Public Joint Stock Company RPC UWC

Consolidated financial statements for the year ended December 31, 2015, and Independent Auditor's Report

PUBLIC JOINT STOCK COMPANY RESEARCH AND PRODUCTION CORPORATION UNITED WAGON COMPANY

TABLE OF CONTENTS

PJSC RPC UWC

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

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Public Joint Stock Company "Research and Production Corporation "United Wagon Company" (PJSC RPC UWC or the "Company") and its subsidiaries (the "Group") as at December 31, 2015, the consolidated 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 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 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 the consolidated 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 the local legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2015 were approved by the Group's management on April 20, 2016.

On behalf of the Management:

Roman Savushkin
Chief Executive Officer
PJSC RPC UWC

ZAO Deloitte & Touche CIS
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Moscow, 125047
Russia

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INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying consolidated financial statements of PJSC RPC UWC and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at December 31, 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 the 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 the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the 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 financial position of the Group as at December 31, 2015, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

Deloitte & Touche

April 20, 2016
Moscow, Russian Federation

Andrew Sedov, Partner
(Qualification certificate No. 01-000487 dated February 13, 2012)

ZAO Deloitte & Touche CIS

Audited entity: PJSC RPC UWC

State Registration Certificate 77 No. 017552796 issued on May 28, 2014 by Interdistrict Inspectorate of the Federal Tax Service No.46 for Moscow.

Primary state registration number: 1147746600539

Address: 7/11 Novokuznetskaya St., Bld. 1, Moscow, 115184

Independent Auditor: ZAO Deloitte & Touche CIS

Certificate of State Registration No. 018.482 issued by the Moscow Registration Chamber on October 30, 1992

Primary state registration number: 1027700425444

Certificate of registration in the Unified State Register of Legal Entities: series 77 No. 004840299 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 39 for Moscow on November 13, 2002.

Certificate of membership in NP Audit Chamber of Russia (auditors' SRO) of May 20, 2009 No. 3026, ORNZ 10201017407.

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

(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	2015	2014
Revenue	20	42 087 945	17 057 489
Cost of sales	21	(37 865 512)	(14 984 530)
Gross profit		**4 222 433**	**2 072 959**
Selling, general and administrative expenses	22	(2 993 548)	(1 644 648)
Share of profit/(loss) of associates and joint ventures	9	188 065	(157 219)
Other operating income, net		264 777	153 281
Operating profit		**1 681 727**	**424 373**
Finance income	23	1 441 870	647 313
Finance costs	24	(10 091 105)	(6 516 137)
Foreign exchange (loss)/gain, net		(3 172 189)	4 604 625
Loss before income tax		**(10 139 697)**	**(839 826)**
Income tax benefit	25	463 221	1 389 146
(Loss)/profit and total comprehensive (loss)/income for the year		**(9 676 476)**	**549 320**
(Loss)/profit and total comprehensive (loss)/income attributable to:			
Shareholders of the Group		(9 675 680)	557 373
Non-controlling interests		(796)	(8 053)
Earnings per share			
Weighted average number of ordinary shares outstanding		103 739 536	100 000 000
(Loss)/earnings per share, RUB		(93)	5

The notes on pages 8-49 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2015
(in thousands of Russian Rubles, unless otherwise indicated)

	Note	December 31, 2015	December 31, 2014
ASSETS			
Non-current assets			
Property, plant and equipment	8	71 428 836	68 483 344
Prepayments for property, plant and equipment		1 029 400	2 336 192
Intangible assets and goodwill	7	13 992 750	2 838 785
Deferred tax assets	25	2 643 706	1 852 555
Investments in associates and joint ventures	9	752 501	158 838
Loans receivable	13	1 353 829	1 658 939
Other receivables		-	30 000
Finance lease receivables		243 665	260 818
Restricted cash	14	1 781 709	-
Total non-current assets		**93 226 396**	**77 619 471**
Current assets			
Inventories	10	8 524 986	266 972
Trade and other receivables	11	4 003 435	7 578 533
Finance lease receivables		17 152	8 803
Loans receivable	13	5 187 614	16 255 261
Prepayments to suppliers and other assets	12	1 566 070	705 374
VAT receivable		4 150 385	1 653 166
Cash and cash equivalents	14	3 207 466	2 386 595
Total current assets		**26 657 108**	**28 854 704**
TOTAL ASSETS		**119 883 504**	**106 474 175**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital issued	15	105 556	10
Share capital issued but not registered	15	-	99 990
Additional paid-in capital	15	16 158 720	12 428 965
Accumulated deficit		(14 644 817)	(4 969 137)
Total equity attributable to shareholders		**1 619 459**	**7 559 828**
Non-controlling interests		652	668
Total equity		**1 620 111**	**7 560 496**
Non-current liabilities			
Long-term loans and borrowings	16	55 835 462	44 493 124
Bonds – non-current portion	17	15 000 000	27 891 700
Long-term finance lease liabilities		1 683	2 637
Deferred tax liabilities	25	915 953	1 200 984
Other payables		188 617	-
Total non-current liabilities		**71 941 715**	**73 588 445**
Current liabilities			
Short-term loans and borrowings	16	15 286 129	16 953 742
Trade and other payables	18	12 697 270	6 357 576
Advances received and other current liabilities	19	4 231 504	1 395 571
Short-term finance lease liabilities		2 825	19 384
Bonds – current portion	17	14 103 950	598 961
Total current liabilities		**46 321 678**	**25 325 234**
TOTAL LIABILITIES		**118 263 393**	**98 913 679**
TOTAL LIABILITIES AND EQUITY		**119 883 504**	**106 474 175**

The notes on pages 8-49 form an integral part of these consolidated financial statements.

PJSC RPC UWC

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousands of Russian Rubles, unless otherwise indicated)

	Share capital issued	Share capital issued but not registered	Additional paid-in capital	Accumulated deficit	Total shareholders' equity	Non-controlling interests	Total equity
Balance at January 1, 2014	**10**	**-**	**9 005 233**	**(5 526 510)**	**3 478 733**	**78 721**	**3 557 454**
Profit and total comprehensive income for the year	-	-	-	557 373	557 373	(8 053)	549 320
Shareholder contributions	-	-	3 488 196	-	3 488 196	-	3 488 196
Additional share issue as part of restructuring	-	99 990	(99 990)	-	-	-	-
Effect of the acquisition of company under common control	-	-	35 526	-	35 526	-	35 526
Purchase of non-controlling interests	-	-	-	-	-	(70,000)	(70,000)
Balance at December 31, 2014	**10**	**99 990**	**12 428 965**	**(4 969 137)**	**7 559 828**	**668**	**7 560 496**
Loss and total comprehensive loss for the year	-	-	-	(9 675 680)	(9 675 680)	(796)	(9 676 476)
Registration of additional share issue as part of restructuring	99 990	(99 990)	-	-	-	-	-
Issue of additional shares during initial public offering, net of issuance costs (Note 15)	5 556	-	3 729 755	-	3 735 311	-	3 735 311
Increase of non-controlling interests	-	-	-	-	-	780	780
Balance at December 31, 2015	**105 556**	**-**	**16 158 720**	**(14 644 817)**	**1 619 459**	**652**	**1 620 111**

The notes on pages 8-49 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2015
(in thousands of Russian Rubles, unless otherwise indicated)

	2015	2014
OPERATING ACTIVITIES		
Loss before income tax	**(10 139 697)**	**(839 827)**
Adjustments for:		
Depreciation and amortization	5 321 371	3 119 976
Non-operating foreign exchange loss/(gain), net	3 172 189	(4 628 269)
Change in provision for doubtful receivables	426 220	(36 886)
Loss on disposal and write-off of property, plant and equipment	122 260	14 171
Impairment of loans receivable	88 226	-
Share of (profit)/loss of associates and joint ventures	(188 065)	157 219
Impairment of property, plant and equipment	31 797	27 309
Finance costs	10 091 105	6 516 140
Finance income	(1 441 870)	(647 313)
Operating profit before changes in working capital	**7 483 536**	**3 682 520**
Movements in working capital:		
Decrease/(increase) in trade and other receivables	3 919 836	(7 075 851)
Increase in prepayments to suppliers and other assets	(611 231)	(284 099)
(Increase)/decrease in VAT receivable	(2 324 326)	166 413
Increase in inventories	(2 914 189)	(172 056)
(Decrease)/increase in trade and other payables	(96 155)	838 310
Increase in advances received and other current liabilities	2 603 341	418 597
Cash flows from/(used in) operating activities	8 060 812	(2 426 166)
Income tax paid	(369 977)	(34 190)
Finance costs paid	(10 095 400)	(4 947 025)
Net cash used in operating activities	**(2 404 565)**	**(7 407 381)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, including prepayments	(4 092 270)	(15 598 986)
Proceeds from disposal of property, plant and equipment	21 654	-
Purchase of intangible assets	(2 190 430)	(295 305)
Loans granted	(14 781 798)	(16 924 040)
Proceeds from redemption of loans granted	24 892 668	9 422 914
Interest received	1 301 269	111 388
Net cash outflow on acquisition of subsidiaries	(3 812 194)	(499 824)
Cash paid on acquisition of investments in associates	(410 522)	-
Net cash from / (used in) investing activities	**928 377**	**(23 783 853)**
FINANCING ACTIVITIES		
Shareholders' capital contribution, net	3 735 311	3 865 920
Proceeds from loans and borrowings	6 528 091	67 058 348
Repayment of loans and borrowings	(5 894 569)	(55 841 729)
Proceeds from issuance and sale of bonds	3 173 491	17 861 705
Purchase of own bonds	(2 748 991)	-
Finance lease payments	(15 753)	(26 579)
Cash deposited in accordance with covenants (Note 14)	(1 781 709)	-
Net cash from financing activities	**2 995 871**	**32 917 665**
Net increase in cash and cash equivalents	**1 519 683**	**1 726 431**
Effect of foreign exchange changes including effect of revaluation of cash and cash equivalents	(698 812)	(50 643)
Cash and cash equivalents, beginning of the year	**2 386 595**	**710 807**
Cash and cash equivalents, end of the year	**3 207 466**	**2 386 595**

(in thousands of Russian Rubles, unless otherwise indicated)

1. GENERAL INFORMATION

PJSC RPC UWC (the "Company") was incorporated and domiciled in the Russian Federation on December 26, 2011 and is a public joint stock company from March 3, 2015. The Company's registered and business address is 7/11 Novokuznetskaya St., Bld. 1, Moscow.

