Приложение №4 Годовая консолидированная финансовая отчетность Поручителя «ХОЛМ СЕРВИСЕЗ ЛИМИТЕД» за 2018 год

Holme Services Limited

Consolidated Financial Statements and
Independent Auditor's Report
For the year ended 31 December 2018

HOLME SERVICES LIMITED

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STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Holme Services Limited (the "Company") and its subsidiaries (together the "Group") as of 31 December 2018 and the results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with 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 2018 were approved by management on 27 June 2019:

On behalf of the Management:

Xenia Koustai
Director
Holme Services Limited (BVI)

Stelios Panayides
Director
Holme Services Limited (BVI)

Deloitte.

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АУДИТОРСКОЕ ЗАКЛЮЧЕНИЕ НЕЗАВИСИМОГО АУДИТОРА

Акционерам и Совету Директоров Холм Сервайсез Лимитед

Мнение с оговоркой

Мы провели аудит прилагаемой финансовой отчетности Холм Сервайсез Лимитед и ее дочерних компаний («Группа»), состоящей из отчета о финансовом положении по состоянию на 31 декабря 2018 года, отчета о прибылях и убытках и прочем совокупном доходе, отчета об изменениях в капитале и отчета о движении денежных средств за 2018 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 заключения, прилагаемая финансовая отчетность отражает достоверно во всех существенных аспектах финансовое положение Группы по состоянию на 31 декабря 2018 года, а также ее финансовые результаты и движение денежных средств за 2018 год в соответствии с Международными стандартами финансовой отчетности («МСФО»).

Основание для выражения мнения с оговоркой

Как указано в Примечании 13 к консолидированной финансовой отчетности, по состоянию на 31 декабря 2018 и 2017 годов одна из компаний Группы нарушила обязательные финансовые и нефинансовые условия (ковенанты), предусмотренные заключенными кредитными договорами. Невыполнение ковенант предполагает применение штрафных санкций к компаниям-заемщикам, в том числе дает право кредиторам требовать досрочный возврат денежных средств по существующим обязательствам. После отчетной даты Группа получила документы, подтверждающие согласие банков-кредиторов не требовать досрочного погашения существующих обязательств по кредитным договорам (Примечание 13). При этом Руководство Группы оценило вероятность требований досрочного погашения кредитов со стороны банков как низкую, и, соответственно, по состоянию на 31 декабря 2018 и 2017 годов такие кредиты в сумме 242,481 тыс. долларов США и 325,629 тыс. долларов США, соответственно, были отражены в консолидированной финансовой отчетности в составе долгосрочных обязательств в соответствии со сроками погашения, предусмотренными первоначальными условиями договоров. 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 2018 и 2017 годов у Группы не было безусловного права перенести их погашение на срок, составляющий не менее 12 месяцев после указанных дат.

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.

Существенная неопределенность в отношении непрерывности деятельности

Прилагаемая консолидированная финансовая отчетность подготовлена на основе допущения о том, что Группы будет непрерывно продолжать свою деятельность. Как раскрыто в Примечаниях 2 и 13 к консолидированной финансовой отчетности, по состоянию на 31 декабря 2018 года одна из компаний Группы нарушила ряд обязательных финансовых и нефинансовых условий (ковенантов) по долгосрочным кредитным соглашениям. В Примечании 2 также указано на продолжающиеся убытки Группы. Данные события и условия, наряду с другими вопросами, изложенными в Примечании 2, указывают на наличие существенной неопределенности, которая может вызвать значительные сомнения в способности Группы непрерывно продолжать деятельность и погашать свои обязательства в установленном порядке. Планы руководства Группы в отношении этих обстоятельств представлены в Примечании 2 к консолидированной финансовой отчетности, в Примечании 27 раскрыты результаты предварительной краткосрочной реструктуризации кредитного портфеля Группы. Консолидированная финансовая отчетность не содержит каких-либо корректировок, которые могли бы возникнуть в результате данной неопределенности. Эти обстоятельства не привели к модификации нашего мнения.

Важные обстоятельства

Не изменяя мнения о достоверности консолидированной финансовой отчетности, мы обращаем внимание на Примечание 5, в котором указывается, что 979,040 тыс. долларов или 98% продаж Группы за год, закончившийся 31 декабря 2018 года, относится к сделкам со связанными сторонами (2017: 824,973 тыс. долларов, или 97%), а также что 755 266 тыс. долларов, или 76% продаж Группы за год, закончившийся 31 декабря 2018 года, было получено от сделок с одним контрагентом, который является компанией под общим контролем (2017: 774,175 тыс. долларов, или 91%).

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

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

При подготовке финансовой отчетности руководство несет ответственность 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, несут ответственность за надзор за подготовкой финансовой отчетности Группы.

Ответственность аудитора за аудит финансовой отчетности

Наша цель состоит в получении разумной уверенности, что 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 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 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 Компании;
- 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 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 Компанией способности непрерывно продолжать деятельность;
- проводим оценку представления 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.

Метелкин Егор,
руководитель задания

27 июня 2019 года

Акционерное общество «Делойт и Туш СНГ»
Для аудиторских заключений и отчетов
Россия, г. Москва, ул. Лесная, д. 5

Компания: Холм Сервис Лимитед

Основной государственный регистрационный номер: 1379319

Место нахождения: Виргинские Острова, Тортола, Роад Таун, Тридент Чэмберс

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.

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 31 DECEMBER 2018
(US Dollar thousand)

	Note	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Investments in associates	6	10,505	14,377
Intangible assets	7	71,651	92,904
Property, plant and equipment	8	488,209	591,865
Deferred tax assets	22	22,024	28,597
Other non-current assets		3,373	3,468
Total non-current assets		595,762	731,211
Current assets			
Inventories	9	132,597	171,585
Trade and other receivables	10	213,483	302,790
Prepayment of income tax		2,581	2,506
Cash and cash equivalents	11	8,510	8,809
Total current assets		357,171	485,690
TOTAL ASSETS		952,933	1,216,901
EQUITY AND LIABILITIES			
Shareholders' equity			
Share capital	12	37	37
Share premium	12	360,764	360,764
Additional paid-in capital	12	116,117	43,864
Reserve on revaluation of property, plant and equipment	8	157,427	142,116
Accumulated losses		(502,528)	(375,273)
Currency translation reserve		(28,243)	(6,241)
Total equity		103,574	165,267
Non-current liabilities			
Long-term loans from financial institutions	13	242,481	325,629
Other long-term borrowings	5, 13	291,819	350,617
Finance lease liabilities – non-current portion		86	439
Total non-current liabilities		534,386	676,685
Current liabilities			
Short-term loans and borrowings	13	158,895	171,693
Trade, tax and other payables	15	150,308	196,869
Provisions and accruals	16	5,680	6,018
Finance lease liabilities – current portion		90	370
Total current liabilities		314,973	374,950
Total liabilities		849,359	1,051,635
TOTAL LIABILITIES AND EQUITY		952,933	1,216,901

The notes on pages 9 to 45 are an integral part of these consolidated financial statements.

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED 31 DECEMBER 2018
(US Dollar thousand)

	Note	2018	2017
Revenue		1,001,508	852,800
Cost of sales	17	(991,233)	(794,461)
Gross profit		**10,275**	**58,339**
General and administrative expenses	18	(15,755)	(17,505)
Share of loss of associates	6	(1,568)	(2,394)
Other income	19	7,508	17,344
Other expenses	20	(4,881)	(4,659)
Impairment of intangible assets		(14,917)	-
Impairment of property, plant and equipment		(3,904)	-
Operating (loss)/profit		**(23,242)**	**51,125**
Finance income	21	2,240	1,942
Finance expenses	21	(108,339)	(65,150)
Loss before income tax		**(129,342)**	**(12,083)**
Income tax (expense)/benefit	22	1,998	(4,783)
Loss for the year		**(127,344)**	**(16,866)**
Other comprehensive income:			
Items that will not be reclassified subsequently to profit or loss			
Gain on revaluation of property, plant and equipment		19,250	-
Deferred tax liability on revaluation of property, plant and equipment		(3,850)	-
Exchange differences on translation to presentation currency		(22,002)	7,936
Other comprehensive income		(6,602)	7,936
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(149,325)**	**(8,931)**

The notes on pages 9 to 45 are an integral part of these consolidated financial statements.

