Приложение №5 Годовая консолидированная бухгалтерская (финансовая) отчетность Поручителя «РЕЙЛ ХОЛДИНГ ЛТД» за 2017 год

RAIL HOLDING LIMITED

Consolidated Financial Statements and
Independent Auditor's Report
for the Year Ended 31 December 2017

RAIL HOLDING LIMITED

TABLE OF CONTENTS

RAIL HOLDING LIMITED

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2017

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Rail Holding Limited (the "Company") and its subsidiaries (the "Group") as at 31 December 2017, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended 31 December 2017 were approved and authorised for issue by Management on 30 June 2018.

On behalf of the Management:

Stelios Loizou
Director
Rail Holding Limited

Deloitte.

АО «Делойт и Туш СНГ»
ул. Лесная, д. 5
Москва, 125047,
Россия

Тел.: +7 (495) 787 06 00
Факс: +7 (495) 787 06 01
deloitte.ru

АУДИТОРСКОЕ ЗАКЛЮЧЕНИЕ НЕЗАВИСИМОГО АУДИТОРА

Акционеру и Совету директоров Рейл Холдинг Лимитед

Мнение с оговоркой

Мы провели аудит прилагаемой консолидированной финансовой отчетности Рейл Холдинг Лимитед («Группа»), состоящей из консолидированного отчета о финансовом положении по состоянию на 31 декабря 2017 года, консолидированного отчета о прибылях и убытках и прочем совокупном доходе, консолидированного отчета об изменениях в капитале и консолидированного отчета о движении денежных средств за 2017 год, а также примечаний к финансовой отчетности, включая краткий обзор основных положений учетной политики.

По нашему мнению, за исключением влияния вопроса, изложенного в разделе *«Основание для выражения мнения с оговоркой»* нашего аудиторского заключения, на сопоставимые показатели, прилагаемая консолидированная финансовая отчетность отражает достоверно во всех существенных аспектах консолидированное финансовое положение Группы по состоянию на 31 декабря 2017 года, а также ее консолидированные финансовые результаты и консолидированное движение денежных средств за 2017 год в соответствии с Международными стандартами финансовой отчетности («МСФО»).

Основание для выражения мнения с оговоркой

Как раскрыто в Пояснении 17 к прилагаемой консолидированной финансовой отчетности, по состоянию на 31 декабря 2016 года одна из компаний Группы нарушила одно из обязательных финансовых ограничений (ковенантов), установленных кредитным договором с АО «Альфа-банк». Невыполнение указанного ковенанта предполагает применение штрафных санкций к компании-заемщику, в том числе дает право кредитору требовать досрочный возврат денежных средств по кредиту. После 31 декабря 2016 года Группой было подписано дополнительное соглашение с банком, в соответствии с которым начало обязательного выполнения финансового ограничения было перенесено с 4-го квартал 2016 года на 1-ый квартал 2017 года (Пояснение 17). Руководство Группы оценило вероятность требования досрочного погашения кредита со стороны банка как низкую, и по состоянию на 31 декабря 2016 года отразило часть указанного кредита в сумме 313 353 тыс. долларов США в составе долгосрочных обязательств, в соответствии со сроками погашения, предусмотренными условиями договора. По нашему мнению, в соответствии с требованиями МСФО (IAS) 1 «Представление финансовой отчетности» Группа должна была классифицировать данные обязательства по кредитам как краткосрочные, поскольку на 31 декабря 2016 года у Группы не было безусловного права отложить их погашение на срок, составляющий не менее 12 месяцев после указанной даты.

Мы выразили модифицированное аудиторское мнение о консолидированной финансовой отчетности за 2016 год, в связи с указанной ситуацией. Наше мнение о консолидированной финансовой отчетности за отчетный период также модифицировано в связи с влиянием данного вопроса на сопоставимость показателей текущего и прошлого отчетных периодов.

Мы провели аудит в соответствии с Международными стандартами аудита («МСА»). Наши обязанности в соответствии с этими стандартами указаны в разделе «Ответственность аудитора за аудит финансовой отчетности» нашего заключения. Мы независимы по отношению к Группе в соответствии с Кодексом этики профессиональных бухгалтеров Совета по международным стандартам этики для бухгалтеров («Кодекс») и этическими требованиями, применимыми к аудиту финансовой отчетности в Российской Федерации. Нами также выполнены прочие этические обязанности, установленные этими требованиями и Кодексом. Мы полагаем, что получили достаточные и надлежащие аудиторские доказательства для выражения мнения с оговоркой.

Важные обстоятельства

Мы привлекаем внимание к:

- Пояснению 27, где раскрыто, что 69% активов и 79% обязательств были представлены расчетами со связанными сторонами. Это не привело к модификации нашего мнения.
- Пояснению 30 к консолидированной финансовой отчетности, в котором описывается неопределенность в отношении исхода судебного разбирательства между ПАО «НПК ОВК» (конечная контролирующая сторона Группы) и рядом акционеров (ПАО «НПК ОВК») в отношении права требовать от ПАО «НПК ОВК» выкупа принадлежащих им акций. В случае неблагоприятного судебного решения, у Группы может возникнуть необходимость предоставления финансирования ПАО «НПК ОВК» для осуществления выкупа. Это не привело к модификации нашего мнения.

Ответственность руководства и лиц, отвечающих за корпоративное управление, за консолидированную финансовую отчетность

Руководство отвечает за подготовку и достоверное представление консолидированной финансовой отчетности в соответствии с МСФО и за систему внутреннего контроля, которую руководство считает необходимой для подготовки консолидированной финансовой отчетности, не содержащей существенных искажений вследствие недобросовестных действий или ошибок.

При подготовке консолидированной финансовой отчетности руководство отвечает за оценку способности Группы непрерывно продолжать деятельность, за раскрытие в соответствующих случаях сведений, относящихся к непрерывности деятельности, и за составление отчетности на основе допущения о непрерывности деятельности, за исключением случаев, когда руководство намеревается ликвидировать Группу, прекратить ее деятельность или когда у руководства отсутствует практическая альтернатива ликвидации или прекращению деятельности Группы.

Лица, отвечающие за корпоративное управление, отвечают за надзор за подготовкой консолидированной финансовой отчетности Группы.

Ответственность аудитора за аудит консолидированной финансовой отчетности

Наша цель состоит в получении разумной уверенности, что консолидированная финансовая отчетность не содержит существенных искажений вследствие недобросовестных действий или ошибок, и в выпуске аудиторского заключения, содержащего наше мнение. Разумная уверенность - это высокая степень уверенности, но она не гарантирует, что аудит, проведенный в соответствии с МСА, всегда выявит существенные искажения при их наличии. Искажения могут быть результатом недобросовестных действий или ошибок и считаются существенными, если можно обоснованно предположить, что в отдельности или в совокупности они могут повлиять на экономические решения пользователей, принимаемые на основе консолидированной финансовой отчетности.

В рамках аудита, проводимого в соответствии с МСА, мы применяем профессиональное суждение и сохраняем профессиональный скептицизм на протяжении всего аудита. Кроме того, мы:

- Выявляем и оцениваем риски существенного искажения консолидированной финансовой отчетности вследствие недобросовестных действий или ошибок; разрабатываем и проводим аудиторские процедуры в ответ на эти риски; получаем аудиторские доказательства, достаточные и надлежащие для выражения нашего мнения. Риск необнаружения существенного искажения в результате недобросовестных действий выше, чем риск необнаружения существенного искажения в результате ошибки, так как недобросовестные действия могут включать сговор, подлог, умышленный пропуск, искаженное представление информации или действия в обход действующей системы внутреннего контроля.

- Получаем понимание внутренних контролей, значимых для аудита, с целью разработки аудиторских процедур, соответствующих обстоятельствам, но не с целью выражения мнения об эффективности системы внутреннего контроля Группы.
- Оцениваем надлежащий характер применяемой учетной политики и обоснованность бухгалтерских оценок и соответствующего раскрытия информации, подготовленного руководством.
- Делаем вывод о правомерности применения руководством допущения о непрерывности деятельности, а на основании полученных аудиторских доказательств - вывод о наличии существенной неопределенности в связи с событиями или условиями, в результате которых могут возникнуть значительные сомнения в способности Группы непрерывно продолжать деятельность. Если мы приходим к выводу о наличии существенной неопределенности, мы должны в нашем аудиторском заключении привлечь внимание к соответствующему раскрытию информации в консолидированной финансовой отчетности или, в случае ненадлежащего раскрытия, модифицировать мнение. Наши выводы основываются на аудиторских доказательствах, полученных до даты аудиторского заключения. Однако, будущие события или условия могут привести к утрате Группой способности непрерывно продолжать деятельность.
- Проводим оценку представления консолидированной финансовой отчетности в целом, ее структуры и содержания, включая раскрытие информации, а также обеспечения достоверности представления лежащих в ее основе операций и событий.

Мы информируем лиц, отвечающих за корпоративное управление, о запланированном объеме и сроках аудита, а также о существенных проблемах, выявленных в ходе аудита, в том числе о значительных недостатках системы внутреннего контроля.