As at December 31, 2015, the Company is a holding entity for the group of companies (PJSC RPC UWC or the "Group") incorporated in the British Virgin Islands (the "BVI"), Cyprus, and the Russian Federation ("RF").

Principal activities of the Group include:

- Production of railway cars at the manufacturing facility located in the town of Tikhvin, Leningrad Region, Russian Federation, and their sale within the Group and to external counterparties;
- Finance and operating lease of railway cars;
- Rail transportation services.

Before 2015 most of the railway cars, manufactured at the facility located in the town of Tikhvin, were used internally in the operating lease business unit. In 2015, the Group significantly increased its sales of railcars to third parties making them the prevailing type of sales.

The list of the Company's registered shareholders and their effective ownership interest as at the reporting dates is presented in the table below:

Shareholders	At December 31, 2015 Ownership interest, %	At December 31, 2014 Ownership interest, %
United Wagon PLC	49.98%	100%
Open Joint Stock Company RONIN Trust	13.10%	-
Other shareholders	36.92%	-

As at 31 December 2015 and 2014, ultimate control of the Group was divided between individual shareholders, with Alexander Nesis holding the largest share.

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

Company name	Place of incorporation	Principal activity	Ownership interest December 31, 2015	Ownership interest December 31, 2014
Rail Holding LTD	BVI	Investment company	100%	100%
Rail 1520 (BVI) LTD	BVI	Investment company	100%	100%
RAIL 1520 Finance Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL1520 LLC	Russian Federation	Operating lease of railcars	100%	100%
RAIL 1520 Service (BVI) LTD	BVI	Investment company	100%	100%
RAIL 1520 Service Finance Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Service Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL1520 Service LLC	Russian Federation	Operating lease of railcars	100%	100%
RAIL 1520 (BVI) Leasing LTD	BVI	Investment company	100%	100%
RAIL 1520 Cyprus Leasing LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Leasing LLC	Russian Federation	Finance lease of railcars	100%	100%
RAIL 1520 Wagon LTD	BVI	Investment company	100%	100%
RAIL 1520 Wagon Cyprus LTD	Cyprus	Investment company	100%	100%

(in thousands of Russian Rubles, unless otherwise indicated)

Company name	Place of incorporation	Principal activity	Ownership interest December 31, 2015	Ownership interest December 31, 2014
RAIL1520 Wagon LLC	Russian Federation	Finance lease of railcars	100%	100%
Kintonia Investments LTD	BVI	Investment company	100%	100%
Ovilleno Holdings LTD	Cyprus	Investment company	99%	99%
VNICTT LLC	Russian Federation	Engineering and construction bureau	99%	99%
TH UWC LLC	Russian Federation	Trading of railcars and equipment	99%	99%
Springs Industrial Technology Center LLC	Russian Federation	Springs production	99%	99%
Restadiana Ventures LTD	Cyprus	Investment company	99%	99%
Vostok 1520 LLC	Russian Federation	Provision of cargo transportation services	99%	99%
RAIL1520 (BVI) Management Company LTD	BVI	Investment company	100%	100%
RAIL1520 Cyprus Management Company LTD	Cyprus	Investment company	100%	100%
UWC Finance LLC	Russian Federation	Debt securities issuer, commercial consulting	100%	100%
RAIL 1520 Tank Cars (BVI) Holding LTD	BVI	Investment company	100%	100%
Heavy Engineering Works JSC	Russian Federation	Railcar manufacturing	99%	99%
TikhvinSpecMash Closed Joint Stock Company	Russian Federation	Railcar manufacturing	100%	99%
RAIL 1520 Tank Cars Cyprus Holding LTD	Cyprus	Investment company	99%	99%
TikhvinChemMash Closed Joint Stock Company	Russian Federation	Manufacturing of tank railcars	99%	99%
Holme Services Limited	BVI	Investment company	100%	100%
Pegadisa Management LTD	Cyprus	Investment company	100%	100%
RAIL 1520 IP LTD	Cyprus	Investment company	100%	100%
Raygold Limited	Cyprus	Investment company	99,97%	99,97%
AFCT Advanced Freight Car Technology Limited	Cyprus	Development of production technology for the plant	99,93%	99,93%
DEANROAD Limited	Cyprus	Development of production technology for the plant	99%	99%
Tikhvin Railway Car Building Plant Joint Stock Company (TVSZ JSC)	Russian Federation	Railcar manufacturing plant	99,97%	99,97%
TM-Energosbyt LLC	Russian Federation	Power supply services	0%	100%
NeoTech LLC	Russian Federation	Development of production technology	0%	100%
Transmashenergo LLC*	Russian Federation	Power generation	99%	0%
Titran-Express TAP JSC**	Russian Federation	Transport machinery plant	100%	0%

* In December 2015, the Group acquired a 100% stake in Transmashenergo LLC (Note 6).
** In December 2015, the Group obtained control over 100% shares of Titran-Express TAP JSC (Note 6).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

Basis of preparation

The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of the entities of the Group were adjusted to ensure that they are presented in accordance with IFRS.

These consolidated financial statements of the Group have been prepared on the historical cost basis except for certain 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 consolidated financial reporting purposes, fair value measurements are categorized 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 Company 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 assumption

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 December 31, 2015, the Group's current liabilities exceeded its current assets by RUB 19 664 570 thousand. In 2015 and 2014, the Group incurred losses before tax and had negative cash flows from operating activities.

In April 2016, the bondholders of Series 01 bonds of the Group (as at December 31, 2015, the short-term debt amounted to RUB 14 103 950 thousand) agreed to extend the maturity of bonds from 3 to 8 years, i.e. to extend the maturity of the bonds until 2021. As at December 31, 2015, the Group also had available unused credit facilities in the amount of RUB 10 297 929 thousand which, together with maturity extension of bonds, allows the Group to settle liabilities in the normal course of business.

The 2015 volume of production (12 360 railcars) was in line with initial plans and significantly higher than is required under the loan agreements with TVSZ JSC (the Group's subsidiary comprising the railcar manufacturing plant) (10 000 railcars). Based on management forecasts, the minimum expected production volume of TVSZ JSC in 2016 will exceed 15 000 railcars.

The management of the Group expects demand for the railcars to increase in 2016 due to 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 management also expects a significant reduction in interest expenses on bonds in subsequent reporting periods as the coupon rate is linked to the Russian CPI and the CBR repo rate which reached their maximum in 2015 and are expected to decline.

The management believes that these factors taken together will allow the Group to generate profit and turn to positive cash flows from operating activities in 2016.

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 subsidiaries is the Russian Ruble ("RUB"). The presentational currency of the consolidated financial statements is the Russian Ruble. These consolidated financial statements are presented in thousands of Russian rubles ("RUB '000"), except when otherwise indicated.

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.

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through December 31 of each year. Control is achieved when the Company:

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

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interest in consolidated subsidiaries is identified separately from the Group's equity therein. Total comprehensive income / (loss) is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

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 recognized in profit or loss and other comprehensive income. 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 recognized in other comprehensive income 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 recognized in other comprehensive income are reclassified to profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated to the extent they do not represent an impairment loss on the Group's non-current assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations

Acquisitions of businesses are accounted for using 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.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree’s identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

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.

Acquisitions of entities under common control (non-cash payment)

If the acquisition of entities under common control is performed by the exchange of shares, any other non-cash method or for a symbolic compensation, such transactions are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Group. For material common control transactions the consolidated financial statements of the Group are retroactively restated to reflect the effect of the acquisition as if it occurred at the beginning of the earliest period presented.

In 2014, as a result of the legal restructuring, PJSC RPC UWC acquired all its subsidiaries from United Wagon PLC in exchange for 99 990 000 additionally issued ordinary shares. The transaction was classified as the acquisition of entities under common control and was accounted for retroactively starting from the earliest period presented in these consolidated statements.

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 associates and joint ventures

An entity is considered an associate if the Group has significant influence over its financial and operating activities. 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.

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 associates or joint ventures are incorporated in these consolidated financial statements using the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group’s share of losses of an associate or a joint venture exceeds the Group’s interest in that associate or joint venture (which includes any interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing 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 associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, 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 recognized 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 recognized 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 recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized 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 a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture 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.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture 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 or a joint venture 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 recognized 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 or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Intangible assets

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure – The Group recognizes intangible assets arising out of development when it can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete, use or sell the asset;
- The ability to use or sell the intangible asset;
- It is probable that 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 recognized 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 when incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

No amortization is charged for intangible assets that are in the phase of development. Amortization 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. Intangible assets which have been transferred from intangible assets under development to intangible assets subject to amortization are represented with patents and are amortized over the useful economic lives of the patents ranging between 51 to 174 months. Know-how and production technology development costs are considered to have indefinite useful lives. Such assets are not amortized and are carried at cost less accumulated impairment losses. The ERP system development and installation costs are amortized over 120 months which is the best estimate of their useful economic lives.

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

Intangible assets acquired in a business combination – Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Property, plant and equipment

Property, plant and equipment acquired by the Group are recorded at purchase or construction cost, less accumulated depreciation and accumulated impairment. The costs of day to day servicing of property, plant and equipment, including repairs and maintenance expenditure, are expensed as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Construction In-Progress is carried at cost, less any recognized impairment loss. Cost includes capital expenditures directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads including capitalized borrowing costs on qualifying assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use. Construction in-progress items are reviewed regularly to determine whether their carrying value is fairly stated.

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately All other costs are recognized in the consolidated profit or loss as an expense as incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

Depreciation is recognized 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, years
Office equipment and furniture	1-10
Equipment and motor vehicles	2-31
Railcars	22-32
Production plant and buildings	20-50

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. Residual values of assets and their useful lives are reviewed and adjusted at each balance sheet date, if necessary.