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018
(US Dollar thousand)

	Share capital	Share premium	Additional paid-in capital	Reserve on revaluation of property, plant and equipment	Currency translation reserve	Accumulated losses	Total equity
Balance at 1 January 2017	37	360,764	(5,482)	142,497	(14,178)	(358,787)	124,850
Comprehensive income:							
Loss for the year	-	-	-	-	-	(16,866)	(16,866)
Currency translation differences on translation to presentation currency	-	-	-	-	7,936	-	7,936
Total comprehensive loss for the year	-	-	-	-	7,936	(16,866)	(8,930)
Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period	-	-	-	(381)	-	381	-
Discounting of borrowings from entities under common control	-	-	49,346	-	-	-	49,346
Balance at 31 December 2017	37	360,764	43,864	142,116	(6,241)	(375,273)	165,267
Comprehensive loss:							
Loss for the year	-	-	-	-	-	(127,344)	(127,344)
Gain on revaluation of property, plant and equipment, net of tax	-	-	-	15,400	-	-	15,400
Currency translation differences on translation to presentation currency	-	-	-	-	(22,002)	-	(22,002)
Total comprehensive loss for the year	-	-	-	15,400	(22,002)	(127,344)	(133,946)
Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period	-	-	-	(89)	-	89	-
Discounting of borrowings from entities under common control	-	-	72,253	-	-	-	72,253
Balance at 31 December 2018	37	360,764	116,117	157,427	(28,243)	(502,528)	103,574

The notes on pages 9 to 45 are an integral part of these consolidated financial statements.

HOLME SERVICES LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(US Dollar thousand)

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from customers	1,137,314	981,837
Cash paid to suppliers	(932,534)	(937,575)
Cash paid to employees	(80,010)	(78,256)
Government grants received	-	1,339
Other payments	(42,535)	(78,488)
Net cash generated/(used in) by operating activities	**82,235**	**(111,143)**
CASH FLOWS FROM INVESTING ACTIVITIES		
Investments in associates	-	(91)
Payments for property, plant and equipment	(23,435)	(15,649)
Payments for intangible assets	(15,398)	(18,512)
Interest received	312	431
Net cash used in investing activities	**(38,521)**	**(33,821)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from borrowings received from related parties	15,456	55,916
Proceeds from borrowings received from financial institutions	135,549	480,030
Repayment of borrowings received from related parties	(1,598)	(37,895)
Repayment of borrowings received from financial institutions	(144,320)	(361,507)
Redemption of cash deposited in accordance with covenants	-	32,880
Commissions and fees paid to banks	-	(1,476)
Government grants received	-	8,568
Interest paid	(47,549)	(46,118)
Net cash (used in)/from financing activities	**(42,461)**	**130,398**
Net increase/(decrease) in cash and cash equivalents	**1,255**	**(14,566)**
Effect of foreign exchange changes including effect of revaluation of cash and cash equivalents	(1,554)	1,259
Cash and cash equivalents at the beginning of the year	**8,809**	**22,116**
Cash and cash equivalents at the end of the year	**8,510**	**8,809**

The notes on pages 9 to 45 are an integral part of these consolidated financial statements.

1. GENERAL INFORMATION ABOUT THE GROUP AND ITS ACTIVITY

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

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

The Company owns the following significant entities:

Company name	Place of incorporation	Principal activity	Ownership interest December 31, 2018	Ownership interest December 31, 2017
Raygold Limited	Cyprus	Investment company	99.97%	99.97%
AFCT Advanced Freight Car Technology Limited ("AFCT")	Cyprus	Development of production technology for the plant	99.93%	99.93%
Deanroad Limited ("Deanroad")	Cyprus	Development of production technology for the plant	99%	99%
Rail1520 IP Limited	Cyprus	Development of production technology for the plant	100.00%	100.00%
Pegadisa Management Limited	Cyprus	Investment company	100.00%	100.00%
CJSC "Tikhvin Railway Car Manufacturing Plant" ("TVSZ")	Russia	Railcar manufacturing plant	99.97%	99.97%

As at 31 December 2017 PJSC "RPC UWC" is a sole shareholder of the Company. PJSC "RPC UWC" prepares consolidated financial statements available for public use, which disclose the ultimate controlling party of PJSC "RPC UWC" and the Company.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain assets that are measured at fair values at the end of each reporting period, as explained in the accounting policies below. The Group maintains its accounting records in accordance with the laws, accounting and reporting regulations of the countries where the Group entities are domiciled.

Accounting principles and financial reporting procedures in those jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, the financial statements of the Group entities have been adjusted to ensure that they are presented in accordance with IFRS.

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

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.

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 (Note 13).

All loans and borrowings are presented in these consolidated financial statements in accordance with initial expected payment terms stipulated in the loan agreements, notwithstanding whether the covenants have been breached as at the reporting date, or not.

After the reporting date but before the date of approval of these consolidated financial statements official letters were received, confirming that the creditors' will not demand an early repayment of the loans in relation to the covenants breached as at 31 December 2018.

In 2018 the Group's consolidated loss was USD 126,812 thousand (2017: USD 16,866 thousand).

At the date of approval of these consolidated financial statements, the Group was at the final stage of the project for the restructuring of its loans portfolio from one of its major creditors, Otkritie FC Bank PJSC. The portfolio restructuring project provides for the following arrangements to reduce the Group's indebtness and ensure its ability to settle short-term liabilities in due course. In March 2019, the Group signed addendums to its loan agreements with Otkritie FC Bank PJSC. Those changes reduced interests to a fixed rate of 9.55%, postponed the payment date of interest accrued in 2019 by one quarter and postponed the payment of short-term portion of loan (including future interest expenses) of USD 10,316 thousands by one quarter.

These measures will allow the Group to manage its current liquidity in the first and second quarters of 2019 and finalize the restructuring process aimed at optimizing the Group's entire loan portfolio: in the second quarter of 2019, the Group expects to receive a positive decision from the credit committee of Otkritie FC Bank PJSC providing for a new set of covenants enabling the Group to comply with them, given the Group's current operating and financial performance; adjust the ratio of short-term and long-term liabilities to eliminate the deficit of short-term assets in the long term perspective and provide the Group with the opportunity to manage operating and financial cash flows more efficiently; reduce the weighted average cost of debt, which, in turn, will favorably impact the Group's the consolidated financial results.

(US Dollar thousand, unless otherwise stated)

In addition based on management forecasts, the minimum expected production level at TVSZ JSC, in 2019 will be between 16.5 - 17 thousand railcars (actual production in 2018 was 16.5 thousand railcars). The management of the Group expects stable demand for the innovative railcars in 2019: as at the date of approval of these consolidated financial statements, the Group has entered into contracts or made preliminary arrangements for sale of the whole volume of railcars planned for production in 2019, and partially in 2020, at prices on average 15% higher than in 2018, mainly due to an increase in production of special-purpose railcars. In 2019 and beyond, the Group does not expect a significant decrease of demand for the railcars and plans to increase its gross and operating profit by reduction of administrative expenses and increasing the production efficiency.

The management of the Group believes that it is highly probable that the credit committee of Otkritie FC Bank PJSC will issue a positive decision regarding the Group's loan portfolio restructuring and the combination of the above mentioned facts will ensure the Group's ability to continue as a going concern.

Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

(iii) Group companies

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

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

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

Exchange rate of RUB against USD (Central Bank of the Russian Federation)	**31 December 2018**	**31 December 2017**
As of the reporting date	69.4706	57.6002
Average rate for the respective period	62.7078	58.3529

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. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

Basis for consolidation

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

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

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

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.

Investments in associates and joint ventures

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

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

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

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

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition.

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

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

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

Goodwill

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

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

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

Intangible assets

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

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

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

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

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

No amortization is charged for intangible assets that are in the phase of development. Amortization begins when the asset is available for use, that is, when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Intangible assets which have been transferred from intangible assets under development to intangible assets subject to amortization are represented with patents and are amortized over the useful economic lives of the patents ranging between 9 to 289 months.

In 2018, the Group's management reconsidered the useful lives of its intangible assets. As a result, a number of intangible assets, being the know-how and costs related to development of production technology, were reclassified from intangible assets with indefinite useful lives to items with useful lives of 43 years, which is equal to the average residual life of immovable property used by the Group for the production of railway cars at the manufacturing facility.

The ERP system development and installation costs are amortized over 120 months which is the best estimate of their useful economic lives.