Егор Метелкин
Руководитель задания

Deloitte & Touche

АКЦИОНЕРНОЕ ОБЩЕСТВО «ДЕЛОЙТ И ТУШ СНГ»
Для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

30 июня 2018 года

Компания: Рейл Холдинг Лимитед

Свидетельство о регистрации № 006201, выдано в Канцелярии Высокого Суда 10 апреля 2017 года

Место нахождения: Крейгмур Чемберз, Роуд Таун, Тортола VG1110, Британские Виргинские острова

Аудиторская организация: АО «Делойт и Туш СНГ»

Свидетельство о государственной регистрации № 018.482, выдано Московской регистрационной палатой 30.10.1992 г.

Основной государственный регистрационный номер: 1027700425444

Свидетельство о внесении записи в ЕГРЮЛ: серия 77 № 004840299, выдано 13.11.2002 г. Межрайонной Инспекцией МНС России № 39 по г. Москва.

Член саморегулируемой организации аудиторов «Российский Союз аудиторов» (Ассоциация), ОРНЗ 11603080484.

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 31 DECEMBER 2017
(in thousands of US dollars, unless otherwise indicated)

	Notes	31 December 2017	31 December 2016
ASSETS			
Non-current assets			
Property and equipment	7	423 723	396 921
Prepayments for property and equipment	8	23 548	5 294
Other intangible assets		4	4
Investment in the joint venture	9	6 032	5 375
Deferred tax assets	24	2 480	3 478
Loans receivable	13	983 124	694 416
Other non-current assets		6 260	-
Finance lease receivables		3 363	3 540
Total non-current assets		**1 448 534**	**1 109 028**
Current assets			
Inventories		1 003	537
Prepayments and other current assets	12	15 198	5 311
Trade and other accounts receivable	11	42 283	43 042
Finance lease receivables		364	294
VAT receivable		10 235	821
Loans receivable	13	60 903	44 173
Investments in debt securities of a related party	10	94 208	2 145
Short-term bank deposits	16	87 469	84 636
Restricted cash	14	13 924	-
Cash and cash equivalents	14	1 964	13 812
Total current assets		**327 551**	**194 771**
TOTAL ASSETS		**1 776 085**	**1 303 799**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	15	1	1
Additional paid-in capital	15	76 057	89 267
Currency translation reserve		(105 633)	(104 747)
Retained earnings		46 680	40 176
Total equity and reserves		**17 105**	**24 697**
Non-current liabilities			
Long-term loans and borrowings	17	1 594 694	1 124 056
Long-term financial lease		2 276	-
Deferred tax liabilities	24	5 258	3 484
Total non-current liabilities		**1 602 228**	**1 127 540**
Current liabilities			
Trade and other payables	18	41 680	13 350
Short-term financial lease		315	
Short-term loans and borrowings	17	76 545	135 536
Advances received from customers	19	38 212	2 676
Total current liabilities		**156 752**	**151 562**
Total liabilities		**1 758 980**	**1 279 102**
TOTAL EQUITY AND LIABILITIES		**1 776 085**	**1 303 799**

The accompanying notes on pages 9 to 48 are an integral part of the consolidated financial statements

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of US dollars, unless otherwise indicated)

	Notes	2017	2016
Continuing operations			
Revenue	20	338 319	65 042
Direct expenses	21	(226 619)	(37 897)
Selling, general and administrative expenses	22	(7 270)	(2 060)
Other operating income, net		44	1 832
Related party debt forgiveness		(5 227)	(317)
Share of profit of the joint venture	10	367	138
Operating income		**99 614**	**26 738**
Finance income	23	98 830	50 805
Finance costs	23	(178 327)	(145 078)
Foreign exchange gain / (loss), net		9 074	(25 297)
Profit / (loss) before income tax		**29 191**	**(92 832)**
Income tax expense	24	(22 687)	(1 287)
Profit / (loss) for the year from continuing operations		**6 504**	**(94 119)**
Discontinued operations			
Profit from discontinued operations	6	-	1 336
PROFIT / (LOSS) FOR THE YEAR		**6 504**	**(92 783)**
Other comprehensive income:			
Effect of translation to presentation currency which will not be reclassified subsequently to profit or loss		(886)	11 589
TOTAL COMPREHENSIVE INCOME / (LOSS) FOR THE YEAR		**5 618**	**(81 194)**

The accompanying notes on pages 9 to 48 are an integral part of the consolidated financial statements

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of US dollars, unless otherwise indicated)

	Notes	Share capital	Additional paid-in capital	Currency translation reserve	Retained earnings	Total
Balance at 1 January 2016		**1**	**89 267**	**(116 336)**	**132 959**	**105 891**
Loss for the year		-	-	-	(92 783)	(92 783)
Effect of translation to presentation currency		-	-	11 589	-	11 589
Total comprehensive loss for the year		**-**	**-**	**11 589**	**(92 783)**	**(81 194)**
Balance at 31 December 2016		**1**	**89 267**	**(104 747)**	**40 176**	**24 697**
Profit for the year		-	-	-	6 504	6 504
Effect of translation to presentation currency		-	-	(886)	-	(886)
Total comprehensive income for the year		**-**	**-**	**(886)**	**6 504**	**5 618**
Effect from discounting of loans to entities under common control	13	-	(49 347)	-	-	(49 347)
Effect from discounting of borrowings from entities under common control	17	-	36 137	-	-	36 137
Balance at 31 December 2017		**1**	**76 057**	**(105 633)**	**46 680**	**17 105**

The accompanying notes on pages 9 to 48 are an integral part of the consolidated financial statements

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2017
(in thousands of US dollars, unless otherwise indicated)

	2017	2016
OPERATING ACTIVITIES		
Profit / (loss) for the year	**6 504**	**(92 783)**
Adjustments for:		
Income tax expense	22 687	1 195
Gain from sale of railcars as part of the railcar fleet replacement programme (Notes 20, 21)	(53 686)	-
Depreciation and amortization	21 011	23 617
Foreign exchange (gain) / loss, net	(9 074)	25 297
Related party debt forgiveness	5 227	317
Loss on disposal of property and equipment	744	509
Change in allowance for doubtful receivables and prepayments	679	(2 768)
Allowance for obsolete inventory	493	-
Share of profit of the joint venture	(367)	(138)
Deferred income	(39)	-
Gain from disposal of subsidiary (Note 6)	-	(2 496)
Loss from sale of accounts receivable under cession agreement	-	503
Disposal of other intangible assets	-	3
Finance costs	178 327	145 078
Finance income	(98 830)	(50 805)
Operating profit before changes in working capital	**73 676**	**47 529**
Movements in working capital:		
(Increase) / decrease in trade and other receivables	(31 660)	7 796
(Increase) / decrease in VAT receivable, prepayments and other current assets	(5 869)	2 724
(Increase) / decrease in inventories	(925)	618
Increase / (decrease) in trade and other payables	8 956	(11 391)
Increase in advances received from customers	34 546	46
Cash proceed from operating activities	**78 724**	**47 322**
Cash paid for purchase of railcars (Notes 7, 20)	(215 249)	-
Cash received from the sale of railcars under the railcars fleet replacement program (Notes 7, 20)	242 470	-
Income tax paid	(16 447)	(3 047)
Finance costs paid	(185 848)	(126 767)
Net cash used in operating activities	**(96 350)**	**(82 492)**
INVESTING ACTIVITIES		
Loans granted	(344 429)	(289 670)
Cash proceeds from redemption of loans granted	117 328	98 699
Placement of short-term deposits	(113 817)	(74 588)
Proceeds from redemption of short-term deposits	114 049	-
Purchase of investments in debt securities of a related party	(89 773)	(2 155)
Proceeds from sale of investments in debt securities of a related party	2 024	23 217
Net cash inflow/(outflow) on disposal of subsidiaries (Note 6)	34 507	(384)
Interest received	28 525	33 191
Purchases of property and equipment, including prepayments	-	(765)
Proceeds from return of prepayments for property and equipment	-	117 499
Net cash used in investing activities	**(251 586)**	**(94 956)**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	760 057	521 802
Repayment of loans and borrowings	(412 029)	(371 662)
Cash deposited in accordance with covenants (Notes 14, 17)	(13 744)	-
Financial lease payments	2 457	-
Net cash generated by financing activities	**336 741**	**150 140**
Net decrease in cash and cash equivalents	**(11 195)**	**(27 308)**
Cash and cash equivalents at the beginning of the year	**13 812**	**38 261**
Effect of foreign exchange rate changes including effect of recalculation of cash and cash equivalents	(653)	2 859
Cash and cash equivalents at the end of the year	**1 964**	**13 812**

The accompanying notes on pages 9 to 48 are an integral part of the consolidated financial statements

(in thousands of US dollars, unless otherwise indicated)

1. GENERAL INFORMATION

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

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

The Company is a holding entity for the group of companies (the "Rail Holding Group" or the "Group") incorporated in BVI, Cyprus, and the RF. The Group's primary business involves purchasing railcars manufactured at Tikhvin Freight Car Manufacturing Plant (hereinafter - JSC "TVSZ"), an entity under common control with the Group, and selling as well as leasing them to its customers, which are mostly represented by transportation and manufacturing companies operating within the RF. The Group also enters into financing and investing transactions with entities under common control through its subsidiary Rail1520 Finance Cyprus Ltd, being effectively a finance centre of a wider RPC UWC Group.

