Приложение №5 Годовая консолидированная финансовая отчетность Поручителя «РЕЙЛ ХОЛДИНГ ЛТД» за 2018 год

RAIL HOLDING LIMITED

Consolidated Financial Statements and
Independent Auditor's Report
for the Year Ended December 31, 2018

RAIL HOLDING LIMITED

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RAIL HOLDING LIMITED

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

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

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended December 31, 2018 were approved and authorised for issue by Management on June 27, 2019.

On behalf of the Management:

RAIL HOLDING LTD

Stelios Loizou
Director
Rail Holding Limited

Deloitte.

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

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

АУДИТОРСКОЕ ЗАКЛЮЧЕНИЕ НЕЗАВИСИМОГО АУДИТОРА

Акционеру и Совету директоров Рейл Холдинг Лимитед

Мнение с оговоркой

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

Основание для выражения мнения с оговоркой

Как указано в Примечании 15 к консолидированной финансовой отчетности, по состоянию на 31 декабря 2018 года одна из дочерних компаний Группы нарушила обязательные финансовые и нефинансовые условия (ковенанты), предусмотренные заключенным кредитным договором с банком. Невыполнение ковенантов предполагает применение штрафных санкций к компании-заемщику, в том числе дает право кредитору требовать досрочный возврат денежных средств по существующим обязательствам. По указанному договору, документы, подтверждающие намерения кредиторов не требовать досрочного погашения обязательств, были получены после отчетной даты (Примечание 15). При этом Руководство Группы оценило вероятность требований досрочного погашения кредита со стороны банка как низкую, и, соответственно, по состоянию на 31 декабря 2018 года такой кредит в сумме 86 367 тыс. долларов США был отражен в консолидированной финансовой отчетности в составе долгосрочных обязательств в соответствии со сроками погашения, предусмотренными первоначальными условиями договора. По нашему мнению, в соответствии с требованиями МСФО (IAS) 1 «Представление финансовой отчетности» Группа должна была классифицировать данное обязательство по кредитам как краткосрочное, поскольку на 31 декабря 2018 года у Группы не было безусловного права перенести его 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.

Важные обстоятельства

Не изменяя мнения о достоверности консолидированной финансовой отчетности, мы привлекаем внимание к Пояснению 26, где раскрыто, что более 50% активов и обязательств были представлены расчетами со связанными сторонами по состоянию на 31 декабря 2018 года (69% активов и 78% обязательств по состоянию на 31 декабря 2017 года).

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

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

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

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

Ответственность аудитора за аудит консолидированной финансовой отчетности

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

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

- Выявляем и оцениваем риски существенного искажения консолидированной финансовой отчетности вследствие недобросовестных действий или ошибок; разрабатываем и проводим аудиторские процедуры в ответ на эти риски; получаем аудиторские доказательства, достаточные и надлежащие для выражения нашего мнения. Риск необнаружения существенного искажения в результате недобросовестных действий выше, чем риск необнаружения существенного искажения в результате ошибки, так как недобросовестные действия могут включать сговор, подлог, умышленный пропуск, искаженное представление информации или действия в обход действующей системы внутреннего контроля.
- Получаем понимание внутренних контролей, значимых для аудита, с целью разработки аудиторских процедур, соответствующих обстоятельствам, но не с целью выражения мнения об эффективности системы внутреннего контроля Группы.
- Оцениваем надлежащий характер применяемой учетной политики и обоснованность бухгалтерских оценок и соответствующего раскрытия информации, подготовленного руководством.

- Делаем вывод о правомерности применения руководством допущения о непрерывности деятельности, а на основании полученных аудиторских доказательств - вывод о наличии существенной неопределенности в связи с событиями или условиями, в результате которых могут возникнуть значительные сомнения в способности Группы непрерывно продолжать деятельность. Если мы приходим к выводу о наличии существенной неопределенности, мы должны в нашем аудиторском заключении привлечь внимание к соответствующему раскрытию информации в консолидированной финансовой отчетности или, в случае ненадлежащего раскрытия, модифицировать мнение. Наши выводы основываются на аудиторских доказательствах, полученных до даты аудиторского заключения. Однако, будущие события или условия могут привести к утрате Группой способности непрерывно продолжать деятельность.
- Проводим оценку представления консолидированной финансовой отчетности в целом, ее структуры и содержания, включая раскрытие информации, а также обеспечения достоверности представления лежащих в ее основе операций и событий.