Impairment of non-financial 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 to sell 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.

Leases

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.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Payments under operating leases are recognized as an expense on a straight-line basis over the term of the lease. Lease incentives received are recognized as a liability and a reduction to expense on a straight-line basis. Contingent rentals under operating leases are recognized as an expense in the period in which they are incurred.

Financial assets

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss', investments 'held-to-maturity', 'available-for-sale' financial assets and loans and receivables. The classification of financial assets 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 recognized and derecognized 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 the reporting date the Group had only financial assets classified as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

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.

Impairment of financial assets

The financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account (provision for impairment of receivables).

If, in a subsequent period, the amount of the impairment loss for assets carried at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss and other comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on 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 instruments.

Inventories

Inventories are stated at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventory is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with banks, short-term interest-bearing deposits and short-term bank overdrafts with original maturities of not more than three months. Restricted cash balances are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. 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 other non-current assets.

Accounts payable and other financial liabilities

Accounts payable and other financial liabilities are initially recognized at cost, which is the fair value of the consideration received, taking into account transaction costs. After initial recognition, financial liabilities are carried at amortized cost. Interest expense is calculated using the effective interest method. As normally the expected term of accounts payable is short, the value is stated at the nominal amount without discounting, which corresponds with fair value.

Provisions

Provisions are recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is significant, the amount of a provision is the present value of the cash flows required to settle the obligation.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date. Provisions in respect of uncertain tax positions which relate to income tax are included in current income tax at an amount expected to be payable including penalties, if any.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and joint ventures to the extent that the parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be utilized in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liabilities are settled or the assets realized.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are not discounted.

Revenue 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

Revenue from the sale of goods is recognized when significant risks and rewards incidental to ownership are transferred to the customers. According to supply contracts, the title for goods passes to customers at the moment of signing an Acceptance Act at the manufacturing plant.

(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) Rail-based freight transportation services and other services

Rail-based freight transportation services provided by the Group primarily include provision of railcars for transportation. The Group recognizes revenue in the amount of fees for provision of railcars, while charges for railway infrastructure services (railway freight tariff of PJSC Russian Railways) are borne directly by the customers.

Revenues from these services are recognized in the accounting period in which the services are rendered, by reference to stage of completion of the specific transactions assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iv) 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 an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized and amortized over the useful life of the asset. Other borrowing costs are recognized as an expense 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 recognized 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 and other comprehensive income over the periods of the related interest expense unless this interest was capitalized 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 and credited to the profit or loss and other comprehensive income on a straight-line basis over the expected lives of these assets.

Share capital

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

Additional paid-in capital

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 shareholders is at the Group's discretion.

Loan granted to the parent

Loans granted to the parent and other companies under common control and other accounts receivable from these companies are recognized as an asset or a decrease in equity based on the substance of each separate transaction giving rise to such debt. Usually, loans receivable from the parent and other companies under common control are presented as a decrease in equity. These loans may be recognized as an asset where all material arrangements of this transaction (including interest, repayment terms, intention and practical ability to repay the debt, size and adequacy of collateral, etc.) are comparable with the market ones, and they are expected to be repaid in a relatively short period of time.

Employee benefits

The Russian companies of the Group are obliged to make defined contributions to the State Pension Fund of the Russian Federation in accordance with the effective Russian legislation. Contributions to the Pension Fund of the Russian Federation related to a defined contribution plan are recognized in the profit or loss in the period to which they relate.

(in thousands of Russian Rubles, unless otherwise indicated)

In the Russian Federation all payments to extra-budgetary funds including contributions to the State Pension Fund are collected through social security charges calculated by the application of a rate from 10% to 30% to the annual gross remuneration of each employee. The rate of the contribution to the State Pension Fund of the Russian Federation varies from 10% to 22%. If the annual gross remuneration of an employee exceeds the limit of RUB 711 thousand (2015 limit) the rate of 10% is applied to the excess amount to determine the amount of the respective contributions.

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

The Group has adopted all of the new and revised Standards and interpretations that are mandatory for adoption in annual periods beginning on January 1, 2015. The adoption did not have a material impact on the Group's consolidated financial statements.

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

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

New or revised standard and/or interpretation	**Effective date[1] -** For annual reporting periods starting on or after
IFRS 9 *Financial Instruments*	January 1, 2018
IFRS 15 *Revenue from Contracts with Customers*	January 1, 2018
IFRS 16 *Leases*	January 1, 2019
Amendments to IFRS 11 *Accounting for Acquisitions of Interests in Joint Operations*	January 1, 2016
Amendments to IAS 1 – *Disclosure Initiative Project*	January 1, 2016
Amendments to IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*	January 1, 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]
IFRS 14 *Regulatory Deferral Accounts*	January 1, 2016
Amendments to IAS 27 *Equity Method in Separate Financial Statements*	January 1, 2016
Annual Improvements to IFRSs 2012-2014 Cycle.	January 1, 2016
Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*	January 1, 2017

[1] Early application is permitted for all new and revised standards and interpretations. Earlier application of IFRS 16 is permitted provided that IFRS 15 Revenue from Contracts with Customers is applied.
[2] The amendments were issued in September 2014 and were to become effective from January 1, 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 adoption of these standards in the preparation of the consolidated financial statements and plans to adopt them when they become effective or earlier, where permitted. This will ensure a more reliable presentation of the consolidated financial statements. The impact of the adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is being assessed by the Management.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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 ongoing basis. Revisions to accounting estimates are recognized in the current period if the revision affects only that period, or in the period of the revision and future periods.

Critical accounting estimates

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

Compliance with tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. It is possible that the tax treatment of transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group (see Note 27).

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Identification of related parties calls inevitably for the application of management's professional judgment. The related party disclosures in these consolidated financial statements, in the opinion of the management, provide all information necessary to attract attention to the potential effect of the Group's transactions and outstanding mutual payment balances with related parties on its financial position and financial performance (Note 26).

IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment 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 analysis. Terms and conditions of related party balances are disclosed in Note 26.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least annually at the end of each reporting period. If expectations differ from previous estimates, the difference is recognized as a change in accounting estimates, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of property, plant and equipment and intangible assets

The Group reviews at each reporting date the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that assets are impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment may exist.

Whenever such indications exist management makes an estimate of the asset's recoverable amount to ensure that it is not less than its carrying value. If the asset's fair value is not readily determinable or is less than asset's carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value-in-use calculation.

The Group carried out a review of the recoverable amount of railcars, property, plant and equipment in the "Sales" segment as part of its impairment review of non-current assets at the reporting date. For this purpose, the recoverable amount of railcars was determined based on value in use calculations. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and corresponding discount rate which reflects time value of money and risks associated with the Group's operations. Key assumptions management used in their value in use calculation are as follows:

- The Group estimated its future cash flows for the period from 2016 to 2020, after which it assumed a constant amount of cash flow in real terms for the remaining average useful life of the existing assets.
- Cash inflow projections are based on the average daily contractual revenue, which is calculated by management as average daily leasing rate for leased rail cars.
- Prices for rail car repairs are expected to remain at a level of prices effective in 2015 in real terms.

The pre-tax discount rate used in the calculations was equal to 7.42% in real terms. It has been determined with reference to the estimated weighted average cost of capital of the Group.

Values assigned to key assumptions and estimates used to measure the unit's value-in-use are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

For the year ended December 31, 2015 an impairment loss of RUB 31 797 thousand was recognized (2014: RUB 27 309 thousand).

The above estimates are particularly sensitive to the changes in the following assumptions:

- An increase in discount rate to 10.5% increases the impairment loss to approximately RUB 90 087 thousand;
- A 5% decrease in future planned operating revenues increases the impairment loss to approximately RUB 88 465 thousand.

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 the intangible assets have 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.

The goodwill and intangible assets with indefinite useful lives have been allocated to the Group's railcar building cash-generating unit, which constitutes the "Production" segment of the Group's operations. At the same time, in 2015 the impairment analysis excluded goodwill from business combinations as well as cash flows of the mentioned companies, as the acquisition took place in December 2015 and were recognized in the consolidated financial statements at the estimated preliminary value and, therefore, goodwill was not allocated to the Group's CGUs as at the date of the consolidated financial statements.

The recoverable amount was determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the management covering a five-year period, and a pre-tax RUB discount rate of 17% in nominal terms.

Cash flow projections during the forecast period are based on growing gross margins and raw materials price inflation throughout the forecast period. The expected increase in gross margins is based on achievement of the plant full production capacity and putting into operation of the 4th production line. The cash flows beyond that five-year period have been extrapolated using a steady 3.5% per annum growth rate which is the projected long-term average growth rate for the industrial market of the Russian Federation.

The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

Critical judgements in applying accounting policies

Classification of inventories and trade accounts payable of TVSZ JSC

Prior to 2015, most of the railcars produced by the manufacturing unit in Tikhvin were used internally by the operating lease business unit. Therefore, inventories of TVSZ JSC including raw materials and materials for railcar production were accounted for as a part of construction in progress and the respective trade accounts payable were recognized as payables for property, plant and equipment.

In 2015 the Group significantly increased sales of railcars to third parties, which currently make up a predominant share of shipments, and, therefore, reclassified inventories of TVSZ JSC from construction in progress to either finished goods (railcars) or raw materials and components for railcar production and the respective accounts payable from payables for property, plant and equipment to trade payables.

Classification of acquisitions of entities under common control

In 2015 the Group acquired two companies under common control for the total consideration of RUB 7 954 848 thousand (Note 6). The management believes that the consideration is in line with an approximate market value of the businesses acquired and, therefore, the acquisitions are accounted for using the purchase method.

If the transactions were accounted for on a carryover basis, the goodwill on the acquisitions in the amount of RUB 8 863 697 thousand would have been recognized as a decrease in the Group's equity.