Since 22 December 2014 PJSC «Research and Production Corporation «United Wagon Company» (hereinafter – PJSC "RPC UWC") has been the sole shareholder of the Company. As at 31 December 2017 PJSC "RPC UWC" held a controlling interest in the Company. PJSC "RPC UWC" produces consolidated financial statements available for public use, which disclose the ultimate controlling party of PJSC RPC UWC and the Company.

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

Subsidiaries	Nature of business	Country of incorporation	31 December 2017	31 December 2016
LLC "Rail1520"	Operating lease and resale of railcars	Russian Federation	100%	100%
LLC "Rail1520 Service"	Operating lease of railcars	Russian Federation	100%	100%
Rail 1520 (BVI) Ltd	Holding of Cyprus subsidiaries	BVI	100%	100%
Rail 1520 Service (BVI) Ltd	Holding of Cyprus subsidiaries	BVI	100%	100%
Rail 1520 Cyprus Ltd	Holding of Russian subsidiaries	Cyprus	100%	100%
Rail 1520 Service Cyprus Ltd	Holding of Russian subsidiaries	Cyprus	100%	100%
Rail 1520 Finance Cyprus Ltd	Financing	Cyprus	100%	100%
Rail 1520 Service Finance Cyprus Ltd	Financing	Cyprus	100%	100%
Rail 1520 (BVI) Leasing Ltd	Holding of Cyprus subsidiaries	BVI	100%	100%
Rail 1520 Cyprus Leasing Ltd	Holding of Russian subsidiaries	Cyprus	100%	100%
LLC "Rail 1520 Leasing"	Finance lease of railcars	Russian Federation	100%	100%
Rail 1520 Wagon Ltd	Investment company	BVI	100%	100%
Rail 1520 Wagon Cyprus Ltd	Investment company	Cyprus	100%	100%
LLC "UWC TP"	Finance lease of railcars	Russian Federation	100%	100%

2. BASIS OF PREPARATION AND 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

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.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Group's key subsidiaries is the national currency of the Russian Federation, Russian Ruble ("RUB"). The functional currency of the Company is Russian Ruble.

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

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

Exchange rates used in the translation were as follows:

Currency	**2017**	**2016**
At the end of the reporting period		
RUB/ USD	57.60	60.65
RUB/ EUR	68.86	63.81
Average exchange rate for the reporting period		
RUB/ USD	58.35	67.03
RUB/ EUR	65.90	74.23

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.

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.

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.

Contingent consideration transferred by the Group in a business combination is measured at fair value at the date of acquisition and included in the total 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. The 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 or IAS 37 with the corresponding gain or loss being recognized in profit or loss.

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

Goodwill

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

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets and liabilities as at the acquisition date. If, after reassessment, the net amounts of the identifiable assets and liabilities 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.

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 and other comprehensive income. 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 of accounting, 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 long-term 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 reduces 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.

Property and equipment

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

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

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

	Useful life, years
Railcars	20-40
Other fixed assets	1-30

Depreciation is recognized so as to write off the cost of assets (other than properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Impairment of tangible assets

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

Recoverable amount is the higher of fair value less costs 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.

Financial instruments

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

Financial assets of the Group are classified into the following specified categories: financial assets 'at fair value through profit or loss' (hereinafter – "FVTPL") and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. As at 31 December 2016 and 2015 debt securities in related parties were classified as financial assets at FTPL.

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

Effective interest method

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

Financial assets at FTPL

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

A financial asset is classified as held for trading if:

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

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. 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.

Cash and cash equivalents

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

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.

Derivative financial instruments

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

Other financial liabilities

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

Lease

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

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

The Group as lessor

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

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

Group as a lessee

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

Share capital and additional paid-in capital

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

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

Revenue and interest income recognition

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

(i) Sales of railcars

Revenue from the sale of goods is recognized when significant risks and rewards incidental to ownership are transferred to the customers, at which time all the following conditions are satisfied:

- The Group has transferred to the buyer the significant risks and rewards of ownership of the railcars;
- The Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the railcars sold;
- The amount of revenue can be measured reliably;
- It is probable that the economic benefits associated with the transaction will flow to the Group; and
- The costs incurred or to be incurred in respect of the transaction can be measured reliably.

(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.

The Group policy in recognition of rental income as a lessor is described in "Leases" paragraph of this note.

(iii) Interest income

Dividend income from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

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.

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

Other borrowing costs are recognized as an expense in the period in which they are incurred.

Government grants

Group receives the following types of government grants:

- compensation of interest expense on bank loans;
- grants related to assets, that is – compensation of expenses for acquisition of long-term assets (railcars) and compensation of expenses for purchase of materials for production of railcars.

Government grants are recognized at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with the conditions attached.

Government grants related to compensation of interest expense are credited to profit or loss over the periods of the related interest expense unless the 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 on a straight-line basis over the expected lives of these assets.

Government grants related to assets are deducted from the carrying value of the related asset in the consolidated statement of financial position. Grants are recognized in profit or loss on a straight-line basis over the period of use of a depreciated asset and reduce the amount of depreciation expense, or are recognized immediately in profit or loss if the related asset is sold or disposed of.

Taxation

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

Deferred tax

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

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

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

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

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

Current and deferred tax for the period

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

Provisions

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

Offsetting

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

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 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 796 thousand (2016 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.

3. NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STATEMENTS

New and revised Standards and Interpretations adopted in the current period and applicable to the Group's consolidated financial statements

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these consolidated financial statements.

- Amendments to IAS 7 – *Disclosure Initiative*
- Amendments to IAS 12 – *Recognition of Deferred Tax Assets for Unrealized Losses*
- Annual Improvements to IFRSs 2014-2016 Cycle – Amendments to IFRS 12.

Amendments to IAS 7 *Disclosure Initiative*

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes.

The Group's liabilities arising from financing activities consist of borrowings and certain other financial liabilities. A reconciliation between the opening and closing balances of these items is provided in Note 17. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 17, the application of these amendments has had no impact on the Group's consolidated financial statements.

Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*

The Group has applied these amendments for the first time in the current year. The amendments clarify how an entity should evaluate whether there will be sufficient future taxable profits against which it can utilise a deductible temporary difference.

The application of these amendments has had no impact on the Group's consolidated financial statements as the Group already assesses the sufficiency of future taxable profits in a way that is consistent with these amendments.

Annual Improvements to IFRSs - 2014-2016 Cycle

The Group has applied the amendments to IFRS 12 included in the Annual Improvements to IFRSs 2014-2016 Cycle for the first time in the current year. The other amendments included in this package are not yet mandatorily effective and they have not been early adopted by the Group (see the list of new and revised IFRSs in issue but not yet effective below).

IFRS 12 states that an entity need not provide summarised financial information for interests in subsidiaries, associates or joint ventures that are classified (or included in a disposal group that is classified) as held for sale. The amendments clarify that this is the only concession from the disclosure requirements of IFRS 12 for such interests.

The application of these amendments has had no effect on the Group's consolidated financial statements.

Standards and interpretations that have been issued, 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:

- IFRS 9 *Financial Instruments*[1];
- IFRS 15 *Revenue from Contracts with Customers* (and the related Clarifications)[1];
- IFRS 16 *Leases*[2];
- IFRS 17 *Financial Instruments*[3];
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration*[1];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[2];
- Amendments to IFRS 2 – *Classification and Measurement of Share-based Payment Transactions*[1];
- Amendments to IFRS 10 and IAS 28 – *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4];
- Amendments to IAS 40 – *Transfers of Investment Property*[1] ;
- Amendments to IFRS 4 – Applying IFRS 9 *Financial Instruments* with IFRS 4 *Insurance Contracts* [1] ;
- Amendments to IFRS 9 – *Prepayment Features with Negative Compensation*[2];
- Amendments to IAS 28 – *Long-Term Interests in Associates and Joint Ventures*[2];
- Annual Improvements to IFRSs 2014-2016 Cycle[1];
- Annual Improvements to IFRS for 2015-2017[2];

[1] Effective for annual periods beginning on or after January 1, 2018, with earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 2019, with earlier application permitted.
[3] Effective for annual periods beginning on or after January 1, 2021, with earlier application permitted.
[4] Effective date will be determined later, earlier application permitted.

IFRS 9 Financial Instruments

IFRS 9 issued in November 2009 introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for their derecognition, and in November 2013 to include the new requirements for general hedge accounting. In July 2014, IASB issued a finalized version of IFRS 9 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt and equity instruments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.
- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in the consolidated statement of profit or loss and other comprehensive income.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- **Hedge accounting.** The new hedge accounting requirements retain the three types of hedging relationship as defined in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Standard will be effective from January 1, 2018, with early adoption permitted. Depending on the chosen approach to applying IFRS 9, the transition can involve one or more than one date of initial application for different requirements. The full impact of adopting IFRS 9 on the Group's consolidated financial statements in the year of adoption will depend on the financial instruments that the Group has during 2018 as well as on economic conditions and judgments made as at the year end. The Group has selected not to restate comparatives on initial application of IFRS 9. Based on a preliminary analysis of the Group's financial assets and financial liabilities as at December 31, 2017 on the basis of the facts and circumstances that exist at that date, the management of the Group has assessed the impact of IFRS 9 to the Group's consolidated financial statements as follows:

- **Classification and measurement.** The Group has only financial assets and liabilities which are measured at amortized cost using effective interest method. Upon adoption of IFRS 9 the Group expects to measure respective financial assets and liabilities on the same basis as currently adopted under IAS 39.
- **Impairment**. The Group's financial assets measured at amortized cost (cash and cash equivalents, accounts receivable, loans receivable) will be subject to impairment provisions of IFRS 9. The Group expects to apply the simplified approach to recognize lifetime expected credit losses for its trade and other accounts receivable and cash and cash equivalents as required or permitted by IFRS 9. In general, the Group's management anticipates that the application of the expected credit loss model under IFRS 9 will result in earlier recognition of credit losses on financial assets for the respective items and will increase the amount of loss allowance recognized for these items. However, majority of financial assets of the Group is either held in financial institutions with stable credit rating or represented by loans and receivables due from related parties well known to the Group. Management anticipates that any increase in the amount of loss allowance recognized following the adoption of IFRS 9 will not be significant.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 is effective for annual reporting periods beginning January 1, 2018, and interim periods within those periods. IFRS 15 establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will replace all existing revenue standards, including IAS 18 *Revenue*, IAS 11 *Construction contracts* and respective interpretations.