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

Егор Метелкин
Руководитель задания

27 июня 2019 года

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

Компания: Рейл Холдинг Лимитед

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

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

Аудиторская организация: АО «Делойт и Туш СНГ»

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

Основной государственный регистрационный номер: 1027700425444

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

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

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER, 31 2018
(in thousands of US dollars, unless otherwise indicated)

	Notes	December 31, 2018	December 31, 2017
ASSETS			
Non-current assets			
Property and equipment	5	357 874	423 723
Prepayments for property and equipment	6	-	23 548
Other intangible assets		71	4
Investment in the joint venture	7	6 380	6 032
Deferred tax assets	23	17 604	2 480
Loans receivable	11	418 391	983 124
Other non-current assets		-	6 260
Finance lease receivables		-	3 363
Long-term trade receivables from the sale of railcars	9	2 008	-
Restricted cash	12	2 102	-
Total non-current assets		**804 430**	**1 448 534**
Current assets			
Inventories		1 170	1 003
Prepayments and other current assets	10	51 531	13 314
Trade and other accounts receivable	9	86 951	42 283
Finance lease receivables		-	364
VAT receivable		27 144	10 235
Prepaid income tax		6 572	1 884
Loans receivable	11	29 481	60 903
Investments in debt securities of a related party	8	2 920	94 208
Short-term bank deposits	14	-	87 469
Restricted cash	12	30 472	13 924
Cash and cash equivalents	12	96 177	1 964
Total current assets		**332 418**	**327 551**
TOTAL ASSETS		**1 136 848**	**1 776 085**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital	13	1	1
Additional paid-in capital	13	3 694	76 057
Currency translation reserve		(94 308)	(105 633)
(Accumulated deficit)/ retained earnings		(42 411)	46 680
Total equity and reserves		**(133 024)**	**17 105**
Non-current liabilities			
Long-term loans and borrowings	15	662 449	1 594 694
Long-term finance lease liabilities	15,16	263 078	2 276
Liability under a leaseback transaction	15,16	1 510	-
Long-term advances received from customers		563	
Deferred tax liabilities	23	5 308	5 258
Total non-current liabilities		**932 908**	**1 602 228**
Current liabilities			
Trade and other payables	17	68 818	41 680
Short-term finance lease liabilities	15,16	45 804	315
Liability under a leaseback transaction	15,16	333	-
Short-term loans and borrowings	15	51 537	76 545
Advances received	18	170 472	38 212
Total current liabilities		**336 964**	**156 752**
Total liabilities		**1 269 872**	**1 758 980**
TOTAL EQUITY AND LIABILITIES		**1 136 848**	**1 776 085**

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

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED December 31, 2018
(in thousands of US dollars, unless otherwise indicated)

	Notes	2018	2017
Revenue	19	265 014	338 319
Direct expenses	20	(168 637)	(226 619)
Selling, general and administrative expenses	21	(19 534)	(7 270)
Other operating income, net		(337)	44
Share of profit of the joint venture	7	1 528	367
Operating income		**78 034**	**104 841**
Finance income	22	75 571	98 830
Finance costs	22	(161 114)	(178 327)
Related party debt forgiveness		(3 265)	(5 227)
Foreign exchange (loss)/ gain, net		(12 566)	9 074
(Loss)/ profit before income tax		**(23 340)**	**29 191**
Income tax expense	23	(8 875)	(22 687)
(LOSS)/ PROFIT FOR THE YEAR		**(32 215)**	**6 504**
Other comprehensive income:			
Effect of translation to presentation currency which will not be reclassified subsequently to profit or loss		11 325	(886)
TOTAL COMPREHENSIVE (LOSS)/ INCOME FOR THE YEAR		**(20 890)**	**5 618**

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

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(in thousands of US dollars, unless otherwise indicated)