(in thousands of Russian Rubles, unless otherwise indicated)

5. SEGMENT INFORMATION

For manageability purposes the Group is divided into business units on the basis of goods manufactured and services rendered, and incorporates three reporting segments:

- The Production segment is involved in manufacturing and sale of freight railcars with improved technical and economic characteristics and fitted with innovation trucks;
- The Sales segment provides operating and finance lease of freight railcars;
- The Operation segment provides rail transportation services (the segment was designated as a reporting segment in 2015 due to growth in operating activities).

The Group's principal business activities are within the Russian Federation. Other activities of the Group do not constitute a separate reporting segment and are included in the "Other segments" category.

Accounting principles of the reportable segments are consistent with the Group accounting policies described in Note 2. The management of the Group assesses performance of operating segments based on profit before tax, finance costs and income, foreign exchange differences, depreciation and amortization and impairment loss ("EBITDA"). Segment income is used by the chief operating decision maker for the purposes of resource allocation and evaluation of segment results.

Segment information for the years ended on the indicated dates is presented as follows:

December 31, 2015	**Production segment**	**Sales segment**	**Operation segment**	**Other segments**	**Total segments**	**Adjustments and eliminations**	**Consolidated**
Revenue	**32 058 482**	**4 294 762**	**6 201 417**	**3 338 206**	**45 892 867**	**(3 804 922)**	**42 087 945**
including inter-segment revenue	501 851	928 489	6 166	3 073 171	4 509 677	(4 509 677)	-
Cost of sales, including:	**(29 791 081)**	**(2 568 113)**	**(5 994 541)**	**(2 744 703)**	**(41 098 438)**	**3 232 926**	**(37 865 512)**
- Raw materials	(20 212 465)	(1 212)	(2 352)				
- Payroll and social contributions	(3 858 190)	-	-				
- Property tax	-	(618 766)	-				
- Maintenance and repairs	-	(253 752)	-				
- Freight costs	-	-	(3 052 769)				
- Operating lease of railway cars	-	-	(2,939,420)				
- Depreciation and amortization	(3 474 280)	(1 621 025)	-				
- Other	(2 246 146)	(73 358)	-				
EBITDA	**4 170 939**	**2 779 417**	**(34 869)**	**(36 163)**	**6 879 324**	**155 571**	**7 034 895**
Finance income	15 859	2 718 857	3 380	5 618 937	8 357 033	(6 915 163)	1 441 870
Finance costs	(2 209 659)	(9 120 430)	(8 593)	(5 667 676)	(17 006 358)	6 915 253	(10 091 105)
Depreciation and amortization	(3 520 936)	(1 621 025)	-	(169 257)	(5 311 218)	(10 153)	(5 321 371)
Foreign exchange gain/(loss)							(3 172 189)
Impairment loss							(31 797)
Loss before income tax							**(10 139 697)**

December 31, 2014	**Production segment**	**Sales segment**	**Other segments**	**Total segments**	**Adjustments and eliminations**	**Consolidated**
Revenue	**23 166 418**	**4 379 058**	**2 876 357**	**30 421 833**	**(13 364 344)**	**17 057 489**
including inter-segment revenue	11 025 806	646 858	1 732 435	13 405 099	(13 405 099)	-
Cost of sales, including:	**(24 292 988)**	**(2 115 677)**	**(3 009 165)**	**(29 417 830)**	**14 433 300**	**(14 984 530)**
- Raw materials	(17 153 217)	(296 062)				
- Payroll and social contributions	(3 672 928)	-				
- Property tax	-	(214 784)				
- Maintenance and repairs	-	(124 845)				
- Depreciation and amortization	(3 113 561)	(1 428 903)				
- Other	(353 282)	(51 083)				
EBITDA	**1 292 502**	**3 348 689**	**(632 099)**	**4 009 092**	**(437 434)**	**3 571 658**
Finance income	6 416	1 113 153	2 115 108	3 234 677	(2 587 364)	647 313
Finance costs	(1 943 679)	(4 953 708)	(2 344 446)	(9 241 833)	2 725 696	(6 516 137)
Depreciation and amortization	(3 113 561)	(1 428 903)	(67 283)	(4 609 747)	1 489 771	(3 119 976)
Foreign exchange gain/(loss)						4 604 625
Impairment loss						(27 309)
Loss before income tax						**(839 826)**

(in thousands of Russian Rubles, unless otherwise indicated)

Breakdown of the Group's revenue by types of goods and services is presented in Note 20. In 2015, the key external customer of the Production segment was NitroChemProm LLC which accounted for more than 90% of the segment's external sales. In 2015, the key external customers of the Sales and Operation segments were SUEK JSC and UGMK-Trans LLC, respectively, which accounted for 32% and 67% of the segments' sales.

Segment assets and liabilities are not disclosed, as this information is not provided to the chief operating decision maker.

6. ACQUISITION OF SUBSIDIARIES

Transmashenergo LLC

In December 2015, the Group obtained control over Transmashenergo LLC, a power station under construction, by acquiring 100% interest in the company's charter capital for RUB 6 004 000 thousand from companies under common control with the Group.

The assets and liabilities acquired were recognized on a provisional basis at their carrying values at the date of the acquisition. The Group is using external appraisers to establish the fair value of the long-term assets acquired and will update the provisional valuation in its next annual financial statements upon completion of the valuation.

Carrying values of assets and liabilities of Transmashenergo LLC at the acquisition date are presented below:

	Value as recognized on acquisition
Property, plant and equipment	6 646 326
Advances for property, plant and equipment	23 747
Deferred tax assets	344 368
Inventories	42 331
Trade receivables	34
Advances paid and other current assets	32 577
VAT receivable	148 260
Cash and cash equivalents	461
Total assets	**7 238 104**
Long-term loans and borrowings	5 896 500
Deferred tax liabilities	241 718
Short-term loans and borrowings	1 051 208
Accounts payable	405 478
Advances received and other current liabilities	4 516
Total liabilities	**7 599 420**
Net liabilities acquired	**(361 316)**
Goodwill arising on acquisition	6 365 316
Total purchase consideration	**6 004 000**
Cash and cash equivalents of subsidiaries acquired	(461)
Consideration remained unpaid as at December 31, 2015	(4 104 000)
Net outflow of cash and cash equivalents on the acquisition date	**1 899 539**

The subsidiary was acquired at the end of the year ended December 31, 2015 and, therefore, didn't contribute any revenue or profit for the year ended December 31, 2015. Transmashenergo LLC had no operating activities in 2015 and, therefore, if the acquisition had occurred on January 1, 2015, the Group's consolidated revenue and loss for the year ended December 31, 2015 would not have changed significantly.

(in thousands of Russian Rubles, unless otherwise indicated)

Titran-Express TAP JSC

In December 2015, the Group obtained control over Titran-Express TAP JSC, a car repair depot, by acquiring a call option to acquire 100% of the company's shares from companies under common control with the Group.

The assets and liabilities acquired were recognized on a provisional basis at their carrying values at the date of the acquisition. The Group is using external appraisers to establish the fair value of the long-term assets acquired and will update the provisional valuation in its next annual financial statements upon completion of the valuation.

Carrying values of assets and liabilities of Titran-Express TAP JSC at the acquisition date are presented below:

	Value as recognized on acquisition
Property, plant and equipment	494 421
Intangible assets	6 079
Deferred tax assets	106 537
Inventories	252 905
Trade receivables	610 331
Advances paid and other current assets	35 156
VAT receivable	24 652
Cash and cash equivalents	27 989
Total assets	**1 588 070**
Long-term loans and borrowings	851 028
Deferred tax liabilities	7 013
Short-term loans and borrowings	170 569
Accounts payable	1 040 753
Advances received and other current liabilities	36 240
Total liabilities	**2 105 603**
Net liabilities acquired	**(547 533)**
Goodwill arising on acquisition	**2 498 381**
Total purchase consideration	**1 950 848**
Cash and cash equivalents of subsidiaries acquired	(27 989)
Consideration remained unpaid as at December 31, 2015	(10 204)
Net outflow of cash and cash equivalents on the acquisition date	**1 912 655**

The subsidiary was acquired at the end of the year ended December 31, 2015 and, therefore, didn't contribute any revenue or profit for the year ended December 31, 2015. In 2015 the most of sales of Titran-Express TAP JSC comprised services rendered and repair works performed to subsidiaries of the Group and, therefore, if the acquisition had occurred on January 1, 2015, the Group's consolidated revenue for the year ended December 31, 2015 would not have changed significantly.

If the acquisition had occurred on January 1, 2015, consolidated loss of the Group for the year ended December 31, 2015 would have increased by approximately RUB 119 228 thousand.

(in thousands of Russian Rubles, unless otherwise indicated)

7. GOODWILL AND INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets were as follows:

	Goodwill	Intangible assets at the development stage	Know-how and patents	Software	Total
Cost					
As at January 1, 2014	**107 535**	**85 091**	**2 532 461**	**222 199**	**2 947 286**
Additions	-	188 895	25 905	34 876	249 676
Transfers	-	(44 702)	44 702	-	-
At December 31, 2014	**107 535**	**229 284**	**2 603 068**	**257 075**	**3 196 962**
Additions	-	2 522 559	8 137	31 823	2 562 519
Acquisition of subsidiaries	8 863 697	-	6 043	36	8 869 776
Disposal of subsidiaries	-	(200)	-	(202)	(402)
Transfers	-	(1 651 893)	1 646 205	5 688	-
At December 31, 2015	**8 971 232**	**1 099 750**	**4 263 453**	**294 420**	**14 628 855**
Accumulated amortization					
As at January 1, 2014	-	-	**163 188**	**15 055**	**178 243**
Amortization charge	-	-	159 218	20 716	179 934
At December 31, 2014	-	-	**322 406**	**35 771**	**358 177**
Amortization charge	-	-	248 318	29 645	277 963
Disposal of subsidiaries	-	-	-	(35)	(35)
At December 31, 2015	-	-	**570 724**	**65 381**	**636 105**
Net book value					
At December 31, 2014	**107 535**	**229 284**	**2 280 662**	**221 304**	**2 838 785**
At December 31, 2015	**8 971 232**	**1 099 750**	**3 692 729**	**229 039**	**13 992 750**

The Group is engaged in research and development of freight rolling stock technologies. Intangible assets at the development stage include capitalized expenses for development of casting and railway car building technologies for future use in production of the new generation railway cars in the town of Tikhvin. During 2015 and 2014 the Group registered patents with regards to exclusive rights to utility models and to know-hows by means of technical specifications. The registered intangible assets are transferred from intangible assets under development to know-how and patents, and are amortized over their useful economic lives ranging from 51 to 174 months.