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

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

Property, plant and equipment

Before 30 June 2016 all categories of property, plant and equipment were stated at cost, less accumulated depreciation and accumulated impairment losses. Historical cost model was applied.

In 2016 for certain categories of property, plant and equipment management of the Group decided to change the accounting policy to a revaluation model. As at the reporting date Production equipment and motor vehicles and Production plant and buildings categories (Group 1) are stated at revalued amounts, and Office equipment and furniture category (Group 2) – at historical cost.

Starting from 30 June 2016 items of property, plant and equipment from Group 1 are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequently accumulated depreciation and impairment losses. Property, plant and equipment carried at revalued cost were last revalued on 30 June 2018 (Note 8).

Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

Items of property, plant and equipment from Group 2 are stated in the consolidated statement of financial position at their cost, less any accumulated depreciation and accumulated impairment losses.

Any revaluation increase arising on the revaluation of property, plant and equipment from Group 1 is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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

The costs of day to day servicing of property, plant and equipment, including repairs and maintenance expenditure, are expensed as incurred.

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

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

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

Depreciation

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

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

	Useful life, years
Office equipment and furniture	1-10
Machinery, equipment and motor vehicles	12-32
Production plant and buildings	26-60

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Residual values of assets and their useful lives are reviewed and adjusted at each balance sheet date, if necessary.

Impairment of non-financial assets

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

Recoverable amount is the higher of fair value less costs to sell and value in-use. In assessing value in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

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

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

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

Leases

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

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

Financial instruments

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

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.

Classification and measurement of financial assets

All recognized financial assets are subsequently measured at amortized cost or fair value, depending on classification. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the instrument. As at the reporting date, the Group had only financial assets measured at amortized cost.

Amortized cost and effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on a debt instrument 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus any principal repayments plus the cumulative amortization determined using the effective interest method for the difference between the initial amount and the maturity amount, adjusted for any expected credit loss allowance. Gross carrying amount of a financial asset is the amortized cost of a financial asset, before adjusting for any expected credit loss allowance.

Interest income is calculated by using the effective interest method and recognized in the Financial income line item of the consolidated statement of profit or loss and other comprehensive income.

Impairment of financial assets

The Group recognizes allowances for expected credit loss relating to investments in debt instruments recognized at amortized cost, as well as trade and other accounts receivable. The amount of expected credit loss ("ECL") recognized is updated at each reporting date to reflect changes in the credit risk which have occurred since initial recognition of the respective financial asset.

The Group always recognizes lifetime ECL for its trade and other receivables. ECL for these financial instruments is determined based on the Group's credit loss history adjusted for debtor-specific factors, the overall economic situation and an assessment of both current and projected circumstances at the reporting date (including the time value of money, where appropriate).

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in the credit risk since the initial recognition of the respective financial instrument. On the other hand, when a credit risk has not increased significantly since initial recognition, the Group creates an allowance for such financial instruments in an amount equaling to the following 12-month ECL. The determination of the need to recognize lifetime ECL is based on the identification of a significant increase in the credit risk or probability of default since initial recognition, rather than evidence of financial asset impairment as at the reporting date or an actual default event. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Estimation of ECL is based on the default probability and loss given default. Default probability and loss given default estimation is based on historical data adjusted for forecast data.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset carried at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Classification and measurement of financial liabilities

All recognized financial liabilities are subsequently measured at amortized cost using the effective interest method or fair value through profit or loss («FVTPL»). As at the reporting date, the Group had only financial liabilities measured at amortized cost.

Financial liabilities at amortized cost

Financial liabilities that are not (1) contingent liabilities of acquirers in a business combination, (2) held for trading, or (3) classified at FVTPL, are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on a financial liability 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 debt liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

Spare parts

Major spare parts and equipment intended for repair and maintenance of property, plant and equipment, are included in other non-current assets if the Group intends to use them for more than one year. Spare parts are stated at lower of cost and net realizable value. Actual cost consists of cost of purchased materials and, if applicable, direct labor cost and respective part of allocated overheads, incurred to bring spare parts to their existing location and condition. Upon usage, the cost of spare parts is charged to profit or loss.

Inventories

Inventories are stated at lower of cost and net realizable value. Actual cost consists of cost of purchased materials and, if applicable, direct labour cost and respective part of allocated overheads, incurred to bring inventory to their existing location and condition. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventory is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Prepayments

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

Value Added Tax («VAT»)

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

Cash and cash equivalents

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

Provisions

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

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

Current and deferred income tax

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

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

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

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

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

Revenue recognition

Revenue is recognized in the amount that reflects the consideration to which the Group expects to be entitled in accordance with the contractual terms, excluding any amounts received on behalf of third parties.

The Group recognizes revenue when or as a contractual obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer, as follows:

- Revenue from the sale of railcars is recognized when control, i.e. significant risks and rewards of ownership of the asset, is transferred to the customer and the Group has no outstanding obligations to the customer that could affect the acceptance of the sold goods. Most of railcar sale contracts with customers provide for the transfer of control to the customer after completing technical inspection of the goods at the manufacturing plant and signing an acceptance act confirming the specification and quality of the goods sold. For the contracts that provide delivery of railcars to a certain dispatch location, control is transferred to the customer upon delivery of railcars to the specified location and signing an act of acceptance;
- Income from the sales of rail-based freight transportation services is recognized in the reporting period when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The Group recognizes revenue in the amount of fees for the provision of rolling stock, while charges for railway infrastructure services (railway freight tariff of PJSC Russian Railways) are borne directly by the customers;
- Revenue from the sale of inventories is recognized upon transfer of control to a customer in accordance with the respective contract with the customer. Some contracts provide for the delivery of goods to the customer, others release the Group from the obligation to pay for the delivery to the customer. The Group reviews the moment of transfer of control under each significant inventory sales contract separately, as the sales contracts for components and casting are concluded on an individual basis.

<u>Significant financing component</u>

In determining the transaction price, the Group adjusts the expected amount of consideration for the effect of the time value of money as the advances received from customers provides the Group with a significant benefit of financing the transfer of goods to the customer.

The Group does not adjust the expected amount of consideration for contracts providing for a significant financing component if the period between the date of transfer of promised good or service to a customer and the date of payment for that good or service will be one year or less. Advances received under such contracts are treated as short-term where the respective supplies are expected in the same month of the following year or earlier.

<u>Warranty liabilities</u>

In accordance with the Group's standard contractual terms, the warranty period for railcars varies on average from 2 to 8 years (up to the date of the first depot repair for railcars produced and sold in same reporting period). The Group does not adjust revenue for warranty liabilities as the historical information of warranty returns indicates near-zero returns from customers.

Borrowing costs

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

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

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

Government grants

The 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 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 if the related asset is sold or disposed of.

Share capital and share premium

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

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

Shareholder capital contributions

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

Employee benefits

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

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.

Relief from property tax

In 2009 the Group signed an investment agreement with the authorities of the Leningrad region. The Group met the conditions of the agreement and was relieved from the property tax payable for all its assets located in that region until 2018.

3. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

Estimates and judgements are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

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.

Depreciation periods for property, plant, and equipment

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

The key assumptions used in the calculation of fair values of property, plant and equipment

The Group recognizes its property, plant and equipment included in the *Production Plant and Buildings* and *Production Equipment and Motor Vehicles* categories at revalued cost (fair value) using a number of accounting estimates.

The general practice presumes determining the fair value of general-purpose assets based on market data as the key source of information that predetermines the use of the so-called comparative approach. Where there is no active market or market information for specific categories of assets, other sources and approaches may be used. Special-purpose assets that do not have active market on a stand-alone basis account for roughly 95% of the total carrying value of the Group's property, plant and equipment carried at revalued cost. Special-purpose assets are measured using the cost method which presumes the determination of residual cost of replacement.

Since the average age of the Group's production property, plant and equipment is around 3 to 4 years, in determining the full replacement cost under the cost method, the Group used the historical cost indexation approach which ensures sufficient accuracy for a relatively new property.