The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework:

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contracts;
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, an entity recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal with specific scenarios. Furthermore, IFRS 15 requires extensive disclosures.

In April 2016, the IASB issued Clarifications to IFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Group will not apply a fully retrospective approach upon transition to IFRS 15 and will book cumulative impact of transition as an adjustment to retained earnings at January 1, 2018. The Group continues to evaluate the impact that IFRS 15 and related clarifications will have on the Group's consolidated financial statements. As discussed in Note 1, the Group recognizes revenue mainly from sales of railcars produced by the Group's companies and operating and finance lease of railcars. As at the date of approval of the consolidated financial statements, the Group's management was in the process of assessing the impact of the application of IFRS 15 on the Group's consolidated financial statements.

IFRS 16 Leases

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 Leases and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The standard introduces a single accounting model for lessees that requiring recognition of the capitalized right to use the asset, as well as the corresponding liability, on the balance sheet. Thus, distinctions of operating leases and finance leases are removed for lessee accounting. This accounting method is applicable for all leases except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exception) less accumulated depreciation and impairment losses, adjusted for any measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Furthermore, extensive disclosures in the consolidated financial statements are required by IFRS 16.

IFRS 16 is effective for annual reporting periods beginning January 1, 2019, and interim periods within those periods. Early application of IFRS 16 is permitted.

The Group has begun evaluating and planning for the adoption and implementation of the new leases standard, including selecting lease accounting system and estimating the overall accounting policy and financial statements impact.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS 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 on-going basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

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.

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Identification of related parties requires the application of management's professional judgment. Management believes that the related party disclosures in these consolidated financial statements provide all information necessary to attract attention to the potential effect of the Group's transactions and outstanding balances with related parties on Group's financial position and financial performance (Note 27).

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 market rates for similar types of transactions with unrelated parties and analysis of effective interest rates. Terms and conditions of balances with related parties are disclosed in Note 27.

Management also makes judgments regarding the recoverability of loans granted, probability of their repayment and the amount of the impairment to be recognized in the consolidated financial statements.

Allowance for impairment of financial assets

The Group regularly reviews its financial assets to assess for impairment. The Group's most significant exposure to credit risk relates to loans receivable and investments in debt securities of its related party. As at 31 December 2017, the carrying value of loans receivable and investments in debt securities of its related party were equal to USD 1 062 813 thousand (Note 13) and USD 94 208 thousand (Note 10), respectively.

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.

Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Losses incurred in the previous periods are related to foreign currency exchange losses incurred on revaluation of financial assets and liabilities of the Group. They are not connected with operating activities, and the Group expects to receive profits in future, subsequently, deferred tax assets can be settled. According to RF tax legislation tax losses are carried forward and can reduce current tax base.

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 29).

Impairment of property, plant and equipment

The Group reviews at each reporting date the carrying amounts of its property, plant and equipment 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 of disposal, 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 recoverable amount of its property, plant and equipment 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 2018 to 2021, 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 railcars;
- Prices for rail car repairs are expected to remain at a level of prices effective in 2017 in real terms;
- The pre-tax discount rate used in the calculations was equal to 8.26% 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 railcar's value-in-use amount are consistent with external sources of information and historic data. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

No impairment was recognized and based on its analysis management believes that any reasonably possible change in the key assumptions would not cause an impairment.

Critical judgements in applying accounting policies

Classification of the Group's operations under the railcar fleet replacement program

In the first half of 2017, the Group's management decided to introduce a program to replace the old fleet of railcars with the new generation of railcars. Accordingly, the Group acquired new railcars during the year ended December 31, 2017 and leased out them under an operating lease to replace a portion of the old railcar fleet that was sold during 2017. The program also assumes that the Group will continue to sell old railcar fleet upon reaching a certain age and/or in case of a favorable market price. The decisions to replace the disposed railcars with new ones will be approved separately subject to the agreement with the lessees and the banks in case the railcars are subject to pledge arrangements.

Thus, management believes the Group will regularly generate revenues from the sale of previously leased old railcars in the normal course of business. In accordance with IAS 16 after the approval of the decision to sell the railcars they were transferred to inventories at their carrying value. Income from the sale of such railcars was included in the revenue line item of the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2017, in particular the sales of railcars item of the respective disclosure (Note 20). Expenses related to the disposal of the old railcar fleet were included in the cost of sale item of the consolidated statement of profit or loss and other comprehensive income and disclosed in the respective note (Note 21).

In preparing the consolidated statement of cash flows, the Group's management considered requirements of IAS 7, which specifies that cash payments made to acquisition assets held for lease and subsequently held for sale are classified as cash flows from operating activities, and cash proceeds from the lease and subsequent sale of such assets are also treated as cash flows from operating activities. Accordingly, cash paid for the acquisition of railcars and received from the sale of railcars under the railcar fleet replacement program are included in operating activities in the consolidated statement of cash flows.

(in thousands of US dollars, unless otherwise indicated)

5. RECLASSIFICATION OF COMPARATIVE INFORMATION

The Group adjusted comparative information for the year ended 31 December 2016. Adjustments performed by the Group relate to reclassification of loans receivable from a related party from current assets to non-current assets.

The table below discloses the effect of the retrospective adjustments in the consolidated statement of financial position as at 31 December 2016:

	31 December 2016 before reclassification	Reclassification	31 December 2016 after reclassification
Non-current assets			
Loans receivable	664 240	30 176	694 416
Current assets			
Loans receivable	74 349	(30 176)	44 173
Total	**738 589**	**-**	**738 589**

Liquidity risk disclosure presented in Financial Risk Management note (Note 25) has also been adjusted retrospectively in accordance with the terms of the loan agreement.

6. DISCONTINUED OPERATIONS AND DISPOSAL OF SUBSIDIARY

On 4 March 2016 the Group sold its subsidiary, TAP "Titran-Express" JSC, a railcar repair depot, to an entity under common control.

In December 2015 the Group acquired the railcar repair depot with a purpose of using it for modernization of own railcar fleet. In 2016 the parent company of the Group made a decision that due to business reporting structure the railcar repair depot shall be separated from the Group and therefore the Group sold it to an entity under common control for the same price as the Group paid to acquire the subsidiary in December 2015.

The Group classified the disposed subsidiary as a component of the Group in accordance with IAS 5 "Long-term assets held for sale and discontinued operations" as TAP "Titran-Express" JSC was a separate business segment. Respectively, operations of TAP "Titran-Express" JSC were presented as discontinued operations as at 31 December 2016 and for the year ended 31 December 2016.

Assets and liabilities of disposed subsidiary as at the date of disposal were as follows:

	Carrying value as at 4 March 2016
Property and equipment	6 120
Goodwill	33 842
Intangible assets	80
Deferred tax assets	1 493
Inventories	3 508
Trade and other receivables	9 490
Prepayments to suppliers and other assets	508
VAT receivable	314
Cash and cash equivalents	384
Total assets	**55 739**

(in thousands of US dollars, unless otherwise indicated)

	Carrying value as at 4 March 2016
Long-term loans and borrowings	11 755
Deferred tax liabilities	145
Short-term loans and borrowings	2 330
Advances received and other current liabilities	836
Trade and other payables	15 238
Total liabilities	**30 304**
Disposed net assets	**25 435**

Gain from disposal of the subsidiary was as follows:

Consideration to be received	27 630
Disposed net assets	(25 435)
Cumulative exchange gain in respect of the net assets of the subsidiary	301
Gain from disposal of the subsidiary	**2 496**

Profit for the year from discontinued operations was as follows:

	2016
Revenue	979
Other operating income	136
	1 115
Expense, including:	(2 366)
- Cost of sales	(2 087)
- Selling, general and administrative expense	(47)
- Finance income	3
- Finance costs and foreign exchange loss	(236)
Loss before income tax	(1 252)
Income tax	91
	(1 160)
Gain from disposal of the subsidiary	2 496
Profit for the year from discontinued operations	**1 336**

Net cash consideration received from disposal of the subsidiary was as follows:

Purchase consideration as at the date of the sale	27 630
Accounts receivable from the sale of the subsidiary	(33 042)
Cash and cash equivalents of the disposed subsidiary	(384)
Translation to presentation currency	5 412
Net cash outflow on disposal of the subsidiary	**(384)**

Cash flows from discontinued operations were as follows:

	2016
Net cash	
- used in operating activities	(37)
- from financing activities	30
Net cash outflows	**(7)**

(in thousands of US dollars, unless otherwise indicated)

7. PROPERTY AND EQUIPMENT

Movements in the carrying amounts of property and equipment were as follows:

	Railcars (leased)	Railcars (not leased)	Other fixed assets	Total
COST				
As at 1 January 2016	**409 270**	**2 586**	**6 800**	**418 656**
Additions	739	-	27	766
Disposal of subsidiary	-	-	(6 277)	(6 277)
Disposals	-	-	(489)	(489)
Transfer of wheelsets to inventory	(167)	-	-	(167)
Translation to presentation currency	82 549	521	(42)	83 028
As at 31 December 2016	**492 391**	**3 107**	**19**	**495 517**
Railcars fleet replacement (additions)	212 970	56	-	213 026
Additions	2 616	-	-	2 616
Railcars fleet replacement (sales)	(253 773)	-	-	(253 773)
Disposals	(937)	(136)	-	(1 073)
Translation to presentation currency	26 410	163	1	26 574
As at 31 December 2017	**479 677**	**3 190**	**20**	**482 887**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As at 1 January 2016	**60 257**	**356**	**16**	**60 629**
Depreciation charge	23 236	185	215	23 636
Disposal of a subsidiary	-	-	(157)	(157)
Disposals	-	-	(25)	(25)
Transfer of wheelsets to inventory	(123)	-	-	(123)
Translation to presentation currency	14 576	90	(30)	14 636
As at 31 December 2016	**97 946**	**631**	**19**	**98 596**
Depreciation charge	20 803	208	-	21 011
Railcars fleet replacement (depreciation)	(64 989)	-	-	(64 989)
Disposals	(296)	(33)	-	(329)
Translation to presentation currency	4 838	36	1	4 875
As at 31 December 2017	**58 302**	**842**	**20**	**59 164**
NET BOOK VALUE				
1 January 2016	**349 013**	**2 230**	**6 784**	**358 027**
31 December 2016	**394 445**	**2 476**	**-**	**396 921**
31 December 2017	**421 375**	**2 348**	**-**	**423 723**

As at 31 December 2017 property and equipment with the net book value of USD 413 116 thousand was pledged as collateral for the Group's borrowings (31 December 2016 – USD 394 877 thousand) (Note 17).

(in thousands of US dollars, unless otherwise indicated)

8. PREPAYMENTS FOR PROPERTY AND EQUIPMENT

Prepayments for property and equipment comprised the following:

	31 December 2017	31 December 2016
Prepayments made – «TH UWC LLC»	12 350	-
Prepayments made – «TVSZ JSC»	11 198	5 294
Prepayments made – third parties	515	489
Allowance for impairment of third party prepayments	(515)	(489)
Total prepayments for property and equipment	**23 548**	**5 294**

Movement in the allowance for doubtful prepayments during the years ended 31 December 2017 and 2016 was as follows:

	31 December 2017	31 December 2016
Balance at the beginning of the year	**489**	**407**
Translation to presentation currency	26	82
Balance at the end of the year	**515**	**489**

9. INVESTMENT IN THE JOINT VENTURE

The Group has the following investments in joint ventures:

			Ownership and voting interest of the Group	
Name	Type of investment	Place of incorporation and operation	31 December 2017	31 December 2016
MRC1520 LLC	Joint Venture	Moscow, Russia	50%	50%

In 2012 the Group entered into a joint venture agreement to establish MRC 1520 LLC with 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 of the joint venture for 2017 and 2016 recognized in the consolidated statement of profit and loss and other comprehensive income amounted to USD 367 thousand and USD 138 thousand, respectively. Summarised financial information in respect of the Group's material joint venture and reconciliation of the summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRS adjusted by the Group for equity accounting purposes.

(in thousands of US dollars, unless otherwise indicated)

	31 December 2017	31 December 2016
Cash and cash equivalents	2 279	728
Trade and other receivables	80	80
Other current assets	1	1
Non-current assets	9 882	10 084
Deferred tax assets	52	-
Other current liabilities	(230)	(134)
Non-current liabilities	-	(9)
Net assets of the joint venture	**12 064**	**10 750**
Proportion of the Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	**6 032**	**5 375**

	2017	2016
Revenue	2 237	2 133
Profit for the year	734	276
Other comprehensive income for the year	580	1 782
Total comprehensive income for the year	1 314	2 058

The above income for the year includes the following:

	2017	2016
Depreciation and amortization	(725)	(651)
Interest income	-	30
Interest expense	-	(137)
Income tax expense	(188)	(76)
Forex differences	(53)	-

10. INVESTMENTS IN DEBT SECURITIES OF A RELATED PARTY

In 2017 the Group purchased 5 170 108 bonds for USD 89 686 thousand at the transaction date and sold 100 087 bonds in the market. The bonds which were sold had a carrying value of USD 1 681 thousand at the date of sale. The residual 5 199 397 bonds were recognized as investments in debt securities of a related party as at 31 December 2017 equal to USD 94 208 thousand. These securities are classified as financial assets at FVTPL with the fair value measurement identified as Level 1. None of these assets have been past due or impaired at the end of the reporting period. The Group holds no collateral over these balances.

In 2016 the Group purchased 129 376 bonds for USD 2 110 thousand at the transaction date and sold 1 683 800 bonds in the market. The bonds which had been sold had a carrying value of USD 22 959 thousand at the date of sale. The residual 129 376 bonds were recognized as investments in debt securities of a related party as at 31 December 2016 equal to USD 2 145 thousand.

11. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other receivables comprised the following:

	31 December 2017	31 December 2016
Trade receivables from operating lease of railcars	37 632	10 752
Trade receivables from sale of railcars	4 665	-
Other accounts receivable	675	522
Accounts receivable from the sale of the subsidiary	-	33 042
Allowance for doubtful accounts receivable	(689)	(1 274)
Total trade and other accounts receivable	**42 283**	**43 042**

(in thousands of US dollars, unless otherwise indicated)

As at December 31, 2017 and 2016, receivables from operating lease of railcars included receivables due from the Group's related party Vostok 1520 LLC in the amount of USD 36 313 million and USD 8 589 million, respectively. In October 2017 the Group and Vostok 1520 LLC signed an additional agreement to the principal lease agreement. According to the additional agreement the credit period for Vostok 1520 LLC was increased up to 5 months. This led to an increase in accounts receivable balance.

Management determines the allowance for impairment of receivables based on assessment of customers credit quality, changes in industry trends, subsequent receipts and historical experience. The ageing of receivables that are past due but not impaired was as follows:

	31 December 2017	31 December 2016
Past due 31-90 days	169	5 223
Past due 91-180 days	16 367	148
Past due 181-365 days	4 427	251
Past due more than 365 days	456	-
Total	**21 419**	**5 622**

Movement in the allowance for doubtful accounts receivable during the years ended 31 December 2017 and 2016 was as follows:

	31 December 2017	31 December 2016
Balance at the beginning of the year	**1 274**	**3 709**
Reversal of the allowance for doubtful accounts receivable	(1 324)	(2 880)
Impairment loss recognized on accounts receivable	679	-
Translation to presentation currency	60	445
Balance at the end of the year	**689**	**1 274**

12. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets comprised the following:

	31 December 2017	31 December 2016
Bank guarantees and sureties	10 844	-
Advances paid to a related party (Note 27)	2 086	5 113
Income tax receivable	1 884	-
Prepayments to suppliers	269	692
Prepaid expenses	115	97
Allowance for doubtful prepayments	-	(591)
Total prepayments and other current assets	**15 198**	**5 311**

Movement in the allowance for doubtful prepayments and other current assets during the years ended 31 December 2017 and 2016 was as follows:

	31 December 2017	31 December 2016
Balance at the beginning of the year	**591**	**418**
Use of allowance for doubtful prepayments	(614)	-
Reversal of the allowance for prepayments and other current assets	-	(69)
Impairment loss recognized on prepayments	-	149
Translation to presentation currency	23	93
Balance at the end of the year	**-**	**591**

(in thousands of US dollars, unless otherwise indicated)

13. LOANS RECEIVABLE

Loans receivable comprised the following:

	Currency	Interest rate, %	31 December 2017	31 December 2016
Loans granted to related parties				
Secured				
SZIZHK LLC	RUB	11%	43 897	31 567
JSC Business Engineering	RUB	11%	12 483	8 422
Unsecurred				
Ovilleno Holdings LTD	RUB	10%	289 426	97 518
Holme Services LTD	USD	6.4%	198 157	161 363
TH UWC LLC	RUB	Kay rate of the CBR *1.125	151 863	154 634
Holme Services LTD	RUB	6%*	117 321	148 181
Rail1520 Tank Cars Cyprus Holding	RUB	10%	59 957	29 825
Rail 1520 IP LTD	RUB	10%	39 039	5 213
TM-Energo	RUB	11.5%	36 083	-
Restadiana Ventures LTD	RUB	10%	24 921	11 120
SZIPK LLC	RUB	15.0%	23 874	19 714
IST-Capital	RUB	11.5%	22 842	19 515
Pegadisa Management LTD	RUB	10%	8 212	7 294
Re Test Cyprus LTD	USD	6.4%	8 184	6 464
Deanroad LTD	USD	6.4%	2 465	1 188
Unicon 1520 LLC	RUB	7%	2 000	-
Uniwagon North America	USD	6.0%	1 865	79
UW Forge Co Ltd	USD	6.4%	373	91
Rail1520 Cyprus Man Co LTD	USD	6.4%	317	184
Re Test LTD	USD	6.4%	65	66
Tikhvin Trial Centre for Railway LLC	RUB	7.5%	33	31
Rail1520 Tank Cars BVI Holding LTD	USD	6.4%	30	18
Doland Business LTD	USD	8%	-	27 376
Kintonia Investments LTD	RUB	6.4%	-	4 811
United Wagon PLC	USD	6.4%	-	3 343
Rail1520 BVI Man Co LTD	USD	6.4%	-	149
Doland Business LTD	RUB	11%	-	60
Total loans granted to related parties			**1 043 407**	**738 226**
Loans granted to third parties				
BLK-Proekt LLC	RUB	10%	555	352
Tur LLC	RUB	11%	65	11
Total loans receivable			**1 044 027**	**738 589**
Current			60 903	44 173
Non-current			983 124	694 416
Total loans receivable			**1 044 027**	**738 589**

* In July 2017 the Group amended terms of the RUR denominated loan agreement with one of the related parties. Under the new conditions, the contractual rate was reduced from 11% to 6% per annum. The new rate was lower than the market rate, which was estimated by the Group's management at 10.4% at the date of the amendment. Accordingly, the loan was recognized at fair value using the discount rate of 10.4%. The difference between the fair value and nominal value of the loan (USD 49 347 thousand) was recognized in additional paid-in capital.

In 2017 and 2016 ICT Finance Ltd issued guarantees in respect of loans issued to SZIZhK CJSC and Business Engineering CJSC. According to the guarantees ICT Finance Ltd is liable to make payments under the loan agreements in case the borrowers fail to fulfill their obligations to pay the debt.

(in thousands of US dollars, unless otherwise indicated)

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	31 December 2017	31 December 2016
Current accounts in RUB	1 365	817
Short-term bank deposits in RUB	594	12 993
Current accounts in EUR	3	1
Current accounts in USD	2	1
Total cash and cash equivalents	**1 964**	**13 812**

As at 31 December 2017 the Group placed cash on overnight deposits in order to receive interest income, the interest rate on such deposits varied from 5% to 8% per annum.

As at 31 December 2016 the Group placed cash on overnight deposits in order to receive interest income, the interest rate on such deposits varied from 5% to 9.35% per annum.

Restricted cash

Under the credit facility agreement concluded between the Group's subsidiary and Alfa-Bank JSC a pledge agreement was signed in respect of the bank collateral account. In accordance with the terms of the agreement, the collateral account shall accumulate proceeds from the railcar lease services under a number of the Group's lease contracts. The use of funds deposited in the collateral account is only possible for repayment of the short-term portion of the loan from Alfa-Bank JSC.

As at December 31, 2017, the amount of restricted cash accumulated on the collateral bank account of USD 13 924 thousand was included in current assets in the consolidated statement of financial position.

15. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

As at 31 December 2017 and 2016 the Company's issued and registered share capital amounted to USD 1 thousand. The share capital was fully paid as at the reporting date.

As at 31 December 2017 and 2016, the additional paid-in capital of the Group consisted of the contributions made by the sole shareholder of the Group.

16. SHORT-TERM BANK DEPOSITS

Short-term bank deposits, including accrued, but not paid interest, comprised:

	Currency	Rate, %	31 December 2017	31 December 2016
Promsvyazbank (Cyprus)	RUB	9%	87 469	-
Rigensis Bank (Latvia)	RUB	10.65%	-	84 636
Total short-term bank deposits			**87 469**	**84 636**

As at 31 December 2017 the Group placed free cash in the amount of RUB 5 000 000 thousand (USD 86 805 thousand as at the reporting date) to bank deposit with a purpose of receiving interest income from Promsvyazbank (Cyprus), at an annual interest rate 9.00 % and maturity on 14 June 2018. As at 31 December 2017 interest accrued, but not paid comprised USD 663 thousand.

(in thousands of US dollars, unless otherwise indicated)

As at 31 December 2016 the Group placed free cash in the amount of RUB 5 000 000 thousand (USD 82 441 thousand as at the reporting date) to bank deposit with a purpose of receiving interest income from Rigensis Bank (Latvia), a related party, at an annual interest rate 10.65 % and maturity on 22 June 2017. As at 31 December 2016 interest accrued, but not paid comprised USD 2 195 thousand.

17. LOANS AND BORROWINGS

	Maturity	Interest Rate	Interest rate, % (at 31 December 2017)	31 December 2017	31 December 2016
At amortised cost, including:					
RUB-denominated					
LLC "UWC Finance"	2021-2024	Fixed	7.05%-14.2%	622 684	508 203
JSC "Alfa-Bank"	2023	Fixed	12.7%	329 744	316 066
PJSC "RPC UWC"	2021-2027	Fixed	7.32%*-13.9%	254 026	74 364
LLC "TH UWC"	2027	Fixed	5.9%*	39 001	-
LLC "TH UWC"	2025	Fixed	16%	-	233 531
PJSC "Otkritie FC Bank"	2017	Floating	MosPrime 3M+4%	-	94 036
JSC "Gazprombank"	2022	Fixed	12.15%	-	32 937
United Wagon Plc	2018	Fixed	6.5%	-	136
USD-denominated					
LLC "TH UWC"	2025	Fixed	6%	425 784	-
Doland Business Ltd	2017	Fixed	8%	-	319
Total loans and borrowings				**1 671 239**	**1 259 592**
Less: current portion				(76 545)	(135 536)
Long-term loans and borrowings				**1 594 694**	**1 124 056**

* In 2017, the Group changed the terms of the loan agreements with LLC "TH UWC" and PJSC "RPC UWC". Under the new conditions, the interest rates were reduced from 9% (loan received from LLC "TH UWC") to 5.9% per annum and from 13.9% (loan received from PJSC "RPC UWC") to 7.32%. The new rates were lower than the market rates, estimated by the Group's management in 2017 at 10.4%. The Group derecognized the liabilities at 9% and 13.9% and recognized new ones at amortized cost using the market rate of 10.4%. The difference between the fair value and nominal value of the loans (USD 36 137 thousand) was recognized in additional paid-in capital.

Security on loans and borrowings

Under the above borrowing agreements, the Group has provided the following pledges as at 31 December 2017:

- Property and equipment with carrying value of USD 413 116 (Note 7);
- Shares in subsidiaries (Rail 1520 LLC (100%), Rail 1520 Cyprus Ltd (100%)).

Under the above borrowing agreements, the Group has provided the following pledges as at 31 December 2016:

- Property and equipment with carrying value of USD 394 877 thousand (Note 7);
- Shares in subsidiaries (Rail 1520 LLC (100%), Rail 1520 Service LLC (100%), Rail 1520 Cyprus LTD (100%), Rail 1520 (BVI) LTD (100%))

(in thousands of US dollars, unless otherwise indicated)

Repayment schedule

The repayment schedule of loans and borrowings for five years ending December 31, 2022 and thereafter is as follows:

	Amount to maturity (w/o effect of discounting)
2018	76 545
2019	71 942
2020	82 410
2021	332 630
2022	128 629
Thereafter	1 013 870
Total	**1 706 026**

Reconciliation of financial liabilities

The change of financial liabilities including cash and non-cash movements is presented below. Liabilities arising from financial activities are those for which cash flows were or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

		Cash flows	Non-cash changes					
	January 1, 2017	from financial activities	Foreign exchange difference	Effect from discounting	Translation difference	Other non-cash changes	Net interest payments	December 31, 2017
Borrowings from related parties	816 553	481 380	(16 469)	(36 137)	45 450	34 154*	16 564	1 341 495
Bank loans	443 039	(133 380)	-	-	22 609	769	(3 293)	329 744
Finance lease	-	2 457	-	-	34	100	-	2 591
Other borrowings	-	28	(27)	-	-		(1)	-
	1 259 592	350 485	(16 496)	(36 137)	68 093	35 023	13 270	1 673 830

* In 2017, the Group acquired the rights to claim debt from related party TM-Energo (Note 13).

Covenants

Under the terms of the loan 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.

Compliance with covenants during the year ended December 31, 2017

As at 31 December 2017 none of the Group's subsidiaries breached the covenants. The Group was in compliance with all financial and non-financial covenants as of the year end date.

Compliance with covenants during the year ended December 31, 2016

As at December 31, 2016 one of the Group's subsidiaries breached an EBIT to Interest paid covenant set out by Alfa-Bank JSC. The covenant is calculated based on statutory financial statements of the borrower on a quarterly basis. In April 2017 after the decision of the bank's credit committee, an additional agreement was signed, which moved the first compliance period from the fourth quarter 2016 to the first quarter 2017. During the first quarter of 2017 the Group complied with this covenant and during 2017 the Group was in compliance with all of its existing covenants according to this loan agreement.

Available credit facilities

There were no unused credit facilities as at 31 December 2017 and 2016.