	Notes	Share capital	Additional paid-in capital	Currency translation reserve	Retained earnings	Total
Balance as at January 1, 2017		1	89 267	(104 747)	40 176	24 697
Profit for the year		-	-	-	6 504	6 504
Effect of translation to presentation currency		-	-	(886)	-	(886)
Total comprehensive income for the year		-	-	**(886)**	**6 504**	**5 618**
Effect from discounting of loans to entities under common control	11	-	(49 347)	-	-	(49 347)
Effect from discounting of borrowings from entities under common control	15	-	36 137	-	-	36 137
Balance as at December 31, 2017		**1**	**76 057**	**(105 633)**	**46 680**	**17 105**
The impact of accounting policies changes with IFRS 9 adopting (net of tax effect)	3	-	-	-	(56 877)	**(56 877)**
Balance as at January 1, 2018 (after recalculation)		**1**	**76 057**	**(105 633)**	**(10 196)**	**(39 771)**
Profit for the year		-	-	-	(32 215)	(32 215)
Effect of translation to presentation currency		-	-	11 325	-	11 325
Total comprehensive income for the year		-	-	**11 325**	**(32 215)**	**(20 890)**
Effect from discounting of loans granted to entities under common control	11	-	(58 309)	-	-	(58 309)
Early repayment of borrowings from entities under common control	15	-	(14 054)	-	-	(14 054)
Balance as at December 31, 2018		**1**	**3 694**	**(94 308)**	**(42 411)**	**(133 024)**

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

RAIL HOLDING LIMITED

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2018
(in thousands of US dollars, unless otherwise indicated)

	2018	2017
OPERATING ACTIVITIES		
(Loss)/ profit for the year	**(32 215)**	**6 504**
Adjustments for:		
Income tax expense	8 875	22 687
Gain from sale of railcars as part of the railcar fleet replacement programme (Notes 19, 20)	(17 885)	(53 686)
Depreciation and amortization	17 351	21 011
Foreign exchange loss/ (gain), net	12 566	(9 074)
Related party debt forgiveness	3 265	5 227
Loss on disposal of property and equipment	1 271	744
Change in allowance for credit losses for doubtful receivables and prepayments	(596)	679
Allowance for obsolete inventory	(457)	493
Share of profit of the joint venture	(1 528)	(367)
Deferred income	-	(39)
Finance costs	161 114	178 327
Finance income	(75 571)	(98 830)
Operating profit before changes in working capital	**76 190**	**73 676**
Movements in working capital:		
Decrease / (increase) in trade and other receivables	26 582	(31 660)
(Increase)/ decrease in prepayments and other current assets	(47 536)	3 381
Decrease / (increase) in inventories	85	(925)
Increase in trade and other payables	34 501	8 956
Increase in advances received from customers	151 532	34 546
Increase in VAT receivable	(32 825)	(9 250)
Cash proceed from operating activities	**208 529**	**78 724**
Cash paid for purchase of railcars (Notes 5, 19)	(44 458)	(215 249)
Cash received from the sale of railcars under the railcars fleet replacement programme (Notes 5, 19)	52 498	242 470
Income tax paid	(20 194)	(16 447)
Finance costs paid	(124 329)	(185 848)
Return of advances paid for railcars	11 827	-
Net cash generated by/ (used in) operating activities	**83 873**	**(96 350)**
INVESTING ACTIVITIES		
Loans granted	(90 272)	(344 429)
Cash proceeds from redemption of loans granted	30 858	117 328
Proceeds from redemption of short-term deposits	79 735	114 049
Proceeds from sale of investments in debt securities of a related party	79 892	2 024
Interest received	35 037	28 525
Placement of short-term deposits	-	(113 817)
Purchase of investments in debt securities of a related party	-	(89 773)
Net cash outflow on disposal of subsidiaries	-	34 507
Purchase of intangible assets	(77)	-
Net cash generated by/ (used in) investing activities	**135 173**	**(251 586)**
FINANCING ACTIVITIES		
Proceeds from loans and borrowings	114 682	760 057
Repayment of loans and borrowings	(470 073)	(412 029)
Cash deposited in accordance with covenants (Notes 12, 15)	(35 487)	(13 744)
Finance lease payments (including leaseback), net	(21 573)	2 457
Proceeds from leaseback transactions	273 437	-
Redemption of cash deposited in accordance with covenants	12 868	-
Net cash (used in)/ generated by financing activities	**(126 146)**	**336 741**
Net decrease in cash and cash equivalents	**92 900**	**(11 195)**
Cash and cash equivalents at the beginning of the year	**1 964**	**13 812**
Effect of foreign exchange rate changes including effect of recalculation of cash and cash equivalents	1 313	(653)
Cash and cash equivalents at the end of the year	**96 177**	**1 964**