Impairment of goodwill and intangible assets with indefinite useful lives

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

Annually the Group performs the following procedures to test for impairment of goodwill and intangible assets with indefinite useful life (before 2018):

- Analysis of significant events which could have influenced cash flows (restructuring of the Group, implementation of investment programs, change in market trends, terms of financing and taxation, etc.);
- Review the list (update of the current list) of identifiable assets and cash-generating units ("CGU") which will be further tested for impairment. Those significant CGUs are reviewed, at which goodwill have been allocated (this could be separate business units, subsidiaries or segments). Upon completion of the list, a factor of materiality is considered, as well as impairment indicators (reduction in the value of net assets, incompletion of the budget, accounting losses);
- Identification of a discounting rate, reflecting an adjusted weighted cost of capital of the Group;
- Summarizing the information on the value of assets including goodwill (property, plant and equipment, intangible assets, construction in progress), expected in a middle-term (no more than 5 years) cash inflows-outflows and forecasted changes in the value of the assets. For this purpose management uses budgets and forecasts prepared during the planning process.

The results of the impairment test in respect of intangible assets with indefinite useful life and goodwill, as well as estimates used by the Group in performing those tests, are disclosed in Note 7.

Provisions and contingencies

From time to time, the Group may become a party to legal proceedings. It may also receive claims, including claims from regulators as regards the Group's business, transactions and tax positions that involve a high degree of uncertainty. Provisions for bonuses and other employee compensations that depend on certain performance indicators of the Group are also subject to uncertainty. Among other assumptions, the Group's management makes assumptions about the likelihood of adverse outcome and the possibility for making reliable estimates of related costs or losses. Unexpected events or changes in such assumptions may require the Group increase or decrease the existing allowance or create an allowance for events that have not been previously considered probable. Provisions accrued at the reporting date and contingencies are further disclosed in Notes 16 and 24.

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

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.

- IFRS 9 *Financial Instruments;*
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications).*

(US Dollar thousand, unless otherwise stated)

IFRS 9 Financial Instruments

Adoption of IFRS 9 *Financial Instruments* as of 1 January 2018 resulted in certain changes in the accounting policy. The Group applied IFRS 9 without making adjustments to comparative information for prior periods of the consolidated financial statements for the year ended December 31, 2018, because during transition to the new standard, the Group applied a modified retrospective approach which allows to take into account the changes related to adoption of the new accounting policy with regard to retained earnings (accumulated deficit) as at the beginning of the period.

IFRS 9 replaced the provisions of IAS 39 and introduced new requirements for classification, recognition and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. Adoption of IFRS 9 as of 1 January 2018 resulted in certain changes in the accounting policy and adjustments to the consolidated financial statements.

The Group's financial assets comprise cash and cash equivalents, short-term bank deposits and accounts receivable. Financial liabilities mainly comprise bank loans. As all of the Group's financial assets and liabilities are measured at amortized cost using effective interest method, their recognition in the consolidated statements under IFRS 9 did not differ significantly from the IAS 39 accounting model. Amendments to accounting policies related to the classification and measurement of financial assets and liabilities are disclosed in Note 2 *Significant Accounting Policies*.

The table below presents the differences in classification of financial assets under IFRS 9 and IAS 39.

	Classification	
	IAS 39	**IFRS 9**
Restricted cash	At amortized cost	At amortized cost
Trade and other receivables	Loans and receivables	At amortized cost
Short-term bank deposits	Loans and receivables	At amortized cost
Cash and cash equivalents	At amortized cost	At amortized cost

The Group applied a simplified approach to recognition of lifetime expected credit losses for its trade and other receivables. The Group performed a historical analysis of bad debt allowance accruals and write-offs to profit and loss with respect to its trade and other receivables. Based on the results of the analysis the Group determined that the amount of allowance for doubtful receivables accrued as at 1 January 2018 was adequate taking into account the impairment provisions of IFRS 9.

The application of IFRS 9 did not have a material impact on the Group's financial position and performance.

IFRS 15 Revenue from Contracts with Customers

As of 1 January 2018, the Group has applied IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 introduces a five-step approach to revenue recognition and certain disclosure requirements applicable to specific cases. Adoption of IFRS 15 resulted in certain changes in the accounting policy and certain adjustments to the consolidated financial statements.

The Group's accounting policy in respect of revenue recognition is disclosed in Note 2 *Significant Accounting Policies*.

In accordance with IFRS 15 transition rules, the Group's management assessed the impact of IFRS 15 on the consolidated statements and concluded that the application of IFRS 15 did not have a material impact on the Group's financial position and performance.

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 16 *Leases*[1];
- IFRS 17 *Insurance Contracts*[2];
- IFRIC 23 *Uncertainty Over Income Tax Treatments*[1];
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[3];
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*[1];
- Amendments to IAS 19 *Employee Benefits* [1];
- Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures*[1];
- Annual Improvements to IFRSs 2015-2017 Cycle[1].

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

The management of the Group does not anticipate that the application of standards and amendments listed above will have a significant impact on the Group's consolidated financial statements in the future, except for the effect of IFRS 16 *Leases* as described below.

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 1 January 2019, and interim periods within those periods. Early application of IFRS 16 is permitted.

The Group has started an assessment of the impact on its consolidated financial statements. The Group expects material impact on the financial statements, however it is not practicable to provide a reasonable estimate of the effect IFRS 16 until the Group completes the review.

(US Dollar thousand, unless otherwise stated)

5. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions, as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is paid 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.

In the ordinary course of business, the Group enters into various transactions with related parties, such as sale and purchase of railcar spare parts, components and castings, or financing and investing transactions.

As at 31 December 2018 related parties with which the Group had significant balances outstanding included associates and joint ventures, as well as Otkritie FC Bank PJSC. In 2018, Otkritie FC Bank PJSC increased the effective ownership interest in PJSC RPC UWC as at 31 December 2018, exceeding 20%, which gives the bank significant influence over the Group.

In 2018, the ICT Group ceased to have a significant influence on the Group. Thus, as at 31 December 2018 the outstanding balances with the ICT Group and its former subsidiaries were not included in the balances with the entities that have a significant influence on PJSC RPC UWC, but are included in related party transactions for 2018.

In 2017, for the purposes of this disclosure, transactions and balances with NitroChemProm LLC and Vostok 1520 LLC were presented as transactions with associates and joint ventures. In 2018, these entities were removed from the related parties' list.

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 2018, are the parent, entities with significant influence, entities under common control, associates and joint ventures.

The Group had the following balances with its related parties:

	31 December 2018	31 December 2017
Accounts receivable:		
Trade and other receivables		
Entities under common control	114,772	108,647
Parent company	3	3
Cash and cash equivalents		
Otkritie FC Bank PJSC	8,129	-
Advances paid		
Entities under common control	43,170	130,212
Associates and joint ventures of RPC UWC	-	8,420
Borrowings		
Otkritie FC Bank PJSC	392,343	-
Entities under common control	300,852	383,978
Accounts payable:		
Trade accounts payable		
Entities under common control	30,793	13,048
Entities with significant influence over the Group	-	5,206
Parent company	4,512	1,554
Advances received		
Entities under common control	39,658	76,823

(US Dollar thousand, unless otherwise stated)

The Group's transactions with its related parties were as follows:

	2018	2017
Revenue		
Entities under common control	978,622	824,568
Subsidiaries of the group with significant influence over the Group	375	405
Associate companies	43	-
Other income		
Entities under common control	3,389	1,051
Purchases of inventories and services		
Entities under common control	179,203	90,233
Subsidiaries of the group with significant influence over the Group	7,054	13,446
Associate companies	17,139	5,091
Management fees		
Parent company	9,042	8,058
Interest expense		
Parent company	-	1,410
Otkritie FC Bank PJSC	47,549	-
Entities under common control	27,043	26,647
Loss from disposals of other assets		
Entities under common control	-	2,365
Penalty payments received		
Entities under common control	-	6,076
Purchases of intangible assets		
Entities under common control	10,670	18,093
Parent company	255	597

Trade house UWC was the major customer of the Group during the year ended 31 December 2018 with the total sales of railcars amounting to USD 755,266 thousand (31 December 2017: USD 774,175 thousand).

Compensation of key management personnel

In 2018 and 2017 key management personnel of the Group consisted of the General Director of TVSZ. The amounts of short-term remuneration paid (excluding social security contributions) to key management personnel in 2018 and 2017 were USD 119 thousand and USD 61 thousand respectively.