Production technologies development costs are considered to have indefinite useful lives and are carried at cost less accumulated impairment losses. The total amount of know-hows and patents with indefinite useful lives was RUB 1 063 280 thousand and RUB 981 712 thousand as of December 31, 2015 and 2014, respectively.

Software mainly relates to the ERP system implemented at TVSZ JSC and amortized over a period of 120 months. Intangible assets pledged as collateral are disclosed in Note 16.

In 2015 the Group acquired Transmashenergo LLC and Titran-Express TAP JSC and recognized goodwill in the amount of RUB 8 863 697 thousand (Note 6). The acquisitions were recorded at the carrying value of assets and liabilities as a provisional amount and, therefore, the amount of the goodwill is provisional and subject to change after completion of purchase price allocation.

(in thousands of Russian Rubles, unless otherwise indicated)

8. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment were as follows:

	Railcars	Equipment and motor vehicles	Production plant and buildings	Office equipment and furniture	Construction in progress (i)	Total
Cost						
As at January 1, 2014	**24 748 429**	**17 782 752**	**13 648 009**	**129 102**	**7 366 250**	**63 674 542**
Additions	2 277 130	343 433	153 849	818	24 891 951	27 667 181
Acquisition of companies	-	-	231 409	-	102 065	333 474
Transfers	22 581 958	2 269 467	252 139	69 837	(25 172 590)	811
Write-offs	-	(13 603)	(11 217)	(2 906)	(4 188)	(31 914)
Transfer to goods for sale	(10 165 534)	-	-	-	-	(10 165 534)
At December 31, 2014	**39 441 983**	**20 382 049**	**14 274 189**	**196 851**	**7 183 488**	**81 478 560**
Additions	-	13 989	-	-	8 429 050	8 443 039
Acquisition of companies	-	203 393	251 801	45 598	6 639 955	7 140 747
Transfers	1 928 523	1 599 583	118 249	83 285	(3 729 640)	-
Reclassification	-	152 639	(152 489)	(150)	-	-
Transfer to inventories	-	-	-	-	(4 769 205)	(4 769 205)
Write-offs	(7 895)	(21 599)	(9 786)	(389)	(111 933)	(151 602)
Transfer to goods for sale	(2 468 265)	-	-	-	-	(2 468 265)
At December 31, 2015	**38 894 346**	**22 330 054**	**14 481 964**	**325 195**	**13 641 715**	**89 673 274**
Accumulated amortization						
As at January 1, 2014	**6 446 520**	**1 172 182**	**657 568**	**33 016**	**(50 589)**	**8 258 697**
Amortization charge	1 652 420	2 713 554	434 818	50 750	-	4 851 542
Write-offs	-	(6 700)	(9 036)	(2 007)	-	(17 743)
Transfer to goods for sale	(124 589)	-	-	-	-	(124 589)
Impairment losses (ii)	27 309	-	-	-	-	27 309
At December 31, 2014	**8 001 660**	**3 879 036**	**1 083 350**	**81 759**	**(50 589)**	**12 995 216**
Amortization charge	1 784 491	3 050 159	419 385	65 533	-	5 319 568
Write-offs	(1 483)	(20 354)	(7 505)	-	-	(29 342)
Reclassification	-	13 427	(13 377)	(50)	-	-
Transfer to goods for sale	(72 801)	-	-	-	-	(72 801)
Impairment losses (ii)	31 797	-	-	-	-	31 797
At December 31, 2015	**9 743 664**	**6 922 268**	**1 481 853**	**147 242**	**(50 589)**	**18 244 438**
Net book value						
At December 31, 2014	**31 440 323**	**16 503 013**	**13 190 839**	**115 092**	**7 234 077**	**68 483 344**
At December 31, 2015	**29 150 682**	**15 407 786**	**13 000 111**	**177 953**	**13 692 304**	**71 428 836**

(i) Construction in progress includes primarily expenses for the construction of the railway car manufacturing plant and equipment being prepared for installation, as well as the power station under construction.

(ii) In 2015 and 2014 the Group carried out a review of the recoverable amount of railway cars and construction in progress. The review led to the recognition of an impairment loss of RUB 31 797 thousand and RUB 27 309 thousand, respectively, which has been recognized in profit or loss (Note 4).

Information on capitalized borrowing costs and interest rates used for calculation is presented in Note 16. Information on property, plant and equipment pledged as collateral is also disclosed in Note 24.

(in thousands of Russian Rubles, unless otherwise indicated)

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Group's significant associates and joint ventures include:

Name	Type of investment	Place of incorporation and operation	Ownership and voting interest of the Group December 31, 2015	Ownership and voting interest of the Group December 31, 2014
MRC 1520 LLC	Joint venture	Moscow, Russia	50%	50%
Timken UWC LLC	Associate	Tikhvin, Russia	49%	-
JC Wabtec UWC LLC	Associate	Tikhvin, Russia	49%	-

During 2012, the Company entered into a joint venture agreement with MRC 1520 LLC and Mitsui Corporation and acquired a 50% share in IMRCR Limited, the owner of MRC 1520 LLC. The joint venture commenced its operations in 2013. The joint venture’s primary business is operating lease and sale of railcars to transportation and manufacturing companies within Russia.

The Group's share in profit/(loss) of the joint venture for 2015 and 2014 recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 157 928 thousand and RUB 149 700 thousand, respectively. Summarized financial information in respect of the Group's joint venture and its reconciliation to the carrying amount of the interest in the joint venture are set out below. The summarized financial information below represents amounts shown in the joint venture's consolidated financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

	December 31, 2015	December 31, 2014
Cash and cash equivalents	701 390	215 928
Other current assets	5 025	17 313
Non-current assets	716 430	1 520 552
Short-term loans and borrowings	(525 500)	(1 407 248)
Other current liabilities	(255 936)	(28 869)
Non-current liabilities	(8 565)	-
Net assets of the joint venture	**632 844**	**317 677**
Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	**316 422**	**158 838**

	2015	2014
Revenue	1 310 773	273 486
Profit/(loss) and total comprehensive income/(loss) for the year	315 855	(299 400)

The above profit/(loss) for the year includes the following:

	2015	2014
Depreciation and amortization	(83 098)	(102 694)
Interest income	-	500
Interest expense	(22 862)	(77 381)
Income tax expense	(77 703)	70 312

(in thousands of Russian Rubles, unless otherwise indicated)

In 2015 the Company entered into agreement with Timken UWC LLC and Timken Lux Holdings II S.A.R.L. and acquired a 49% share in TUBC Limited, the owner of Timken UWC LLC. The associate commenced its operation in 2015. The principal activity of the associate is the production of bearings for freight railcars. Timken UWC LLC is an associate of the Group as the Group has significant influence over its financial and operating activities, i.e. the Group has decision-making powers but cannot control activities of Timken UWC LLC.

Summarized below is the financial information on the associate of the Group. This information reflects amounts of the associate reported in accordance with IFRS.

	December 31, 2015
Net assets of the associate	888 495
Carrying amount of the Group's interest in the associate	435 696

	2015
Profit and total comprehensive income for the year	61 504
Group's share in profit of the associate	30 137

In 2015 the Group entered into a joint venture agreement with JC Wabtec UWC LLC and Wabtec Corporation and acquired a 49% share in the joint venture. The principal activity of the joint venture is the development and production of innovative components for freight rolling stock, including the heavy one. As at the reporting date the joint venture did not commence its operations. At December 31, 2015, the carrying value of the Group's non-controlling interest in the associate amounted to RUB 383 thousand.

10. INVENTORIES

Inventories comprised:

	December 31, 2015	**December 31, 2014**
Raw materials and components for railcar production	7 081 812	-
Finished goods (railcars)	958 781	-
Other inventories	484 393	266 972
Total inventories	**8 524 986**	**266 972**

Significant increase in inventories relates to the reclassification of raw materials and components for railcar production (Note 4).

(in thousands of Russian Rubles, unless otherwise indicated)

11. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following:

	December 31, 2015	December 31, 2014
Trade receivables from sale of railcars	3 621 497	6 064 610
Trade receivables from operating lease and rail-based freight transportation services	658 913	1 432 920
Other receivables	18 652	81 003
Provision for doubtful trade and other receivables	(295 627)	-
Total trade and other receivables	**4 003 435**	**7 578 533**

Management has determined the provision for impairment of receivables based on assessment of customers' credit quality, changes in industry trends, subsequent receipts and historical experience. The status of trade receivables that are past due but not impaired at the reporting date is as follows:

	December 31, 2015	December 31, 2014
Past due 31 - 90 days	28 179	199 445
Past due 90-180 days	14 377	144 711
Past due 181 - 365 days	5 135	194 344
Past due over 365 days	50 420	443 328
Total	**98 111**	**981 828**

Movements in the provision for doubtful trade and other receivables during the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Balance at the beginning of the year	-	36 886
Use of the provision for impairment of trade accounts receivable	-	(36 886)
Movements in the provision for impairment of trade accounts receivable	295 627	-
Balance at the end of the year	**295 627**	**-**

12. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS

Prepayments to suppliers and other assets comprised:

	December 31, 2015	December 31, 2014
Prepayments to suppliers	1 077 908	353 671
Government grants receivable	347 766	35 441
Prepaid expenses	208 899	197 832
Prepayment to customs	49 677	90 334
Taxes receivable	12 413	28 096
Provisions for doubtful prepayments	(130 593)	-
Total prepayments to suppliers and other assets	**1 566 070**	**705 374**

(in thousands of Russian Rubles, unless otherwise indicated)

13. LOANS RECEIVABLE

Loans issued including interest accrued were as follows:

	Currency	Rate, %	December 31, 2015	December 31, 2014
Loans to related parties				
Re Test Cyprus LTD	USD	6.4%	286 061	104 742
United Wagon PLC	USD	7%	276 656	11 133 877
United Wagon PLC	USD	6.4%	230 592	168 118
Test Center Holding	USD	6.4%	33 275	24 019
TTC RT LLC	RUB	7.50%	6 777	26 286
Re Test LTD	USD	6.4%	3 479	2 027
TH RCC LLC	USD	6.6%	-	310 390
Loans to third parties				
Doland Business Ltd	RUB	11%	5 129 065	-
SZIZhK LLC	RUB	11%	390 370	-
Business Engineering LLC	RUB	11%	127 039	-
SZIPK LLC	RUB	9%	31 200	31 590
BLK-Proekt LLC	RUB	10%	26 905	34 418
NitroChemProm LLC	RUB	9%	-	1 029 553
Doland Business Ltd	USD	3.5%	-	5 046 574
Other			24	2 606
Total loans receivable			**6 541 443**	**17 914 200**
Short-term loans			5 187 614	16 255 261
Long-term loans			1 353 829	1 658 939
Total loans receivable			**6 541 443**	**17 914 200**

As at December 31, 2015, the Group recognized impairment loss on a loan receivable from TH RCC LLC, a related party, in the amount of RUB 88 226 thousand due to the uncertainty regarding the recoverability of the loan.