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

(in thousands of US dollars, unless otherwise indicated)

1. GENERAL INFORMATION

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

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

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

Since 22 December 2014 PJSC «Research and Production Corporation «United Wagon Company» (hereinafter – PJSC "RPC UWC") has been the sole shareholder of the Company. As at December 31, 2018 PJSC "RPC UWC" held the controlling interest in the Company. PJSC "RPC UWC" produces consolidated financial statements available for public use, which disclose the ultimate controlling party of PJSC RPC UWC and the Company.

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

Subsidiaries	Principal activities	Place of registration	December 31, 2018	December 31, 2017
LLC "Rail1520"	Operating lease and resale of railcars	Russian Federation	100%	100%
LLC "Rail1520 Service"	Operating lease of railcars	Russian Federation	100%	100%
Rail 1520 (BVI) Ltd	Holding of Cyprus subsidiaries	BVI	100%	100%
Rail 1520 Service (BVI) Ltd	Holding of Cyprus subsidiaries	BVI	100%	100%
Rail 1520 Cyprus Ltd	Holding of Russian subsidiaries	Cyprus	100%	100%
Rail 1520 Service Cyprus Ltd	Holding of Russian subsidiaries	Cyprus	100%	100%
Rail 1520 Finance Cyprus Ltd	Financing	Cyprus	100%	100%
Rail 1520 Cyprus Leasing Ltd	Holding of Russian subsidiaries	Cyprus	100%	100%
LLC "Rail 1520 Leasing"	Finance lease of railcars	Russian Federation	100%	100%
Rail 1520 Wagon Cyprus Ltd	Investment company	Cyprus	100%	100%
LLC "UWC TP"	Finance lease of railcars	Russian Federation	100%	100%
LLC "Rail 1520 Invest"	Operating lease of railcars	Russian Federation	100%	-

2. BASIS OF PREPARATION AND SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

Basis of preparation

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

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

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

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

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

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

Going concern

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

Under the terms of the loan agreements, the Group is required to comply with a number of covenants, including maintenance of certain financial ratios and other non-financial conditions. As at December 31, 2018 a Group's subsidiary breached a number of financial and non-financial covenants stipulated in a loan agreement which could result in negative consequences for the Group, including declaration of default (Note 15). As at December 31, 2018 a long-term portion of loans under such agreements with JSC Gazprombank amounted USD 86 367 thousand.

All loans and borrowings are presented in these consolidated financial statements in accordance with initial payment terms stipulated in the loan agreements, notwithstanding whether the covenants had been breached as at the reporting date, or not. As at December 31, 2018 the Group's current liabilities exceeded its current assets by USD 4 546 thousand and consolidated loss amounted to USD 20 890 thousand.

After the reporting date but before the date of approval of these consolidated financial statements, the Group received an official letter from JSC Gazprombank confirming that it will not demand an early repayment of the loans with the breached covenants.

Key operating subsidiaries of the Group have stable and operating cash inflows. However, the Group also consolidates Rail1520 Finance Cyprus, being effectively a finance center of a widely PJSC RPC UWC Group, which is amongst main loss-making subsidiaries of the Group. The subsidiary is mainly financed by bonds issued by a related party – UWC Finance LLC and certain other loans provided by other related parties. Therefore, ultimately, the ability to continue as going concern depends upon continuing maintenance of adequate financing from related parties and overall financial position of PJSC RPC UWC.

Having made its assessment management has concluded that the Group has access to adequate resources to continue its operational existence for at least the next 12 months from the reporting date and that it is appropriate to adopt a going concern basis in preparing these consolidated financial statements.