6. INVESTMENTS IN ASSOCIATES

The Group has a share in the following significant associates:

	31 December 2018		31 December 2017	
Company name	**Country of residence**	**Interest, %**	**Country of residence**	**Interest, %**
TUBC LIMITED	Cyprus	49%	Cyprus	49%
LTD WABTEC-UWC	Cyprus	49%	Cyprus	49%

LLC Timken UWC

In 2015, the Group signed an agreement on establishing an associate Timken UWC LLC with Timken Lux Holdings II S.A.R.L. and establishing TUBC Limited, the shareholder of Timken UWC LLC. The Group owns a 49% share in TUBC Limited.

(US Dollar thousand, unless otherwise stated)

The principal activity of the associate is the production of bearings for freight railcars. In 2015 and 2016 years, Timken UWC LLC was constructing a plant for production of bearings. The associate commenced its operating activity in 2017. Timken UWC LLC is an associate of the Group as the Group has significant influence over its financial and operating activities, i.e. the Group has decision-making powers but cannot control activities of Timken UWC LLC.

The Group's share in the loss of the associate recognized in the statement of profit or loss and comprehensive income for 2018 and 2017 was USD 1,565 thousand and USD 2,390 thousand, respectively.

Summarized financial information in respect of the Group's associate and its reconciliation to the carrying amount of the interest in the associate are set out below. The summarized financial information below represents amounts shown in the associate's consolidated financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

	December 31, 2018	December 31, 2017
Cash and cash equivalents	794	2,742
Accounts receivable	1,214	3,243
Inventories	5,701	5,167
Property, plant and equipment	15,960	22,780
Deferred tax assets	3,140	2,711
Trade payables	(5,038)	(6,922)
Other current liabilities	(489)	(576)
Net assets of the associate	**21,282**	**29,145**
Group's ownership interest in the associate	49%	49%
Carrying amount of the Group's interest in the associate	**10,428**	**14,281**

	2018	2017
Revenue	15,053	5,100
Loss for the year	(3,193)	(4,877)
Other comprehensive income for the year	(4,669)	1,655
Total comprehensive loss for the year	(7,862)	(3,222)

The above loss for the year includes the following:

	2018	2017
Cost of sales	(16,255)	(8,225)
Selling expenses	(1,857)	(2,484)
Foreign exchange loss	(1,351)	(358)
Other expense	(79)	(143)
Income tax benefit	1,292	1,233

LLC JC Wabtec UWC

In 2015 the Group signed an agreement on establishing an associate JV Wabtec UWC LLC with Wabtec Corporation and establishing WABTEC-UWC LTD, the shareholder of JV Wabtec UWC LLC. The Group owns a 49% share in WABTEC-UWC LTD. The principal activity of the associate is the development and production of innovative components for freight rolling stock, including the heavy one. JV Wabtec-UWC LLC is an associate of the Group as the Group has significant influence over its financial and operating activities, i.e. the Group has decision-making powers but cannot control activities of JV Wabtec-UWC LLC. At 31 December 2018 and 2017, the carrying value of the Group's interest in the associate amounted to USD 87 thousand and USD 95 thousand respectively.

(US Dollar thousand, unless otherwise stated)

7. INTANGIBLE ASSETS

	Goodwill	Intangible assets at the development stage	Know-how and patents	Software	Total
Initial Cost					
Cost as at 1 January 2017	**2,264**	**21,150**	**59,340**	**3,782**	**86,536**
Additions	-	19,058	433	845	20,336
Transfers	-	(11,768)	11,768	-	-
Disposal	-	(1,652)	-	-	(1,652)
Translation to presentation currency	120	1,196	3,308	213	4,837
Cost as at 31 December 2017	**2,384**	**27,984**	**74,849**	**4,840**	**110,057**
Additions	-	12,420	1,666	640	14,726
Transfers	-	(14,747)	14,747	-	-
Translation to presentation currency	(407)	(4,507)	(14,388)	(896)	(20,198)
Cost as at 31 December 2018	**1,977**	**21,150**	**76,874**	**4,584**	**104,585**
Amortization					
Accumulated amortization as at 1 January 2017	**-**	**-**	**(10,968)**	**(1 082)**	**(12,050)**
Amortization charge	-	-	(3,801)	(605)	(4,406)
Translation to presentation currency	-	-	(633)	(64)	(697)
Accumulated amortization as at 31 December 2017	**-**	**-**	**(15,402)**	**(1,751)**	**(17,153)**
Amortization charge	-	-	(5,261)	(497)	(5,758)
Impairment loss	-	(14,505)	(412)	-	(14 917)
Translation to presentation currency	-	1,412	3,125	357	4,894
Accumulated amortization as at 31 December 2018	**-**	**(13,093)**	**(17,950)**	**(1,891)**	**(32,934)**
Carrying amount as at 31 December 2017	**2,384**	**27,984**	**59,448**	**3,090**	**92,904**
Carrying amount as at 31 December 2018	**1,977**	**8,057**	**58,924**	**2,693**	**71,651**

As of 31 December 2018 and 2017, intangible assets in the development stage included capitalised expenses for development of casting and railway car building technologies for future use in production of the new generation railway cars in the town of Tikhvin.

The cost of registered patents is transferred from intangible assets under development to know-hows and patents, and is amortized over the patents' useful economic lives ranging from 9 to 289 months.

On 1 January 2018, the Group revised the useful lives of intangible assets: for assets previously recorded as assets with an unlimited useful life, the residual useful life was established at 43 years, equal to the average residual life of the property used by the Group for the production of railway cars on the production site. The book value of such objects amounted to USD 32,157 thousand as of 1 January 2018, the amount of depreciation accrued for 2018 was USD 843 thousand.

In 2017, the Group acquired a package of licenses for the SAP resource management system, the total amount of capitalized costs amounted to USD 605 thousand. SAP licenses are included in the «Software» line of this disclosure, which also includes the ERP system implemented at JSC "TVSZ". There were no additional capitalized costs for SAP licenses in 2018 for the Group.

As of 31 December 2017,there were no pledged intangible assets. As of 31 December 2018, intangible assets with a net book value of USD 665 thousand were pledged under the Group's loan agreements (Note 13).

At 31 December 2018 the Group performed an impairment test of intangible assets and identified signs of impairment of a number of intangibles. The amount of impairment recognized in 2018 amounted to USD 14,917 thousand.

Goodwill

The goodwill which arose from business combinations in prior years and intangible assets with indefinite useful lives have been allocated to the Group's single cash generating unit, which relates to the Group's principal activity of producing new generation of railway cars.

At 31 December 2018 the Group performed an impairment test of goodwill. For this purpose, the recoverable amount 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. Discount rate for was calculated based on weighted-average cost of capital for the Group before taxation; its nominal value is 14.2%.

Forecasted cash flows are based on the Group's business plan for 2019-2023, approved by management. The production plan takes into account long-term trends developed in 2018 and provide a significant reallocation of manufacturing capacities to production of hopper cars, special-purpose cars and platforms.

Cash flows after 2023 were determined by extrapolation using a steady growth rate equal to 3.5% per year, which is estimated based on historical experience and expectations of market development and reflects the forecasted long-term growth rates of Russian industry.

Calculated recoverable value of cash generating unit exceeded its carrying amount.

(US Dollar thousand, unless otherwise stated)

8. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying amount of property, plant and equipment were as follows:

Cost or revalued amount	Production plant and buildings	Machinery, equipment and motor vehicles	Office equipment and furniture	Construction in progress and prepayments for construction in progress	Total
As at 1 January 2017	**272,344**	**332,040**	**2,351**	**4,955**	**611,690**
Additions	-	-	-	12,756	12,756
Disposals	-	(1,490)	-	(179)	(1,669)
Transfers	2,177	12,163	130	(14,470)	-
Translation to presentation currency	14,480	17,760	127	206	32,573
As at 31 December 2017	**289,001**	**360,473**	**2,608**	**3,268**	**655,350**
Additions	-	-	-	20,373	20,373
Disposals	-	(853)	(5)	(29)	(887)
Transfers	1,519	12,136	497	(14,152)	-
Revaluation gain/(loss) of property, plant and equipment	22,612	(3,362)	-	-	19,250
Netting of accumulated depreciation (revaluation)	(14,218)	(56,235)	-	-	(70,453)
Translation to presentation currency	(50,341)	(56,929)	(494)	(1,164)	(108,928)
As at 31 December 2018	**248,573**	**255,230**	**2,606**	**8,296**	**514,705**
Accumulated depreciation and impairment					
As at 1 January 2017	**(2,976)**	**(19,433)**	**(1,898)**	**-**	**(24,307)**
Depreciation charge	(7,711)	(30,285)	(295)	-	(38,291)
Disposals	-	891	-	-	891
Translation to presentation currency	(259)	(1,417)	(103)	-	(1,779)
As at 31 December 2017	**(10,946)**	**(50,244)**	**(2,296)**	**-**	**(63,486)**
Depreciation charge	(7,584)	(29,401)	(578)	-	(37,563)
Disposals	-	(84)	3	-	(81)
Impairment loss	5	(3,908)	-	-	(3,903)
Netting of accumulated depreciation (revaluation)	14,218	56,235			70,453
Translation to presentation currency	1,234	6,401	449	-	8,084
As at 31 December 2018	**(3,073)**	**(21,001)**	**(2,422)**	**-**	**(26,496)**
Net book value					
As at 31 December 2017	**278,055**	**310,229**	**312**	**3,268**	**591,865**
As at 31 December 2018	**245,500**	**234,229**	**184**	**8,296**	**488,209**

Construction in progress primarily includes expenses for the construction of the railway car manufacturing plant and equipment for installation. There was no capitalised borrowing costs during the year ended 31 December 2018 (2017: USD 93 thousand).