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

	December 31, 2015	December 31, 2014
Current accounts in Euro	2 032 723	6 505
Deposits in RUB	978 767	1 879 003
Current accounts in RUB	190 274	490 467
Current accounts in USD	5 701	10 599
Cash in transit	1	21
Total cash and cash equivalents	**3 207 466**	**2 386 595**

As at December 31, 2015, the Group placed cash in overnight deposits to gain interest income. The interest rate on the deposits ranges from 5% to 15.5%.

(in thousands of Russian Rubles, unless otherwise indicated)

In July 2015, in accordance with covenants imposed by the syndicated loan agreement with Vnesheconombank and Eurasian Development Bank one of the Group's subsidiaries deposited cash to the reserve bank account until December 23, 2025. Under the terms of the loan agreement, the use of deposited funds is possible only with the consent of the creditors, and the amount of funds should be sufficient to cover a short-term portion of the principal and interest accrued in the next 6 months. As at December 31, 2015, the deposited funds in the amount of RUB 1 781 709 thousand were recorded in non-current assets in the line item “Restricted cash”.

15. SHARE AND ADDITIONAL PAID-IN CAPITAL

As at December 31, 2015, the Company's issued and registered share capital amounted to RUB 105 556 thousand, divided into 105 556 000 ordinary non-certificated registered shares with par value of RUB 1 each. The share capital was fully paid for as at the reporting date.

As at December 31, 2014, the Company's issued and registered share capital amounted to RUB 10 thousand, divided into 10 000 ordinary shares with par value of RUB 1 each. In December 2014 the Group’s shareholders made a decision on additional issue of 99 990 000 shares with par value of RUB 1 each. As at December 31, 2014 the Company reported RUB 99 990 thousand as issued but not registered share capital, as the issue was officially registered only on March 17, 2015.

On March 5, 2015, the Group’s shareholders approved a decision to make an increase of the share capital of the Group by means of additional issue of 5 556 000 ordinary shares. In April 2015 the Group held an initial public offering of 5 556 000 shares by listing its shares on the Moscow stock exchange for RUB 3 889 200 thousand (based on the issuance price of RUB 700 per share with a par value of RUB 1). The difference between the issuance price and the par value was recorded in additional paid-in capital of the Company in the amount of RUB 3 729 755 thousand less issuance costs in the amount of RUB 153 889 thousand.

16. LOANS AND BORROWINGS

Loans and borrowings comprised:

	Maturity	Interest rate (at December 31, 2015)		December 31, 2015	December 31, 2014
Secured borrowings, at amortized cost, including:					
RUB-denominated					
Sberbank PJSC	2021-2023	Fixed	10.2%-10.95%*	18 530 229	19 699 565
Vnesheconombank and EDB	2022	Fixed	11.8%	17 542 200	17 910 686
Otkritie FC Bank PJSC	2016	Floating	MosPrime 3m +4%	9 280 646	9 238 192
Otkritie FC Bank PJSC	2017	Fixed	10.7%-14%	5 480 327	-
Khanty-Mansiysk Bank Otkritie PJSC	2018-2020	Floating	MosPrime 3m +2.5%	5 304 487	2 429 647
Gasprombank (JSC)	2022	Fixed	12.15%	2 166 160	2 290 783
TM-Energo Finance LLC	2019	Fixed	9%	1 899 773	-
Otkritie FC Bank PJSC	2020	Floating	MosPrime 3m +1.5%	1 350 000	-
RUSNANO Group	2016-2017	Fixed	14%	799 548	996 953
Railways Development Ltd	2016	Fixed	8.5%	584 275	-
Otkritie FC Bank PJSC	2020	Floating	Key rate of the CBR +1.5%	500 000	-
Khanty-Mansiysk Bank Otkritie PJSC	2017	Fixed	13.5%	161 203	221 209
United Wagon PLC	2018	Fixed	6.5%	7 792	7 350
Eurasian Development Bank (EBD)	2015	Fixed	12%	-	3 010 000
EUR-denominated					
Otkritie FC Bank PJSC	2022	Fixed	10%	6 467 016	5 642 481
Khanty-Mansiysk Bank Otkritie PJSC	2016	Fixed	4.7%	1 047 935	-
Total loans and borrowings				**71 121 591**	**61 446 866**
Less: current portion				15 286 129	16 953 742
Long-term loans and borrowings				**55 835 462**	**44 493 124**

* Effective from August 17, 2018 the maximum rate - MosPrime 3m+6%

(in thousands of Russian Rubles, unless otherwise indicated)

Under the terms of the borrowing agreements as at December 31, 2015, the Group provided the following types of security:

- Property, plant and equipment with a carrying value of RUB 51 545 178 thousand (Note 8);
- Intangible assets with a carrying value of RUB 81 642 thousand (Note 7);
- Inventories with a carrying value of RUB 1 000 697 thousand (Note 10);
- Shares in subsidiaries (TVSZ JSC (100%), Advanced Freight Car Technology Limited (100%), DEANROAD Limited (100%), Raygold Limited; RAIL1520 LLC (100%), RAIL1520 Service LLC (100%); Transmashenergo LLC (100%), RPC UWC PJSC (24.53%), RAIL 1520 Cyprus Ltd (100%), RAIL1520 BVI Ltd (100%), Springs Industrial Technology Center LLC (100%), TikhvinChemMash CJSC (100%).

The schedule of repayments on loans and borrowings for five years ending December 31, 2020 and thereafter is as follows:

Year ended December 31	
2016	15 286 129
2017	10 458 576
2018	7 430 322
2019	8 167 972
2020	12 101 968
Thereafter	17 676 624
Total	**71 121 591**

Covenants

Under the terms of the borrowing agreements, the Group is required to comply with a number of covenants and restrictions, including maintenance of certain financial ratios and other non-financial conditions. Non-compliance with these covenants may result in negative consequences for the Group, including declaration of default. As at December 31, 2015 the Group complied with these covenants, however, in 2015 a Group subsidiary breached a Debt to EBITDA covenant contained in one of its debt agreements. The Group signed an additional agreement with a bank, according to which the above mentioned covenant was attenuated for 2015 which allowed the Group to be in compliance with all of its existing covenants as at the reporting date.

Available credit facilities

As at December 31, 2015 the Group's total unused credit facilities amounted to RUB 10 927 929 thousand and related to the following credit lines:

	Maturity	**Interest rate**	**Available till**	**Amount**
Eurasian Development Bank (EBD)	2018	12.0%	03.07.2018	3 000 000
Khanty-Mansiysk Bank Otkritie PJSC	2017	13.5%	22.12.2017	798
Otkritie FC Bank PJSC	2022	10.5%	25.05.2017	1 557 517
Otkritie FC Bank PJSC	2024	10.5%	30.10.2017	5 739 614
Total				**10 297 929**

(in thousands of Russian Rubles, unless otherwise indicated)

17. BONDS

In 2014 and 2013 the Group issued and placed 30 000 000 bonds (Series BO 01 and Series 01) at par value of RUB 1 thousand each on the MICEX. As at December 31, 2015 and 2014, subsidiaries of the Group held bonds for RUB 1 683 800 thousand and RUB 2 108 300 thousand, respectively, for a purpose of their future resale on the market.

The annual coupon rate of the bonds was set at:

- 8.7% for bonds of Series 01 for the first half-year period and Russia CPI + 3% thereafter with interest being paid semi-annually. In 2015 the following coupon rates were used:
  - 10.56% from 01/01/2015 to 02/06/2015;
  - 27.36% from 03/06/2015 to 01/12/2015;
  - 9.08% from 02/12/2015 to 31/12/2015;
- CBR REPO rate for bonds of Series BO 01 on the 7th day prior to coupon payment + 3.5% with interest being paid semi-annually. In 2015 the following rates were used:
  - 12.5% from 01/01/2015 to 16/03/2015;
  - 16.0% from 17/03/2015 to 14/09/2015;
  - 15.5% from 15/09/2015 to 31/12/2015;

The bonds are guaranteed by certain entities of the Group.

The carrying value of the bonds issued and placed by the Group was as follows:

	Maturity	Effective interest rate for 2015	December 31, 2015	December 31, 2014
Series 01	30.11.2016	18.82%	13 316 200	15 000 000
Series BO 01	10.09.2019	15.12%	15 000 000	12 891 700
Total			**28 316 200**	**27 891 700**

The amount of interest accrued as at December 31, 2015 and 2014 in the amount of RUB 787 750 thousand and RUB 598 961 thousand, respectively, is included in the consolidated statement of financial position as the short-term portion of the bonds.