Functional and presentation currency

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

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

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

Exchange rates used in the translation were as follows:

Currency	2018	2017
At the end of the reporting period		
RUB/ USD	69.47	57.60
RUB/ EUR	79.46	68.87
Average exchange rate for the reporting period		
RUB/ USD	62.71	58.35
RUB/ EUR	73.95	65.90

Foreign currency transactions

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

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

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 of consolidation

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

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

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

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

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

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

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

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

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss and other comprehensive income.

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

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

Business combinations

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

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

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

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

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

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

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

Goodwill

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

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

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

Investments in associates and joint ventures

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

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

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

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

Any impairment loss decreases the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

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

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

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

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

Property and equipment

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

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

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

	Useful life, years
Railcars	22-40
Other fixed assets	1-30

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

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

Impairment of tangible assets

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

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

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

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

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

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.

Leases

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

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

The Group as lessor

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

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

The Group as a lessee

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

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

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

In the normal course of business, the Group enters into leaseback agreements. In case the leaseback constitutes a finance lease, the transaction is treated as a way of financing provided to the Group, with the underlying asset being a collateral security. In this case, the Group continues to recognize the asset as if the sale and leaseback transaction had not occurred. The transaction gives rise to a finance lease liability for the Group in the amount of proceedings from the transfer of the asset to the lessor.

Share capital and additional paid-in capital

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

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

Revenue recognition

The Group recognizes revenue from the following major streams:

- Sales of railway cars and components, including semi-finished goods produced internally (castings, components, spare parts);
- Operating lease of railway cars.

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

Significant financing component

A number of railcar sale contracts envisage significant advance payments for the customers to be performed within a period exceeding 12 months from the date of the respective advance payment. 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.

Warranty liabilities

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 an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized and amortized over the useful life of the asset.

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

Other borrowing costs are recognized as an expense 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 acquisition of long-term assets (railcars) and compensation of expenses for purchase of materials for production of railcars.
- Grants related to compensation of transportation costs incurred on sales of produced 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 under bank loans are credited to profit or loss and other comprehensive income over the periods of the related interest expense unless this interest was capitalized into the cost of property, plant and equipment, in which case they are deducted from the cost of the respective items of property, plant and equipment and credited to the profit or loss and other comprehensive income on a straight-line basis over the expected lives of these assets.

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

Government grants related to compensation of the Group's transportation and other operating costs reduce the amount of such expenses in the consolidated statement of profit or loss and other comprehensive income.

Income tax

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

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

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

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

Deferred tax assets and liabilities are not discounted.

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.

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 consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

3. NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STATEMENTS

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

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

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

IFRS 9 Financial Instruments

Adoption of IFRS 9 *Financial Instruments* as at January 1, 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 at January 1, 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, accounts receivable and loans receivable. Financial liabilities mainly comprise bank loans, including bonds. 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*.

(In thousands of US dollars, unless otherwise indicated)

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

	Classification	
	IAS 39	**IFRS 9**
Loans receivable	Loans and receivables	At amortized cost
Long-term trade receivables from the sale of railcars	Loans and receivables	At amortized cost
Restricted cash	At amortized cost	At amortized cost
Trade and other accounts receivable	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 January 1, 2018 was adequate taking into account the impairment provisions of IFRS 9.

As at January 1, 2018 the impairment amount for financial assets at amortized cost (loans receivable) was recognized in accordance with the expected credit loss model under IFRS 9, which result in earlier recognition of credit losses, and had the following effect on the financial statements:

	January 1, 2018 (as previously reported)	**IFRS 9 adoption**	**January 1, 2018 (as restated)**
Non-current assets			
Loans receivable	983 124	(59 074)	924 050
Change in accounting policy due to IFRS 9 adoption		**(59 074)**	

IFRS 15 Revenue from Contracts with Customers

As at January 1, 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 impact is limited to effect of a significant financing component inherent in some railcar supply contracts that adjusts the promised amount of consideration for the time value of money. The Group did not apply a retrospective approach on transition to IFRS 15 and did not recognize the effect of transition as an adjustment of accumulated deficit as at January 1, 2018, as the Group had not had such contracts with customers until 2018.

The application of IFRS 15 did not have a material impact on the Group's financial position and performance, except for adjustments of promised amount of consideration in relation to financing component (Note 9).