(in thousands of US dollars, unless otherwise indicated)

18. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following:

	31 December 2017	31 December 2016
Payables for property and equipment	17 915	40
Taxes payable	15 586	7 059
Trade and other accounts payable	8 179	6 251
Total trade and other payables	**41 680**	**13 350**

As at 31 December 2017 payables for property and equipment include USD 17 873 thousand payable for railcars from the related party supplier TH UWC LLC. The supply agreement stipulates lagging of a payment for 180 days starting from the date of delivery.

19. ADVANCES RECEIVED

Advances received comprised the following:

	31 December 2017	31 December 2016
Advances received for goods (railcars)	35 621	-
Operating lease prepayments	2 208	2 676
Other advances received	383	-
Total advances received	**38 212**	**2 676**

20. REVENUE

Revenue of the Group from continuing operations comprised the following (excluding finance income – Note 23):

	2017	2016
Continuing operations		
Sales of goods (railcars)	250 945	-
Operating lease of railcars	86 358	64 378
Sales of spare parts	289	536
Other revenue	727	128
Total revenue	**338 319**	**65 042**

In the first half of 2017, the Group's management decided to replace the old fleet of railcars previously leased by the Group with the new innovative railcars. Accordingly 7 379 railcars with a carrying value of USD 188 784 thousand (Notes 7, 21) were transferred from property, plant and equipment to inventories and sold to third parties. The largest customer was Federal Freight Company JSC.

The total amount of revenue received by the Group from the sale of these cars was included in the sales of railcars item and amounted to USD 242 470 thousand for the year ended December 31, 2017.

(in thousands of US dollars, unless otherwise indicated)

21. DIRECT EXPENSES

Direct expenses of the Group from continuing operations comprised the following:

	2017	2016
Continuing operations		
Direct expenses associated with operating lease		
Depreciation of railcars	21 011	23 421
Maintenance and repairs	6 831	4 762
Property tax	2 118	8 284
Insurance expenses	140	122
Other	404	363
Direct expenses associated with sale of railcars and spare parts		
Net book value of railcars sold with railcar fleet replacement	188 784	-
Cost of railcars sold	7 059	-
Cost of spare parts and castings sold	272	945
Total direct expenses	**226 619**	**37 897**

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses of the Group from continuing operations comprised the following:

	2017	2016
Continuing operations		
Management fees	2 569	3 304
Consulting and legal fees	2 142	444
Railcars disposition information	820	568
Charge / (reversal) of allowance for doubtful accounts receivable	679	(2 768)
Allowance for obsolete inventory	493	-
Transportation costs for the delivery of railcars to the buyer	272	-
Other	295	512
Total selling, general and administrative expenses	**7 270**	**2 060**

23. FINANCE COSTS AND FINANCE INCOME

Finance costs of the Group from continuing operations comprised the following:

	2017	2016
Continuing operations		
Interest expense on loans and borrowings	165 304	132 721
Cost of guarantees and sureties	11 503	7 421
Unwinding of discount (financial liabilities)	878	-
Commission for early repayment of loan (Note 17)	550	5 076
Bank charges and commissions	92	323
Government grants	-	(463)
Total finance costs	**178 327**	**145 078**

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 acquisition of innovative railcars to the extent that these railcars are compliant with certain requirements.

(in thousands of US dollars, unless otherwise indicated)

Finance income of the Group from continuing operations comprised the following:

	2017	2016
Continuing operations		
Interest income from loans granted	83 408	45 344
Interest income on deposits, cash and equivalents	10 724	4 544
Finance income from sale of bonds	3 991	336
Interest income from finance lease	621	581
Unwinding of discount (financial assets)	86	-
Total finance income	**98 830**	**50 805**

24. INCOME TAXES

The components of income tax expense comprised the following:

	2017	2016
Current tax expense	(19 952)	(2 735)
Deferred tax (expense)/ benefit	(2 735)	1 448
Total income tax expense	**(22 687)**	**(1 287)**

As at 31 December 2017 the income tax rates applicable to the entities of the Group were as follows:

- Russian companies – 20%;
- Cyprus companies – 12.5%;
- BVI companies – 0%.

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:

	2017	2016
Profit/ (loss) before income tax	**29 191**	**(92 832)**
Theoretical income tax expense/benefit calculated at 20%	(5 838)	18 566
Tax effects of items which are not deductible or assessable for taxation purposes:		
Share of profit of the joint venture	73	28
Effect of different income tax rates and taxation rules applicable to foreign subsidiaries of the Group	(10 935)	(9 740)
Unrecognized tax losses of foreign subsidiaries of the Group for the year	(5 832)	(9 512)
Income tax accrued for previous years	-	(469)
Other items	(155)	(160)
Income tax expense	**(22 687)**	**(1 287)**

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

(in thousands of US dollars, unless otherwise indicated)

As at 31 December 2017 and 2016 net deferred tax liabilities arose from the following:

	2017	2016
Tax losses carried forward in Russian subsidiaries of the Group	2 919	2 875
Provisions	338	126
Trade and other accounts receivable	240	437
Property and equipment	(6 365)	(3 275)
Commissions on borrowings	(163)	(247)
Other	254	78
Net deferred tax liabilities	**(2 777)**	**(6)**

Starting from 2017 the Group can offset only 50% of taxable profit of each Russian subsidiary against tax loss carry forwards accumulated by the subsidiary and the Group's tax loss carry forwards have no date of expiration (after amendments to the Russian Tax Code effective 1 January 2017).

The movements in deferred tax were as follows:

	2017	2016
Deferred tax balance as at the beginning of the year, net	(6)	(87)
Deferred tax benefit	(2 735)	1 448
Deferred tax expense from discontinued operations	-	(1 348)
Currency translation reserve	(36)	(19)
Deferred tax balance as at the end of the year	**(2 777)**	**(6)**

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as at 31 December 2017 and 2016:

	2017	2016
Deferred tax assets	2 481	3 478
Deferred tax liabilities	(5 258)	(3 484)
Net deferred tax position	**(2 777)**	**(6)**

As at 31 December 2017 and 2016, 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.

25. FINANCIAL RISK MANAGEMENT

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

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.

(in thousands of US dollars, unless otherwise indicated)

The sensitivity analysis below has been determined based on the exposure to interest rates for floating rate borrowings 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.

As of 31 December 2017, the Group had not loans and borrowings with variable interest rate.

If interest rates had been 3% higher /(lower) and all other variables were held constant during 2016, the Group's profit for 2016 would (decrease)/ increase by USD 2 821 thousand.

Credit risk management

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:

	31 December 2017	31 December 2016
Financial assets		
Loans receivable	1 044 027	738 589
Short-term bank deposits	87 469	84 636
Investment in debt securities of a related party	94 208	2 145
Trade and other receivables	42 283	43 042
Finance lease receivables	3 727	3 834
Restricted cash	13 924	-
Cash and cash equivalents	1 964	13 812
Total	**1 287 602**	**886 058**

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 that are rated the equivalent of investment grade and above. This information is supplied by independent rating agencies where available and, if not available, the Group uses other 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. Credit exposure is controlled by counterparty limits that are reviewed and approved by the risk management committee annually.

Accounts receivable from operating lease of railcars are represented for more than 85% by receivables from Vostok 1520 LLC.

The credit risk on liquid funds is limited because the counterparties are bank with stable credit-ratings assigned by international credit-rating agencies. Major part of free cash funds of the Group (USD 87 469 thousand) are placed on a bank deposit in Promsvyazbank which was rated by the world rating agencies as developing bank with positive outlook.

The Group has a significant concentration of credit risk in regards to loans provided to Ovilleno Holdings LTD, Holme Services LTD and TH UWC LLC related parties of the Group.

(in thousands of US dollars, unless otherwise indicated)

Currency risk

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in the currency different from the functional currency of each entity in the Group. During 2017 and 2016 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:

	31 December 2017			31 December 2016		
	Monetary financial assets	Monetary financial liabilities	Net monetary position	Monetary financial assets	Monetary financial liabilities	Net monetary position
USD	211 457	425 784	(214 326)	201 040	318	200 722
EUR	4 668	-	4 668	1	-	1
Total	**216 125**	**425 784**	**(209 658)**	**201 041**	**318**	**200 723**

The table below details the Group's sensitivity to weakening of the Russian Ruble against US Dollar and Euro by 20%, 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	
	31 December 2017	31 December 2016	31 December 2017	31 December 2016
(Loss) / gain	(42 865)	40 144	934	-

The strengthening of RUB 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 31 December 2017 the Group does not have formal arrangements to hedge foreign exchange risks of the Group's operations. The Management monitors all changes in the exchange rates and does not expect any material negative fluctuations in the medium-term.

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.

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.