(US Dollar thousand, unless otherwise stated)

The Group's property, plant and equipment with carrying amount of USD 374,250 thousand (31 December 2017: USD 505,253 thousand) are pledged under loan agreements (Note 13).

Included in construction in progress are prepayments for property, plant and equipment with cost equal to USD 2,637 thousand at 31 December 2018 (31 December 2017: USD 825 thousand). The prepayments are made mostly for the specific equipment with long period of manufacturing.

The Group's production plant and buildings and machinery, equipment and motor vehicles are accounted for at their revalued amounts, representing the fair value at the date of revaluation, less any subsequently accumulated depreciation and accumulated impairment losses. Revaluation of these groups of property, plant and equipment was performed by independent appraiser at 30 June 2018. The fair value of the revalued property, plant and equipment was determined using the cost approach that reflects capital expenditures/ investments required for the construction or acquisition of an asset with similar characteristics, adjusted for the actual age of the assets.

The key assumptions used in the valuation were the level of deterioration (34% at revaluation date) and the replacement cost. Even a slight increase in the level of deterioration will result in significant decrease in fair value of property, plant and equipment, and slight increase in the replacement cost will result in significant increase in fair value of the assets.

The majority of revalued fixed assets are specific, thus, direct analogues are not available at the market and therefore an independent appraiser applied the method of indexation of costs incurred during construction, acquisition or installation of the assets to estimate the replacement cost. Considering the unique characteristics of the revalued items, assumptions used in assessment of fair value, and level of observable input data, the fair value was categorized into Level 3.

Details of the Group's revalued items of property, plant and equipment and information about the fair value hierarchy as at 31 December 2018 are as follows:

	Level 1	Level 2	Level 3	Fair value as at December 31, 2018
Machinery, equipment and motor vehicles	-	-	234,225	234,225
Production plant and buildings	-	-	245,501	245,501

Had the Group's equipment and motor vehicles, production plant and buildings been measured on a historical cost basis, their carrying amount would have been as follows:

	31 December 2018	31 December 2017
Machinery, equipment and motor vehicles	133,347	182,799
Production plant and buildings	162,716	196,250

9. INVENTORIES

	31 December 2018	31 December 2017
Raw materials and supplies	127,847	136,111
Finished goods	4,539	34,874
Other	211	600
Total inventories	**132,597**	**171,585**

As at 31 December 2018 and 2017 there were no pledged inventories.

(US Dollar thousand, unless otherwise stated)

10. TRADE AND OTHER RECEIVABLES

	31 December 2018	31 December 2017
Trade accounts receivable	117,612	110,391
Advance payments to suppliers and contractors	86,225	158,010
VAT receivable	7,126	31,532
Prepayments of social security contributions	1,282	1,547
Other accounts receivable	2,367	2,591
Provision for doubtful accounts receivable	(1,129)	(1,281)
Total trade and other receivables	**213,483**	**302,790**

Management determines the allowance for expected credit losses based on the assessment of customers' credit quality, changes in industry trends, subsequent receipts and historical experience. Ageing analysis of trade receivables is as follows:

	As at 31 December 2018	As at 31 December 2017
Past due 1-90 days	24,980	24,680
Past due 90-180 days	13,833	26,779
Past due 181-365 days	18,173	32,108
Past due more than 365 days	397	9,013
Total	**57,312**	**92,580**

Movements in the allowance for expected credit losses for trade and other receivables during the years ended 31 December 2018 and 2017 was as follows:

	2018	2017
Balance at beginning of the year	1,281	1,186
Impairment losses recognised on receivables/ (reversal of impairment losses)	222	66
Use of the allowance for expected credit losses	(151)	(38)
Translation to presentation currency	(223)	67
Balance at end of the year	**1,129**	**1,281**

11. CASH AND CASH EQUIVALENTS

	31 December 2018	31 December 2017
Current accounts in RUB	1,071	8,566
Current accounts in Euro	103	159
Current accounts in USD	138	-
Escrow account	-	84
Deposits in RUB	7,198	-
Total cash and cash equivalents	**8,510**	**8,809**

As at 31 December 2018, the Group placed cash in overnight deposits to gain interest income. The interest rate on the deposits was 5.3%.

(US Dollar thousand, unless otherwise stated)

12. SHARE CAPITAL, SHARE PREMIUM AND ADDITIONAL PAID-IN CAPITAL

As at 31 December 2018, the Company's issued share capital amounted to USD 37,080, divided into 37,080 shares with a par value of USD 1 each. The difference between the fair value of the consideration receivable from the shareholders for the issuance of the ordinary shares and the total par value of the shares is recognized as share premium and equals USD 360,764 thousand as at 31 December 2018 and 2017.

Additional paid-in capital represents a cumulative effect of additional contributions from and distributions to the shareholders.

13. LOANS AND BORROWINGS

	31 December 2018	31 December 2017
RUB denominated short-term borrowings		
Current portion of long-term borrowings from financial institutions	27,508	9,549
Short-term borrowings from financial institutions	122,354	147,569
Other short-term borrowings	6,690	2,906
USD denominated short-term borrowings		
Other short-term borrowings	2,343	11,669
Total short-term loans and borrowings	**158,895**	**171,693**

	31 December 2018	31 December 2017
USD denominated long-term borrowings		
Other long-term borrowings	109,143	200,623
Less: current portion	(2,343)	(11,669)
RUB denominated long-term borrowings		
Long-term borrowings from financial institutions	269,989	335,178
Less: current portion	(27,508)	(9,549)
Other long-term borrowings	191,709	164,570
Less: current portion	(6,690)	(2,906)
Total long-term loans and borrowings	**534,300**	**676,246**

	Contractual interest rate as at 31 December 2018	31 December 2018	31 December 2017
Borrowings from related parties			
Bank Otkritie (RUB denominated credit line)	Key rate of the CBR +2.5%	392,343	482,746
Rail 1520 LLC (RUB denominated)	-*	42,649	-
Ovilleno Holdings Ltd (USD denominated)	-*	99,792	-
RAIL 1520 Finance Cyprus (USD denominated credit line)	6.4%*	3,313	168,487
RAIL 1520 Finance Cyprus (RUR denominated credit line)	10%	53,438	47,249
RAIL Holding (USD denominated credit line)	6.4%	-	26,355
RAIL Holding (RUR denominated credit line)	6%**	95,621	117,321
Rail 1520 BVI Ltd	6,4%	6,039	5,780
Total		**693,195**	**847,939**

* In 2018 as a result of series of loans' settlement with related party the USD denominated loan from RAIL 1520 Finance Cyprus was replaced with interest free liabilities to Rail 1520 LLC and Ovilleno Holdings Ltd. These liabilities were recognized at amortized cost using the discount rates of 8.57% and 5.88% respectively. The difference between the amortized value and nominal value of the liabilities was recognized in additional paid-in capital.
** 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 10.43% at the date of the amendment. Accordingly, the loan was recognized at amortized cost using the discount rate of 10.43%. The difference between the amortized value and nominal value of the loan was recognized in additional paid-in capital.

(US Dollar thousand, unless otherwise stated)

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

- Property, plant and equipment (Note 8);
- Intangible assets (Note 7).