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 January 1, 2019, earlier application permitted.
[2] Effective for annual periods beginning on or after January 1, 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 January 1, 2019, and interim periods within those periods. Early application of IFRS 16 is permitted.

Based on a preliminary analysis of the Group's leases as at January 1, 2019 and the facts and circumstances known at that date, the Group's management estimated lease liabilities as not material.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and underlying assumptions are based on historical experience and other relevant factors. Actual results may differ from these estimates.

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

Critical accounting estimates

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

Depreciation periods for property and equipment

The Group assesses the remaining useful lives of items of property and equipment at least annually at the end of each reporting period or at the date of revaluation of property 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 and equipment and on depreciation expense for the period.

Related party transactions

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

IFRS 9 requires initial recognition of financial instruments at amortized cost. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is market rates for similar types of transactions with unrelated parties and analysis of effective interest rates. Terms and conditions of balances with related parties are disclosed in Note 26.

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

Allowance for impairment of financial assets

The Group regularly reviews its financial assets to assess for impairment. The Group's most significant exposure to credit risk relates to loans receivable and investments in debt securities of its related party. As at December 31, 2018, the carrying value of loans receivable and investments in debt securities of its related party were equal to USD 447 872 thousand (Note 11) and USD 2 920 thousand (Note 8), respectively.

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. 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 Note 28.

Critical judgements in applying accounting policies

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

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

Thus, management believes the Group will regularly generate revenues from the sale of previously leased old railcars in the normal course of business. In accordance with IAS 16 after the approval of the decision to sell the railcars they were transferred to inventories at their carrying value. Income from the sale of such railcars was included in the revenue line item of the consolidated statement of profit or loss and other comprehensive income for the year ended December 31, 2017, in particular the sales of railcars item of the respective disclosure (Note 19). Expenses related to the disposal of the old railcar fleet were included in the cost of sale item of the consolidated statement of profit or loss and other comprehensive income and disclosed in the respective note (Note 20).

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

(in thousands of US dollars, unless otherwise indicated)

5. PROPERTY AND EQUIPMENT

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

	Railcars (leased)	Railcars (not leased)	Other fixed assets	Total
COST				
As at January 1, 2017	**492 391**	**3 107**	**19**	**495 517**
Railcars fleet replacement (additions)	212 970	56	-	213 026
Additions	2 616	-	-	2 616
Railcars fleet replacement (sales)	(253 773)	-	-	(253 773)
Disposals	(937)	(136)	-	(1 073)
Translation to presentation currency	26 410	163	1	26 574
As at December 31, 2017	**479 677**	**3 190**	**20**	**482 887**
Railcars fleet increase (additions)	42 266	16 600	-	58 866
Additions	2 037	2	-	2 039
Transfers	53	(53)	-	-
Railcars fleet replacement (sales)	(46 890)	(2 806)	-	(49 696)
Disposals	(1 439)	-	-	(1 439)
Translation to presentation currency	(82 319)	(660)	(4)	(82 983)
As at December 31, 2018	**393 385**	**16 273**	**16**	**409 674**
ACCUMULATED DEPRECIATION AND IMPAIRMENT				
As at January 1, 2017	**97 946**	**631**	**19**	**98 596**
Depreciation charge	20 803	208	-	21 011
Railcars fleet replacement (depreciation)	(64 989)	-	-	(64 989)
Disposals	(296)	(33)	-	(329)
Translation to presentation currency	4 838	36	1	4 875
As at December 31, 2017	**58 302**	**842**	**20**	**59 164**
Depreciation charge	17 272	79	-	17 351
Railcars fleet replacement (depreciation)	(13 074)	(843)	-	(13 917)
Disposals	(168)	-	-	(168)
Translation to presentation currency	(10 548)	(78)	(4)	(10 630)
As at December 31, 2018	**51 784**	-	**16**	**51 800**
NET BOOK VALUE				
January 1, 2017	**394 445**	**2 476**	-	**396 921**
December 31, 2017	**421 375**	**2 348**	-	**423 723**
December 31, 2018	**341 601**	**16 273**	-	**357 874**

As at December 31, 2018 railcar fleet with the net book value of USD 337 261 thousand was transferred under financial lease agreement (Note 16). As at December 31, 2017 property and equipment with the net book value of USD 413 116 thousand was pledged as collateral for the Group's borrowings (Note 15).