(in thousands of US dollars, unless otherwise indicated)

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	1-5 years	Over 5 years	Total
31 December 2017				
Non-interest bearing	26 094	-	-	26 094
Finance lease liabilities	315	2 276	-	2 591
Fixed interest rate instruments	229 053	1 184 408	1 180 431	2 593 892
	255 462	**1 186 684**	**1 180 431**	**2 622 577**

	Less than 12 months	1-5 years	Over 5 years	Total
31 December 2016				
Non-interest bearing	6 251	-	-	6 251
Variable interest rate instruments	107 895	-	-	107 895
Fixed interest rate instruments	184 446	962 836	940 445	2 087 727
	298 592	**962 836**	**940 445**	**2 201 873**

The following table details the Group's expected maturity for its non-derivative financial assets. 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. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Less than 12 months	1-5 years	Over 5 years	Total
31 December 2017				
Non-interest bearing	56 208	-	-	56 208
Variable interest rate instruments	123 512	166 400	-	289 912
Fixed interest rate instruments	182 987	487 072	769 124	1 439 183
Finance lease receivables	940	3 762	1 293	5 995
	363 647	**657 234**	**770 417**	**1 791 298**

	Less than 12 months	1-5 years	Over 5 years	Total
31 December 2016				
Non-interest bearing	43 042	-	-	43 042
Variable interest rate instruments	2 145	-	-	2 145
Fixed interest rate instruments	173 947	418 765	637 800	1 230 512
Finance lease receivables	893	3 572	2 121	6 586
	220 027	**422 337**	**639 921**	**1 282 285**
Net (asset) / liability positions as at 31 December 2017	**(108 185)**	**529 450**	**410 014**	**831 279**
Net liability positions as at 31 December 2016	**78 565**	**540 499**	**300 524**	**919 588**

Capital 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 as detailed in Note 17, offset by cash and cash equivalents balances) and equity and reserves.

(in thousands of US dollars, unless otherwise indicated)

26. FINANCIAL INSTRUMENTS

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

	31 December 2017	31 December 2016
Financial assets		
Loans receivable	1 044 027	738 589
Short term deposits	87 469	84 636
Trade and other receivables	42 283	43 042
Restricted cash	13 924	-
Finance lease receivables	3 727	3 834
Total loans and receivables	**1 090 037**	**785 465**
Cash and cash equivalents	1 964	13 812
Total cash and cash equivalents	**1 964**	**13 812**
Investments in debt securities of a related party	94 208	2 145
Total financial assets at FVTPL	**94 208**	**2 145**
Financial liabilities at amortised cost		
Loans and borrowings	1 671 239	1 259 592
Trade and other payables	26 094	6 291
Financial lease liabilities	2 591	-
Total financial liabilities at amortised cost	**1 699 924**	**1 265 883**

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

The carrying amounts and fair values of the Group's loans and borrowings as at 31 December 2017 and 2016 were presented as follows:

	31 December 2017		31 December 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and borrowings*	1 671 239	1 720 145	1 259 592	1 191 461
	1 671 239	**1 720 145**	**1 259 592**	**1 191 461**

* For the fair value estimation the Group used 10.43% as market rate of cost of debt for RUB and 5.99% as market rate of cost of debt for USD.

Inputs of Level 2 of the fair value hierarchy were used to measure the fair value of 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 RUB and with maturities of over 3 years) received by non-financial organizations from credit institutions.

Fair value of accounts receivable, short-term loans granted, short-term bank deposits, restricted cash and cash and cash equivalents corresponds to their carrying value. For assessment of fair value for long-term loans granted to third and related parties, inputs from Level 2 of fair value hierarchy were used. Fair value was estimated based on discounted cash flows with key assumption – market rate.

As at 31 December 2017 fair value of loans granted was greater than the carrying value by USD 14 598 thousand.

(in thousands of US dollars, unless otherwise indicated)

27. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if the parties are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control 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 enters into various purchases and service transactions with related parties, such as purchase of railcars and management services provided by the management company. In addition, the Group enters into financing and investing transactions with related parties.

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 31 December 2017 are: the parent, entities with significant influence over the Group, entities under common control with the Group, associates and joint ventures of RPC UWC.

The balances with other related parties as at 31 December 2016 includes balances with PTK-Holding JSC and balances with its subsidiaries Nitrokhimprom LLC and Vostok 1520 LLC. Vostok 1520 LLC is a former subsidiary of RPC UWC that was disposed in November 2016. In 2017 for the purposes of this disclosure due to the acquisition of 19.9% shares in PTK-Holding JSC by RPC UWC, transactions and balances with Nitrokhimprom LLC and Vostok 1520 LLC are presented as transactions with associates and joint ventures of RPC UWC.

The Group had the following balances with its related parties:

	31 December 2017	31 December 2016
Prepayments for property and equipment		
Entities under common control	23 548	5 294
Loans to related parties		
Entities under common control	932 028	678 523
Entities with significant influence over the Group	111 379	59 703
Investments in debt securities of a related party		
Entities under common control	94 208	2 145
Short-term bank deposits		
Entities with significant influence over the Group	-	84 636
Trade and other accounts receivable		
Associates and joint ventures of RPC UWC	36 313	-
Entities under common control	616	33 319
Other related parties	-	8 249
Advances paid to a related party		
Entities with significant influence over the Group	17 104	-
Entities under common control	2 086	5 113
TOTAL ASSETS	**1 217 282**	**876 982**
Trade and other accounts payable		
Entities under common control	25 997	4 556
Associates and joint ventures of RPC UWC	21	-
Parent company	-	1 387
Advances received from a related party		
Associates and joint ventures of RPC UWC	33 889	-
Entities under common control	1 732	-
Borrowings		
Entities under common control	1 087 470	742 191
Parent company	254 025	74 363
TOTAL LIABILITIES	**1 403 134**	**822 497**

(in thousands of US dollars, unless otherwise indicated)

The amounts outstanding are unsecured (expect as disclosed in Note 13) and will be settled in cash. There have been no guarantees provided or received for any related party accounts receivable or payable. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties. The Group's transactions with its related parties were as follows:

	2017	2016
Purchase of property and equipment		
Entities under common control	(215 036)	(738)
Associates and joint ventures of RPC UWC	(122)	-
Cost of railcars for resale		
Entities under common control	(7 059)	-
Cost of spare parts		
Entities under common control	(272)	(648)
Other related parties	-	(298)
Maintenance, repair and service expenses		
Entities under common control	(2 468)	(2 489)
Management fee		
Parent company	(2 276)	(3 306)
Cost of guarantees and sureties		
Entities with significant influence over the Group	(11 503)	(7 421)
Other expenses		
Entities under common control	(295)	-
Revenue – operating lease of railcars		
Associates and joint ventures of RPC UWC	45 532	-
Other related parties	-	18 318
Revenue – sales of railcars		
Entities under common control	161	-
Revenue – sales spare parts		
Entities under common control	289	536
Interest income		
Entities under common control	73 295	42 658
Entities with significant influence over the Group	18 321	7 162
Interest expenses		
Entities under common control	(91 497)	(77 471)
Entities with significant influence over the Group	(18 590)	-
Parent company	(8 844)	(1 025)
Gain / (loss) on exchange differences, net		
Entities under common control	8 155	(21 950)
Entities with significant influence over the Group	749	(2 314)
Related party debt forgiveness		
Entities under common control	(5 227)	-

Compensation of key management personnel

In 2017 and 2016 management of the Group was largely conducted by a management company, a related party to the Group, under a management fee structure. Total remuneration of the management company is disclosed in the table above under the Management fee line.

(in thousands of US dollars, unless otherwise indicated)

28. OPERATING LEASE ARRANGEMENTS

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.

Future minimum lease payments to the Group under non-cancellable operating leases are as follows:

	31 December 2017	31 December 2016
Not later than 1 year	90 968	72 591
Later than 1 year and not longer than 5 years	261 454	203 378
Later than 5 years	29 537	68 037
	381 959	**344 006**

29. COMMITMENTS AND CONTINGENCIES

Commitments for capital expenditure

At 31 December 2017, the Group had no commitments to acquire property and equipment except for those which were 100% prepaid.

Operating environment

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

During 2017 the oil and gas prices remained low. The management cannot reasonably estimate future price changes and the impact they may have on the financial position of the Group.

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. These sanctions remained in 2017. Moreover, downgrade of Russia's long-term foreign currency sovereign rating by international credit agencies has led to reduced access of the Russian businesses to international capital and export markets, increased inflation, economic recession 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. 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.

The Group identified possible contingent tax liabilities for the three-year period ended December 31, 2017. Management estimates that the Group's possible exposure in relation to the aforementioned tax risks will not exceed 3% of the Group's total revenue for the year ended December 31, 2017.

Legal proceedings

From time to time the Group has been and continues to be the subject of legal proceedings and adjudications, 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.

30. SUBSEQUENT EVENTS

In March 2018, at the extraordinary shareholders meeting of PJSC "RPC UWC" (hereinafter – "RPC UWC"), it was decided to approve a number of significant transactions, the total amount of which exceeded 50% of the assets carrying amount of RPC UWC. In accordance with the Russian legislation, the shareholders who did not participate in the meeting received the right to demand from the RPC UWC the redemption of all or part of the shares that they owned. A number of shareholders executed this right with charter's capital share equaled to 10% and the amount of claims limited to 8.2 billion rubles.

Despite the fact that these transactions were initially qualified as large, the management of RPC UWC considers that their approval is the responsibility of the General Director, who representing the sole executive body of RPC UWC. As a result, the extraordinary shareholders' meeting had no authority to approve the transactions. In May 2018, the General Director of RPC UWC filed a claim in the Arbitration court of Moscow to declare invalidity of the shareholder's decision, which will ultimately result in cancellation of the redemption claims.

As of the date of approval of these consolidated financial statements, there is no final court decision that either could determine the claims of PJSC "RPC UWC" shareholders unfounded or oblige RPC UWC to buy out the required number of shares. If the court obliges PJSC "RPC UWC" to buy back its own shares in the amount disclosed above, RPC UWC management may need additional financing to purchase them, which may require selling of the Group's assets.