18. TRADE AND OTHER PAYABLES

Trade and other payables comprised:

	December 31, 2015	December 31, 2014
Trade payables	7 399 814	515 535
Payables for acquisition of subsidiaries	4 118 251	-
Payables for property, plant and equipment	1 179 205	5 842 041
Total trade and other payables	**12 697 270**	**6 357 576**

Significant movements in balances of payables for property, plant and equipment and trade payables relate to the reclassification of payables for supply of raw materials and components for railcar production (Note 4) previously included in payables for property, plant and equipment.

(in thousands of Russian Rubles, unless otherwise indicated)

As at the reporting date, the Group's payables for acquisition of subsidiaries amounted to RUB 4 118 251 thousand, RUB 4 108 048 thousand of which (including interest accrued in the amount of RUB 4 047 thousand) represent payables for acquired interest in Transmashenergo LLC in the form of a commercial loan granted by the seller with maturity on December 31, 2016 at 9% per annum. Interest accrued for the period of the commercial loan is recognized in profit or loss.

19. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

Advances received and other current liabilities comprised:

	December 31, 2015	December 31, 2014
Advances received from customers, including:	1 280 449	381 842
Advances received for sale of goods	*864 523*	*10 693*
Operating lease prepayments	*183 499*	*96 417*
Advances received for rail-based freight transportation services	*210 480*	*66 040*
Taxes payable	2 046 044	595 715
Provisions and accrued expenses	555 672	352 260
Payables for acquisition of intangible assets	183 069	-
Other short-term payables to employees	166 270	65 754
Total advances received and other current liabilities	**4 231 504**	**1 395 571**

20. REVENUE

Revenue comprised the following:

	2015	2014
Sales of railcars	32 306 209	12 224 768
Rail-based freight transportation services	6 195 252	1 198 990
Operating lease of railcars	3 447 763	3 473 472
Other revenue	138 721	160 259
Total revenue	**42 087 945**	**17 057 489**

21. COST OF SALES

Cost of sales comprised the following:

	2015	2014
Raw materials used in production	20 724 922	8 744 580
Depreciation and amortization	5 305 456	3 087 284
Payroll and social contributions	3 916 389	1 861 439
Freight costs	3 052 769	544 336
Operating lease of railcars	2 012 161	134 870
Property tax	627 601	214 819
Railcar repair and maintenance	318 141	124 845
Other	1 908 073	272 357
Total cost of sales	**37 865 512**	**14 984 530**

(in thousands of Russian Rubles, unless otherwise indicated)

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses comprised the following:

	2015	2014
Payroll and social contributions	757 314	517 181
Operating lease expense	631 611	201 494
Provision for doubtful accounts receivable	426 220	-
Information, consulting and audit services	296 099	278 773
Transportation costs for the delivery of railcars to the buyer	150 461	66 187
Other staff costs	132 560	71 762
Disposal and write-off of property, plant and equipment	122 260	14 171
Loss on sale of inventories	76 781	81 203
Advertising expenses	62 393	70 640
Travel expenses	47 917	29 489
Depreciation and amortization	15 915	32 692
Change in railcar warranty provision	(14 384)	83 953
Other	288 401	197 103
Total selling, general and administrative expenses	**2 993 548**	**1 644 648**

23. FINANCE INCOME

Finance income comprised the following:

	2015	2014
Interest income from financial assets	1 354 782	633 796
Interest income on cash and equivalents	87 088	13 517
Total finance income	**1 441 870**	**647 313**

24. FINANCE COSTS

Finance costs comprised the following:

	2015	2014
Interest expense on loans and borrowings	7 729 136	6 189 477
Interest expense on bonds	4 400 795	1 773 095
Bank commissions	330 131	257 472
Government grants	(1 800 947)	(1 448 814)
Less: amounts included in the cost of qualified assets:		
Capitalized interest expense	(570 617)	(348 499)
Capitalized government grants	2 607	93 406
Total finance costs	**10 091 105**	**6 516 137**

The Group receives subsidies from the Ministry of Industry and Trade of the Russian Federation, granted within the state-run program on partial compensation of the interest payable on bank loans used for modernization of the equipment to the extent that such equipment is compliant with certain requirements. From 2014 onwards the Group also receives subsidies for partial compensation of the interest payable on bank loans used for acquisition of innovative railcars.

(in thousands of Russian Rubles, unless otherwise indicated)

25. INCOME TAX

Income tax benefit/(expense) recorded in the statement of profit or loss and other comprehensive income comprises the following:

	2015	2014
Current income tax	(410 788)	(70 427)
Deferred income tax benefit	874 009	1 459 573
Income tax benefit for the year	**463 221**	**1 389 146**

As of December 31, 2015, the income tax rates applicable to the entities of the Group were as follows:

- Russian companies – 20%;
- Cyprus companies – 12.5%;

Below is a reconciliation of income tax calculated using the income tax rate effective in the Russian Federation and the actual income tax recorded in the consolidated statement of profit or loss and other comprehensive income:

	2015	2014
Loss before income tax	**(10 139 697)**	**(839 826)**
Theoretical tax credit at statutory tax rate of 20%	2 027 939	167 965
Tax effect of items which are not deductible or assessable for taxation purposes:		
Unrecognized tax losses of foreign companies for the year	(1 000 839)	(139 707)
Exclusion of foreign exchange differences from taxable profit of foreign companies	(401 473)	1 563 176
Effect of different income tax rates applicable to foreign companies	(160 400)	(109 621)
Taxes accrued for prior years	(32 961)	-
Share of profit/(loss) of joint venture	37 613	(31 444)
Other items	(6 658)	(61 223)
Income tax benefit	**463 221**	**1 389 146**

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets/(liabilities) as at December 31, 2015 and 2014 are presented as follows:

	2015	2014
Tax losses carried forward in Russian companies of the Group	6 422 426	5 253 892
Less: valuation allowance for Russian companies of the Group	(3 004 461)	(3 004 461)
Accounts receivable	68 100	(11 234)
Accruals	39 333	8 797
Property, plant and equipment	(1 379 034)	(1 244 491)
Loan commission	(121 144)	(120 970)
Intangible assets	(323 563)	(271 725)
Other	26 096	41 763
Deferred tax asset, net	**1 727 753**	**651 571**

(in thousands of Russian Rubles, unless otherwise indicated)

The movements in deferred tax during the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Deferred tax asset/(liability) at the beginning of the year, net	651 571	(809 036)
Deferred tax benefit	874 009	1 459 573
Deferred tax liability acquired through business combination	202 173	1 034
Deferred tax asset at the end of the year, net	**1 727 753**	**651 571**

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as at December 31, 2015 and 2014:

	2015	2014
Deferred tax asset	2 643 706	1 852 555
Deferred tax liability	(915 953)	(1 200 984)
Deferred tax asset, net	**1 727 753**	**651 571**

As at December 31, 2015 and 2014, temporary differences associated with undistributed earnings of subsidiaries are not recognized in the consolidated financial statements as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

As at December 31, 2015 the Group has unrecognized potential deferred tax assets in respect of unused tax loss carry forwards of RUB 3 004 461 thousand. Tax loss carry forward period expires in 10 years after the year the loss is incurred (major losses were incurred in 2013 and 2012). The above tax assets may be recognized by the Group when there is certainty over their recoverability.

26. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions, as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group, in the ordinary course of business, enters into various transactions with related parties, such as sale and purchase of railcars spare parts or financing and investing transactions.

The nature of the related party relationships for those related parties, with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2015 are the parent, entities under common control with the Group and joint venture.

(in thousands of Russian Rubles, unless otherwise indicated)

As at December 31, 2015 and 2014 the Group had the following balances with its related parties:

	December 31, 2015	December 31, 2014
Trade and other receivables		
Entities under common control	22 415	668 781
Prepayments for property, plant and equipment		
Entities under common control	-	103 868
Loans granted		
Parent company	507 248	11 301 995
Entities under common control	417 817	467 718
Prepayments		
Entities under common control	11 951	11 136
TOTAL ASSETS	**959 431**	**12 553 498**
Loans and borrowings		
Parent company	7 792	7 349
Entities under common control	1 899 773	-
Trade and other payables		
Parent company	-	189
Entities under common control	16 337	748 660
Payables for acquisition of subsidiaries		
Entities under common control	4 118 251	-
TOTAL LIABILITIES	**6 042 153**	**756 198**

For the years ended December 31, 2015 and 2014 the Group's transactions with its related parties were as follows:

	2015	2014
Sales of railcars and inventories		
Entities under common control	306 701	209 053
Sales of electric power		
Entities under common control	1 131	47 474
Income from consulting activities		
Joint venture	27 555	21 019
Entities under common control	203	155
Lease and other income		
Parent company	20	-
Entities under common control	848	-
Purchase of inventories for railcar production		
Entities under common control	364 211	471 467
Operating lease expenses		
Entities under common control	40	20 268
Cost of goods sold (other) and maintenance		
Entities under common control	199 199	172 678
Expenses on consulting activities		
Parent company	64 259	-
Interest income		
Parent company	233 718	534 542
Entities under common control	31 387	2 592
Interest expense		
Parent company	443	323 380
Foreign exchange gain/(loss)		
Parent company	152 226	6 188 250
Entities under common control	90 509	-
Acquisition of subsidiaries		
Entities under common control	7 954 848	-

(in thousands of Russian Rubles, unless otherwise indicated)

Compensation to key management personnel

Compensation to key management personnel for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. The total amount of the Groups' key management personnel compensation accrued for the year ended December 31, 2015 equaled RUB 94 939 thousand (2014: RUB 102 885 thousand), including RUB 13 705 thousand of social contribution payments (2014: RUB 13 255 thousand).

27. COMMITMENTS AND CONTINGENCIES

Capital expenditure commitments

As at December 31, 2015 the Group had contractual capital expenditure commitments in respect of property, plant and equipment totaling RUB 1 774 005 thousand.

Operating leases

The Group as a lessor

Operating leases relate to the railcars owned by the Group with lease terms of between 5 to 10 years, with an option to extend at the discretion of the lessee. All operating lease contracts contain market review clauses in the event of changes in market conditions. The lease contracts do not contain step up rent increases during the lease period. The lessee does not have an option to purchase the railcar at the expiry of the lease period.

