company is registered at Craigmuir Chambers, Road Town, Tortola, British Virgin Islands. The principal place of business is the territory of the Russian Federation.

The Company is a holding entity for the group of companies (the "Rail Holding Group" or the "Group") incorporated in BVI, Cyprus, and Russia. The Group's primary business involves purchasing railcars manufactured at Tikhvin Freight Car Manufacturing Plant (hereinafter – JSC «TVSZ»), an entity under common control with the Group, and selling as well as leasing them to its customers, which are mostly represented by transportation and manufacturing companies operating within the Russian Federation.

Since 22 December 2014 PJSC «Research and Production Corporation «United Wagon Company» has been the sole shareholder of the Company.

As at 31 December 2015, ultimate control of the Group was divided between private shareholders, with Alexander Nesis holding the largest share.

Information about the Company's subsidiaries and their principal activities is set out below:

Subsidiaries	Nature of business	Country of incorporation	31 December 2015	31 December 2014
LLC «Rail1520»	Operating lease of railcars	Russian Federation	100%	100%
LLC «Rail1520 Service»	Operating lease of railcars	Russian Federation	100%	100%
Rail 1520 (BVI) Ltd	Holding of Cyprus subsidiaries	BVI	100%	100%
Rail 1520 Service (BVI) Ltd	Holding of Cyprus subsidiaries	BVI	100%	100%
Rail 1520 Cyprus Ltd	Holding of Russian subsidiaries	Cyprus	100%	100%
Rail 1520 Service Cyprus Ltd	Holding of Russian subsidiaries	Cyprus	100%	100%
Rail 1520 Finance Cyprus Ltd	Financing	Cyprus	100%	100%
Rail 1520 Service Finance Cyprus Ltd	Financing	Cyprus	100%	100%
Rail 1520 (BVI) Leasing Ltd	Holding of Cyprus subsidiaries	BVI	100%	100%
Rail 1520 Cyprus Leasing Ltd	Holding of Russian subsidiaries	Cyprus	100%	100%
LLC «Rail 1520 Leasing»	Finance lease of railcars	Russian Federation	100%	100%
Rail 1520 Wagon Ltd	Investment company	BVI	100%	100%
Rail 1520 Wagon Cyprus Ltd	Investment company	Cyprus	100%	100%
LLC «Rail 1520 Wagon»	Non-operational entity	Russian Federation	100%	100%
JSC TAP «Titran-Express»*	Railcars repair depot	Russian Federation	100%	-

* In December 2015, the Group obtained control over 100% of shares of JSC TAP «Titran-Express»

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Group for the year ended 31 December 2015 have been prepared in accordance with International Financial Reporting Standards ("IFRS").

Basis of preparation

The entities of the Group maintain their 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.

The consolidated financial statements have been prepared on the historical cost basis except for certain derivative financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

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

Going concern

These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

As at 31 December 2015 the Group's current liabilities exceeded its current assets by USD 244,385 thousand. In 2015 the Group incurred loss in the amount of USD 55,579 thousand.

In April 2016 the Group agreed on extending maturity date for the loan from its related party UWC Finance LLC (as at 31 December 2015 the short-term debt amounted to USD 207,562 thousand) extending it until 2021, the remaining difference between the Group's current liabilities and its current assets would be financed from cash generated by the Group's operating activities.

The management of the Group expects demand for the railcars to increase in 2016 due the need to replace significant portion of old railcar fleet in the Russian Federation and the beginning of a gradual recovery in the railcar lease and transportation services market. The Group's lease portfolio as at 31 December 2015 and 2014 included 14,897 and 15,817 railcars, respectively. The management also expects a significant reduction in interest expense payments for the Group's loans with the interest rates linked to the Russian MosPrime rate, which reached its maximum in 2015 and is now expected to decline.

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 key subsidiaries is the national currency of the Russian Federation, Russian Ruble ("RUB"). The functional currency of the Company is Russian Ruble ("RUB").

The presentational currency of the consolidated financial statements is the US Dollar. These consolidated financial statements are presented in thousands of US Dollars (hereinafter, "USD"), unless stated otherwise. The results and financial position of the Group are translated into the presentation currency using the following procedures:

- Assets and liabilities for each consolidated statement of financial position presented are translated at the closing rate as at the reporting date of that statement of financial position;
- Recurring income and expense items are translated at the average exchange rates for the period, whereas significant non-recurring income and expense items are translated at the exchange rates as of the date of transaction;
- Equity items are translated at historical exchange rates;
- All resulting exchange differences are recognized as a separate component of equity and reserves.

Exchange rates used in the translation were as follows:

Currency	2015	2014
At the end of the reporting period		
RUB/ USD	72.88	56.26
RUB/ EUR	79.70	68.34
Average exchange rate for the reporting period		
RUB/ USD	60.96	38.42
RUB/ EUR	67.78	50.82

Foreign currency transactions

In preparing the financial statements of each individual group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. 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.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Business combinations

Acquisitions of businesses are accounted for under the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 and IAS 19, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

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 interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

The consideration transferred by the Group in a business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 and IAS 37, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

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 recognized 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 recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in joint ventures

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

The results and assets and liabilities of joint ventures are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in a joint venture is initially recognized 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 joint venture. When the Group's share of losses of a joint venture exceeds the Group's interest in that joint venture (which includes any long-term interests that, in substance, form part of the Group's net investment in the joint venture), the Group discontinues recognising its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the joint venture.

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

Property and equipment

Items of property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses, if any.

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.