In addition, as at 31 December 2018 the Group provided the pledge of share in the following subsidiaries: AFCT Advanced Freight Car Technology Limited (100%), DEANROAD Limited (100%), Raygold Limited (100%) and TVSZ JSC (100%).

As at 31 December 2018 the related party under common control Trade house UWC guarantied the whole amount of the loan from Bank Otkritie. In addition, certain pproperty, plant and equipment items of other entities under common control are pledged under the loan agreement with Bank Otkritie.

Reconciliation of financial liabilities. The table below shows the changes in liabilities in 2018 as a result of financial activities, including changes due to cash flows, as well as changes not related to cash flows. Liabilities arising from financial activities are those liabilities from which cash flows in the consolidated statement of cash flows have been or will be classified as cash flows from financial activities.

	31 December 2017	Cash flows from financing activities	Foreign currency translation	Net interest	Discounting of borrowings	31 December 2018
Long term borrowings from financial institutions	482,746	(8,771)	(81,641)	8	-	392,343
Loans from related parties	365,192	13,859	(32,833)	26,887	(72,253)	300,852
	847,939	**5,088**	**(114,473)**	**26,895**	**(72,253)**	**693,195**

The table below shows the changes in liabilities in 2017:

	31 December 2016	Cash flows from financing activities	Foreign currency translation	Net interest	Discounting of borrowings	31 December 2018
Long term borrowings from financial institutions	337,370	118,523	27,882	(1,029)	-	482,746
Loans from related parties	356,323	18,021	13,051	27,043	(49,346)	365,192
	693,693	**136,544**	**40,934**	**26,114**	**(49,346)**	**847,939**

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 31 December 2018

As at 31 December 2018 one of the Group's subsidiaries breached a number of obligatory default financial covenants stipulated in the loan agreements with Otkritie FC Bank PJSC. As at the reporting date non-current portion of liabilities under these agreements amounted to USD 242,481 thousand:

- The ratio of the accounts payable less inventory and accounts receivable to total assets, determined in accordance to the statutory financial statements;
- The ratio of a company (borrower) accounts payable to other companies of the Group and borrower's accounts receivable from other companies of the Group;
- Target ratio of capital to assets of the borrower;
- The ratio of borrower's total debt as at the reporting date to EBITDA, as defined based on the financial statements prepared in accordance with Russian Accounting Standards.

(US Dollar thousand, unless otherwise stated)

After the reporting date but before the date of approval of these consolidated financial statements official letters were received, confirming that the creditors' will not demand an early repayment of the loans.

At the date of approval of these consolidated financial statements, the Group was at the final stage of the project for the restructuring of its portfolio of loans from one of the major creditors, Otkritie FC Bank PJSC. The restructuring is aimed, among other things, at the approval of a new set of financial and non-financial covenants to eliminate the breach of covenants in the fourth quarter of 2018 (Note 2).

The management of the Group estimated the probability that bank will demand early repayment of loans under agreements with breached covenants is low and, therefore, as at 31 December 2018 such loans were presented in the consolidated financial statements for 2018 as non-current liabilities according to the initial payment terms stipulated in the loan agreements.

Compliance with covenants during the year ended 31 December 2017

As at 31 December 2017, one of the Group's subsidiaries breached a number of obligatory default financial covenants stipulated in the loan agreement with Bank FC Otkritie PJSC. In particular: the ratio of the accounts payable less inventory and accounts receivable to total assets, determined in accordance with the statutory financial statements of the subsidiary and the ratio of intra-group (settlements with the companies of the RPC UWC Group) accounts payable and accounts receivable balances to the total amounts of accounts payable and accounts receivable. The sanction applied to the borrower was an increase of the interest rate by 1% (one percentage point) from 8 February2018. In April 2018 the Group has received a letter from the bank confirming that the bank will not impose additional sanctions, apart from those previously notified to the borrower.

The management of the Group estimated that probability that banks will use their right and demand an early repayment of the borrowings is low and therefore as at 31 December 2017 such borrowings were presented in these consolidated financial statements as non-current liabilities according to the initial payment terms stipulated in the loan agreements. This was confirmed in 2018, as no banks exercised their right to demand an early repayment of the debt.

Available credit facilities. As at 31 December, 2018 the Group's total unused credit facilities amounted to USD 350,629 thousand and related to the following credit lines:

	Maturity	Interest rate	Available till	Amount
RAIL 1520 Finance Cyprus	2022	6,40%	9 August 2022	143,569
RAIL 1520 Finance Cyprus	2023	10%	26 June 2023	69,530
RAIL 1520 Finance Cyprus	2023	6,40%	25 June 2023	72,654
RAIL 1520 Finance Cyprus	2023	10%	9 October 2023	41,910
Total				**327,664**

Repayment. The schedule of repayment of borrowings for the five years ending 31 December 2023 and thereafter is as follows:

Year ended 31 December	
2019	158,895
2020	33,798
2021	33,798
2022	37,797
2023	190,844
Thereafter	238,062
Total	**693,195**

(US Dollar thousand, unless otherwise stated)

14. GOVERNMENT GRANTS

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 costs associated with production of innovative freight railcars fleet and interest payable on bank loans used for modernization of the equipment to the extent that such equipment is compliant with certain requirements.

In 2017 raw materials used in production are reduced for the amount of government grants received by the Group for compensation of costs associated with production and purchase of innovative freight railcars fleet in the amount of USD 1,339 thousand.

In 2017 interest expenses on bank borrowings were approved for refund in the amount of USD 9,127 thousand (Note 21).

In 2018 the Group did not receive government grants.

15. TRADE, TAX AND OTHER PAYABLES

	31 December 2018	31 December 2017
Trade accounts payable	90,635	80,244
Advances received	41,968	76,823
VAT payable	12,134	24,436
Payable to banks under factoring agreements	-	10,771
Other taxes payable	1,160	1,258
Other payables	4,411	3,337
Total trade, tax and other payables	**150,308**	**196,869**

16. PROVISIONS AND ACCRUALS

	31 December 2018	31 December 2017
Unused vacation accrual	3,816	4,359
Provision for legal claims	508	1,242
Accrual for annual bonuses	451	339
Warranty provision	74	75
Other	831	3
Total	**5,680**	**6,018**

17. COST OF SALES

	2018	2017
Raw materials used in production	719,186	552,857
Payroll costs	103,774	102,059
Rent and other production services, including utilities	92,720	59,562
Depreciation and amortization	44,278	43,384
Energy cost	23,269	33,113
Write-off of inventories to net-realizable value	697	140
Other	7,309	3,346
Total cost of sales	**991,233**	**794,461**

(US Dollar thousand, unless otherwise stated)

18. GENERAL AND ADMINISTRATIVE EXPENSES

	2018	2017
Management fees	9,042	8,058
Professional fees	1,977	2,027
Rent	266	461
Bank charges	212	2,738
Transportation costs for the delivery of railcars to the buyer	45	134
Travel expenses	19	59
Warranty provision	(2)	(647)
Other	4,196	4,675
Total general and administrative expenses	**15,755**	**17,505**

19. OTHER INCOME

	2018	2017
Royalty income	3,544	1,050
Penalty payments received	1,362	6,076
Gain from the results of stock-count	395	2,842
Rent	223	379
Sale of scrap metal	241	126
Income from provision of services (including sale of electricity)	150	2,719
Foreign exchange gain on operating activities	-	617
Other	1,593	3,535
Total other income	**7,508**	**17,344**

20. OTHER EXPENSES

	2018	2017
Foreign exchange loss on operating activities	2,330	-
Penalties	187	1,096
Provision for doubtful debts (Note 10)	183	66
Loss from disposals of other assets	127	3,020
Other	2,055	477
Total other expenses	**4,881**	**4,659**

21. FINANCE INCOME AND EXPENSES

	2018	2017
Interest expense on borrowings from third parties	47,557	44,089
Government grants received	-	(9,127)
Cost of guarantees and sureties	-	635
Write-off of bank commissions due to early repayment of loan	-	1,411
Interest expense on borrowings from related parties	26,887	28,143
Net foreign exchange losses	33,895	-
Total finance expenses	**108,339**	**65,150**

	2018	2017
Net foreign exchange gains	-	1,508
Interest income	2,240	434
Total finance income	**2,240**	**1,942**

(US Dollar thousand, unless otherwise stated)

22. INCOME TAX

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

	2018	2017
Current income tax expense	-	(365)
Deferred income tax benefit/(expense)	1,998	(4,418)
Income tax benefit/(expense)	**1,998**	**(4,783)**

Below is a reconciliation of income tax calculated using the income tax rate effective in the Russian Federation where the Group has its main production entities to the actual income tax expense recorded in the consolidated statement of profit or loss and other comprehensive income.