Non-cancellable operating lease payments receivable are presented as follows:

	December 31, 2015	December 31, 2014
Less than one year	3 066 940	3 550 120
Later than 1 year and not longer than 5 years	8 342 379	10 654 131
Over 5 years	3 114 360	3 479 508
	14 523 680	**17 683 759**

Operating environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the prices of oil and gas on the world market. During 2014-2015 and in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies.

In the first quarter of 2015 international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, slackening of the economic growth rates and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Taxation

The Russian business legislation continues to be subject to rapid changes. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods.

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management also assesses the maximum exposure to tax risks, which are considered to be less than probable but more than remote, and believes that the exposure is only material with respect to income tax and will not exceed the amount of unrecognized deferred tax assets related to tax losses in previous years. No provisions were recorded with respect to these tax risks. Management continues to monitor closely any developments related to tax risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Legal proceedings

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of such matters will not have a material impact on the Group's financial position or operating results.

Environmental issues

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

28. FINANCIAL RISK MANAGEMENT

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

(in thousands of Russian Rubles, unless otherwise indicated)

Main categories of financial instruments

The Group's financial assets and liabilities at the reporting dates comprised the following:

	December 31, 2015	December 31, 2014
Financial assets		
Loans receivable	6 541 443	17 914 200
Trade and other receivables	4 003 435	7 608 533
Cash and cash equivalents	3 207 466	2 386 595
Restricted cash	1 781 709	-
Finance lease receivables	260 817	269 621
Financial liabilities at amortized cost		
Loans and borrowings	71 121 591	61 446 866
Bonds	29 103 950	28 490 661
Trade and other payables	13 235 236	6 423 330
Provisions and accrued expenses	555 672	352 260
Finance lease liabilities	4 508	22 021

Fair value of financial instruments that are not measured at fair value on a recurring basis but for which fair value disclosures are required

The carrying amounts and fair values of the Group's loans borrowings as at December 31, 2015 and 2014 were presented as follows:

	December 31, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and borrowings*	71 121 591	71 278 060	61 446 866	56 181 800
	71 121 591	**71 278 060**	**61 446 866**	**56 181 800**

* For the fair value estimation the Group used 11.73% as market rate of cost of debt. That rate of the cost of debt excludes the effect of subsidies.

Inputs of Level 3 of the fair value hierarchy were used to measure the fair value of bank loans and borrowings received from third parties and related parties. The fair value of financial liabilities was determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the weighted average interest rate on loans (in Rubles and with maturities of over 3 years) received by non-financial organizations from credit institutions.

The bonds issued by the Group have a floating rate correlating with the consumer price index (CPI) or CBR REPO rate (Note 17), and, therefore, their carrying amounts approximate their fair values as at the reporting date.

As the majority of loans issued (RUB 5 187 614 thousand) will be redeemed in 2016 (Note 13), and the remaining financial assets are short-term, the management of the Group considers that the carrying amounts of financial assets as at December 31, 2015 approximate their fair values.

(in thousands of Russian Rubles, unless otherwise indicated)

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. Management controls current liquidity based on expected cash flows and revenue receipts through establishing and maintaining a cash fund sufficient to cover its contractual obligations for the period of three to six upcoming months. Such funds are normally kept as highly liquid short-term bank deposits, and are available on demand. In addition, the Group's policy is to continually maintain a diversified portfolio of open credit lines with reputable banks, which serve to secure for the Group a stable ad hoc borrowing capability.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 2015				
Fixed interest rate instruments	15 564 523	39 721 943	11 502 211	66 788 677
Variable interest rate instruments	16 549 528	50 421 353	26 317 387	93 288 268
Finance lease liabilities	2 825	1 683	-	4 508
Non-interest bearing liabilities	13 235 236	-	-	13 235 236
Provisions and accrued expenses	555 672	-	-	555 762
Total	**45 907 784**	**90 144 979**	**37 819 598**	**173 872 451**
December 31, 2014				
Fixed interest rate instruments	21 832 552	33 638 361	17 191 969	72 662 882
Variable interest rate instruments	3 411 839	41 127 190	11 706 026	56 245 055
Finance lease liabilities	19 384	2 637	-	22 021
Non-interest bearing liabilities	6 423 330	-	-	6 423 330
Provisions and accrued expenses	352 260	-	-	352 260
Total	**32 039 365**	**74 768 188**	**28 897 995**	**135 705 548**

The following tables detail the Group's expected maturity for its financial assets, except for cash and cash equivalents. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

	Less than 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 2015				
Fixed interest rate instruments	5 755 073	987 796	960 034	7 702 903
Non-interest bearing assets	4 003 435	-	1 781 709	5 785 144
Finance lease receivables	54 166	216 664	182 810	453 640
Total	**9 812 674**	**1 204 460**	**2 924 553**	**13 941 687**
December 31, 2014				
Fixed interest rate instruments	17 311 201	539 299	2 253 614	20 106 114
Non-interest bearing assets	7 578 533	30 000	-	7 608 533
Finance lease receivables	47 927	216 664	236 976	501 567
Total	**24 939 661**	**785 963**	**2 490 590**	**28 216 214**

(in thousands of Russian Rubles, unless otherwise indicated)

Market risk

The Group is exposed to the risks of changes in foreign currency exchange rates and interest rates. The Group does not use any derivatives to manage its exposure to foreign currency and interest rate risk. Management sets limits on the value of risk that may be accepted, which is monitored on a monthly basis.

There have been no changes as to the Group's exposure to market risks or the manner in which these risks are managed and measured

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

Currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. During 2015 and 2014 the Group entered into certain transactions denominated in USD and EUR.

The table below summarizes the Group’s exposure to foreign currency exchange rate risk at the reporting date relative to the functional currency of the respective entities of the Group:

	December 31, 2015			December 31, 2014		
	Monetary financial assets	Monetary financial liabilities	Net monetary position	Monetary financial assets	Monetary financial liabilities	Net monetary position
USD	954 686	281 684	673 001	16 789 747	(333 727)	16 456 020
EUR	2 033 979	8 235 597	(6 201 618)	6 488	(5 853 089)	(5 846 601)
Total	**2 988 665**	**8 517 282**	**(5 528 617)**	**16 796 235**	**(6 186 816)**	**10 609 419**

The table below details the Group’s sensitivity to weakening of Russian Ruble against the respective foreign currencies by 10%, all other variables being held constant. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	USD - impact		EUR - impact	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Gain/(loss)	**67 300**	**1 645 602**	**(620 162)**	**(584 660)**

The strengthening of the Russian Ruble in relation to the same currencies by the same percentage will produce an equal and opposite effect on the consolidated financial statements of the Group to that shown above.

As at December 31, 2015 the Group does not have formal arrangements to hedge foreign exchange risks of the Group’s operations. Management monitors all changes in the exchange rates and does not expect any material negative fluctuations in the medium-term. As for a significant part of agreements in currencies other than the functional currency of the Group, in 2015 the Group concluded additional agreements on their transfer to Russian Rubles.

In management’s opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the year end exposure does not reflect the exposure during the year.

(in thousands of Russian Rubles, unless otherwise indicated)

Interest rate risk

The Group is exposed to the interest rate risk because entities in the Group borrow funds at both fixed and variable interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and variable rate borrowings. However, the Group is exposed to credit risk with respect to bonds with variable interest rates and to a certain extent to the effects of fluctuations of interest rates arising from changes in financial markets. This exposure extends to cash flow and fair value risks on its future borrowings and lease receivables. The Group reduces this risk by including in its lease agreements an option to increase lease rates in case of significant changes in market conditions.

The sensitivity analysis below has been determined based on the exposure to interest rates for bonds at the reporting date. The analysis assumed that the balance at the end of the period remained unchanged during the reporting period. A 3% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 3% higher (lower) and all other variables were held constant, the Group's loss for 2015 would increase/(decrease) by RUB 1 328 million.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Exposure to credit risk arises as a result of the Group's transactions with counterparties giving rise to financial assets.

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

	December 31, 2015	December 31, 2014	December 31, 2013
Loans receivable	6 541 443	17 914 200	2 282 434
Trade and other accounts receivable	4 003 435	7 608 533	1 078 235
Cash and cash equivalents	3 207 466	2 386 595	710 807
Restricted cash	1 781 709	-	-
Finance lease receivables	260 817	269 621	-
Total	**15 794 870**	**28 178 949**	**4 071 476**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities with a reliable credit rating using publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties to avoid excessive concentrations of risks. Credit exposure is controlled by credit limits that are reviewed and approved by the risk management committee annually.

With the exception of the largest customer (NitroChemProm LLC), the Group does not have significant credit risk exposure to any single counterparty. Receivables from NitroChemProm were repaid in March 2016.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The credit risk associated with loans issued is limited because the counterparties for the majority of loans are related parties well known to the Group. The Group has also a significant concentration of credit risk with respect to loans issued to Doland Business Limited.

The Group does not hold any collateral to cover its credit risks associated with its financial assets.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through optimization of the debt and equity balance within the limits imposed by its providers or finance. The capital structure of the Group consists of net debt (borrowings and bonds as detailed in Notes 16 and 17, offset by cash and cash equivalents balances) and equity and reserves.

29. SUBSEQUENT EVENTS

On March 29, 2016, the Board of Directors of PJSC RPC UWC decided to increase the share capital of PJSC RPC UWC, a holding company of the Group, by placing through open subscription 8 500 000 additional ordinary shares with a par value of RUB 1 each.

On March 16, 2016, the holding company of the Group PJSC RPC UWC signed an agreement to pledge shares of a subsidiary TikhvinSpecMash CJSC, which accounts for 100% of the share capital of TikhvinSpecMash CJSC, with Otkritie FC Bank PJSC to guarantee the compliance of TikhvinSpecMash CJSC with the liabilities under the credit facility agreement with the bank.

On April 11, 2016, the general meeting of the holders of the bonds issued by UWC Finance LLC, a company of the Group, approved the extension of maturity of Series 01 bonds with state registration number 4-01-36430-R dated November 26, 2013 from 3 to 8 years, i.e. extended the maturity of the bonds until 2021.

No other material events occurred after the reporting date.