The following useful lives are used in the calculation of depreciation.

	Useful life, years
Railcars	22-32
Other fixed assets	2-3

Depreciation is recognized so as to write off the cost of assets (other than 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.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in profit or loss.

Impairment of tangible assets

At each reporting date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in-use. 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 which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in the consolidated profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. Any reversal of that impairment loss is recognized immediately in the consolidated profit or loss.

Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets of the Group are classified into the following specified categories: financial assets 'at fair value through profit or loss' (hereinafter, FVTPL) and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. As at 31 December 2015 and 2014 debt securities in related parties have been classified as financial assets at FTPL.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (including all fees 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 instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability at initial recognition.

Financial assets at FTPL

Financial assets are classified as at FVTPL when the financial asset is (i) contingent consideration that may be paid by an acquirer as part of a business combination to which IFRS 3 applies, (ii) held for trading, or (iii) it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term; or
- on initial recognition it is part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the 'other gains and losses' line item.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including trade and other receivables, bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment.

Cash and cash equivalents

Cash and cash equivalents are carried at amortised cost and include cash on hand and bank deposits with initial maturities of three months or less. Amounts with restrictions over their availability of use are not included in the cash and cash equivalents.

Allowance for impairment losses

The Group accounts for impairment of financial assets not recorded at fair value when there is objective evidence of impairment of a financial asset or a group of financial assets. The impairment of financial assets represents the difference between the carrying amount of the asset and net present value of estimated future cash flows including amounts which can be received on guarantees and security discounted using an initial effective interest rate on financial assets recorded at amortised cost. If in a subsequent period the impairment amount decreases and such a decrease can be objectively associated with an event occurring after recognition of the impairment then the previously recognized impairment loss is reversed with an adjustment of the provision account.

The impairment is calculated based on the analysis of assets subject to risks and reflects the amount sufficient, in the opinion of the management, to cover relevant losses. The provisions are created as a result of an individual assessment of individually significant financial assets and on the basis of an individual or collective assessment of financial assets that are not individually significant. Specifically, lease receivables and accounts receivable from sale of railcars aged over 90 days after the date of settlement agreed contractually are provided for based on estimated irrecoverable amounts, determined by reference to past experience and are regularly reassessed based on the facts and circumstances existing as of each reporting date. Specific allowance of 100% is charged for accounts receivable which are considered not to be recoverable.

The change in the impairment is included into profits using the provision account. Assets recorded in the statement of financial position are reduced by the amount of the impairment. The factors the Group evaluates in determining the presence of objective evidence of impairment loss include information on liquidity of the debtor or issuer, their solvency, business risks and financial risks, levels and tendencies of default on obligations on similar financial assets, national and local economic tendencies and conditions, and fair value of the security and guarantees. These and other factors individually or in the aggregate represent, to a great extent, an objective evidence of impairment loss on the financial asset or group of financial assets.

Derivative financial instruments

The Group enters into derivative financial instruments to manage its exposure to foreign exchange rate risks, e.g. by purchasing foreign exchange forward contracts from the financial institutions. Derivative financial assets and liabilities are stated at fair value, with any gains or losses arising on remeasurement recognized in profit or loss.

Other financial liabilities

Other financial liabilities (including borrowings and trade and other payables) are subsequently measured at amortised cost using the effective interest method.

Lease

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, specifically, on whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Group as a lessee

Assets under finance leases are recognized as assets at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Share capital and additional paid-in capital

Contributions to charter capital are recognized at cost. Additional capital represents the amount of additional contributions received from the shareholders and entities under common control with the Company.

Costs directly attributable to the issue of new equity instruments are deducted from equity net of any related income taxes.

Revenue and interest income recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of value added taxes, estimated rebates and discounts. The revenue is recognized in the amount, which is probable that the economic benefits associated with the transaction will flow to the Group, the amount of revenue can be measured reliably.

(i) Sales of railcars

Primary business of the Group includes purchases and resales of newly manufactured railcars as well as sales of railcars previously leased out by the Group. The decision to sell or continue leasing is made on a case by case basis depending on availability of financing, lease rates and railcar selling price. The Group classifies both types of railcar sales as Revenue and recognizes the carrying value of the railcar as Cost of sales.

Revenue from the sale of goods is recognized when significant risks and rewards incidental to ownership are transferred to the customers.

(ii) Rental income

Rental income is generated principally from leasing of railcars and is recognized on a straight-line basis over the term of the relevant lease.

(iii) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

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 recognized in profit or loss in the period in which they are incurred.

Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the preliminary consolidated financial information and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Current and deferred tax for the period

Current and deferred tax are recognized as an expense or income in profit or loss, except when they relate to items that are recognized outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognized outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

Provisions

A provision is recognized 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.

Offsetting

Financial assets or liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Contractual commitments

Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future. The Group discloses significant contractual commitments in the notes to the consolidated financial statements.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless they arise as a result of a business combination. Contingencies attributed to specific events are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Adoption of new and revised Standards and Interpretations

In the current year, the Group has adopted all new and revised standards and interpretations issued by the IASB and the IFRIC of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2015. Their adoption did not have any effect on the financial performance or position of the Group.

Thousands of US Dollars

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

The Group has not applied the following new and revised IFRSs that have been issued but are not yet effective:

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 Amortization*	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 Group is currently assessing the impact of the new standards on its consolidated financial statements and plans to adopt these pronouncements when they become effective or earlier if early application is permitted and it enhances fair presentation of the consolidated financial statements.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in Note 2, 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.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.