A reconciliation of the expected and actual tax charge is provided below:

	2018	2017
Loss before tax	(128,809)	(12,083)
Income tax benefit at the rate of 20% effective in the Russian Federation	25,762	2,417
Effect of different income tax rates and taxation rules applicable to foreign subsidiaries of the Group	(15,049)	(5,461)
Provision in relation tax losses of Russian subsidiary of the Group	(7,672)	-
Non-deductible expenses	(1,043)	(1,739)
Income tax benefit/(expense)	**1,998**	**(4,783)**

The movement in the deferred tax balances is as follows:

	1 January 2018	(Charged)/ credited to profit or loss	Provision in relation tax losses	Deferred tax liability on revaluation of property, plant and equipment	Currency translation reserve	31 December 2018
Tax effect of deductible/ (taxable) temporary differences						
Loss carryforward	78,486	7,672	(7,672)	-	(13,411)	65,075
Property, plant and equipment	(46,890)	1,437	-	(3,863)	8,246	(41,070)
Accounts receivable	212	-	-	-	(36)	176
Borrowings	4	-	-	-	(1)	3
Provisions	1,258	545	-	-	(268)	1,535
Intangible assets	(2,305)	(16)	-	-	395	(1,926)
Inventories	(2,100)	29	-	-	356	(1,715)
Other	(68)	3	-	-	11	(54)
Net deferred tax asset	**28,597**	**9,670**	**(7,672)**	**(3,863)**	**(4,708)**	**22,024**

(US Dollar thousand, unless otherwise stated)

	1 January 2017	(Charged)/ credited to profit or loss	Deferred tax liability on revaluation of property, plant and equipment	Currency translation reserve	31 December 2017
Tax effect of deductible/(taxable) temporary differences					
Loss carryforward	75,031	(520)	-	3,975	78,486
Property, plant and equipment	(42,105)	(2,517)	-	(2,268)	(46,890)
Accounts receivable	240	(40)	-	12	212
Borrowings	(295)	309	-	(10)	4
Provisions	1,001	201	-	56	1,258
Intangible assets	(2,176)	(13)	-	(116)	(2,305)
Inventories	(226)	(1,838)	-	(36)	(2,100)
Other	(65)	-	-	(3)	(68)
Net deferred tax asset	**31,405**	**(4,418)**	**-**	**1,610**	**28,597**

As at 31 December 2018 the Group provided provision in relation to unused tax loss carry forwards of a subsidiary of USD 7,672 thousand as the management is not certain that these assets will be recovered in full.

As at 31 December 2018 and 2017, 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.

Starting 2017 the Group can offset not more than 50% of taxable profit of each subsidiary registered in the RF against tax loss carry forward. The timing of settlement of tax loss carry forwards is no longer limited (after changes applied to the Tax Code of RF active starting 1 January 2017).

23. COMMITMENTS

Capital expenditure commitments. At 31 December 2018 the Group has contractual capital expenditure commitments in respect of property, plant and equipment totaling USD 802 thousand (31 December 2017: USD 1,239 thousand).

Operating lease agreements. The Group leases part of its manufacturing facilities and equipment from related parties under operating lease agreements with indefinite maturity date. In 2017 the rent expenses recognised within profits and losses in the reporting period amounted to USD 61,855 thousand (31 December 2017: USD 55,544).

24. CONTINGENCIES AND OPERATING RISKS

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 2018, 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 2018. 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.

Where tax uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management also assesses the maximum exposure to tax risks, which are considered to be less than probable but more than remote. The Group identified possible contingent tax liabilities for the three-year period ended 31 December 2018. 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 31 December 2018. No provisions were recorded with respect to these tax risks. Management continues to monitor closely any developments related to tax risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Legal proceedings

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

Environmental issues

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

25. FINANCIAL RISK MANAGEMENT

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

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

(US Dollar thousand, unless otherwise stated)

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

	31 December 2018	31 December 2017
Trade and other receivables	118,849	111,701
Cash and cash equivalents	8,510	8,809
Total	**115,396**	**120,510**

As at 31 December 2018 and 2017, the Group's cash and cash equivalents are held primarily with Bank Otkritie with Ba2 ratings as issued by Moody's.

Trade and other receivables are from sale of railcars and components to the related parties well known by the Group.

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

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

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

	31 December 2018			31 December 2017		
	Monetary financial assets	Monetary financial liabilities	Net monetary position	Monetary financial assets	Monetary financial liabilities	Net monetary position
USD	1,296	(107,137)	(105,841)	59	(191,995)	(191,936)
EUR	154	(4,811)	(4,656)	159	(1,468)	(1,309)
Total	**1,450**	**(97,641)**	**(96,190)**	**218**	**(193,463)**	**(193,245)**

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

At 31 December 2018, if the Russian Rouble had weakened/strengthened by 20% (2017: 20%) against the USD with all other variables held constant, the net loss of the Group for the year ended 31 December 2018 would have increased/decreased by USD 18,307 thousand (2017: USD 38,387 thousand).

At 31 December 2018, if the Russian Rouble had weakened/strengthened by 20% (2017: 20%) against the Euro with all other variables held constant, the net loss of the Group for the year ended 31 December 2018 would have increased/decreased by USD 931 thousand (2017: USD 262 thousand).

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

(US Dollar thousand, unless otherwise stated)

Interest rate risk. Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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.

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.

If interest rates had been 3% higher/(lower) and all other variables were held constant, the Group's profit for 2018 would (decrease)/ increase by USD 11,770.

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

The table below shows financial liabilities at 31 December 2018 and 2017 by their remaining contractual maturity. The amounts disclosed in the maturity table are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amount included in the statement of financial position which is based on discounted cash flows.

The maturity analysis of financial liabilities as at 31 December 2018 is as follows:

	Less than 12 months	From 12 months to 5 years	More than 5 years	Total
Fixed interest rate instruments	(14,157)	(72,511)	(344,136)	(430,804)
Variable interest rate instruments	(194,001)	(328,784)	-	(522,784)
Non-interest bearing liabilities	(95,135)	(86)	-	(95,221)
Total future payments, including principal and interest payments	**(303,292)**	**(401,381)**	**(344,136)**	**(1,048,810)**

The maturity analysis of financial liabilities as at 31 December 2017 is as follows:

	Less than 12 months	From 12 months to 5 years	More than 5 years	Total
Fixed interest rate instruments	(31,103)	(247,972)	(212,359)	(491,433)
Variable interest rate instruments	(206,599)	(266,240)	(187,603)	(660,441)
Non-interest bearing liabilities	(94,720)	(439)	-	(95,159)
Total future payments, including principal and interest payments	**(332,422)**	**(514,650)**	**(399,962)**	**(1,247,034)**

Capital risk management

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

The Group 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 26, offset by cash and cash equivalents balances) and equity and reserves.

(US Dollar thousand, unless otherwise stated)

26. FINANCIAL INSTRUMENTS

	31 December 2018	31 December 2017
Financial assets		
Cash and cash equivalents	8,510	8,809
Trade and other receivables	118,849	111,701
Financial liabilities at amortised cost		
Borrowings	693.195	847,939
Trade and other payables	95,046	94,352
Finance lease obligation	175	809

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

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans from related parties	300,852	283,622	353,323	330,722
Borrowings from financial institutions	392,343	399,200	337,370	340,775

27. SUBSEQUENT EVENTS

In January and February 2019, one of the Group's subsidiaries repaid a loan provided by Otkritie FC Bank PJSC in the amount of USD 122,354 thousand. In March 2019, the Group signed addendums to its loan agreements with Otkritie FC Bank PJSC. Those changes reduced interests to a fixed rate of 9.55%, postponed the payment date of interest accrued in 2019 by one quarter and postponed the payment of short-term portion of loan by one quarter.

As at 31 March 2019 one of the Group's subsidiaries breached a number of obligatory default financial covenants stipulated in the loan agreements with Otkritie FC Bank PJSC.