As at December 31, 2018 the Railcars group of property and equipment includes railcars with a carrying value totaling USD 16 273 thousand that were manufactured and transferred to property, plant and equipment in 2018, and not leased out as at December 31, 2018. Management believes that these railcars will be leased within 12 months from the reporting date.

(in thousands of US dollars, unless otherwise indicated)

6. PREPAYMENTS FOR PROPERTY AND EQUIPMENT

Prepayments for property and equipment comprised the following:

	December 31, 2018	December 31, 2017
Advance for railcars paid to related parties	-	23 548
Prepayments made – third parties	-	515
Allowance for expected credit losses	-	(515)
Total prepayments for property and equipment	**-**	**23 548**

The advance paid to one of the Group's related parties (TVSZ JSC) in 2017 was returned in the amount of USD 11 827 thousand to the Group due to cancellation of rail cars supply.

Movement in the allowance for expected credit losses during the years ended December 31, 2018 and 2017 was as follows:

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	**515**	**489**
Reversal of the allowance for expected credit losses	(473)	-
Translation to presentation currency	(42)	26
Balance at the end of the year	**-**	**515**

7. INVESTMENT IN THE JOINT VENTURE

The Group has the following investments in joint ventures:

Name	Type of investment	Place of incorporation and operation	Ownership and voting interest of the Group December 31, 2018	Ownership and voting interest of the Group December 31, 2017
MRC 1520 LLC	Joint Venture	Moscow, Russia	50%	50%

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

The Group's share in profit of the joint venture for 2018 and 2017 recognized in the consolidated statement of profit and loss and other comprehensive income amounted to USD 1 528 thousand and USD 367 thousand, respectively. Summarised financial information in respect of the Group's material joint venture and reconciliation of the summarized financial information to the carrying amount of the interest in the joint venture recognized in the consolidated financial statements is set out below. The summarised financial information below represents amounts shown in the joint venture's financial statements prepared in accordance with IFRS adjusted by the Group for equity accounting purposes.

(in thousands of US dollars, unless otherwise indicated)

	December 31, 2018	December 31, 2017
Cash and cash equivalents	2 614	2 279
Trade and other receivables	41	80
Other current assets	-	1
Non-current assets	10 686	9 882
Deferred tax assets	-	52
Other current liabilities	(384)	(230)
Non-current liabilities	(197)	-
Net assets of the joint venture	**12 760**	**12 064**
Proportion of the Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	**6 380**	**6 032**

	2018	2017
Revenue	2 121	2 237
Profit for the year	3 056	734
Other comprehensive income for the year	(2 359)	580
Total comprehensive income for the year	697	1 314

The above income for the year includes the following:

	2018	2017
Gross profit from the sale of rail car	1 917	-
Depreciation and amortization	(313)	(725)
Interest income	108	-
Income tax expense	(778)	(188)
Forex exchange gain/ (loss)	386	(53)

8. INVESTMENTS IN DEBT SECURITIES OF A RELATED PARTY

In 2018 the Group purchased 6 411 bonds for USD 115 thousand at the transaction date and sold 5 000 015 bonds to the market. The bonds which were sold had a carrying value of USD 86 695 thousand at the date of sale. The residual 205 793 bonds were recognized as investments in debt securities of a related party as at December 31, 2018 equal to USD 2 920 thousand. These securities are classified as financial assets at FVTPL with the fair value measurement identified as Level 1. The Group holds no collateral over these balances.

In 2017 the Group purchased 5 170 108 bonds for USD 89 686 thousand at the transaction date and sold 100 087 bonds in the market. The bonds which were sold had a carrying value of USD 1 681 thousand at the date of sale. The residual 5 199 397 bonds were recognized as investments in debt securities of a related party as at December 31, 2017 equal to USD 94 208 thousand. These securities are classified as financial assets at FVTPL with the fair value measurement identified as Level 1. The Group holds no collateral over these balances.

9. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other receivables comprised the following:

	December 31, 2018	December 31, 2017
Trade receivable from leaseback transactions (Note 16)	71 925	-
Trade receivables from sale of railcars	10 752	4 665
Trade receivable from the sale of castings, components and other inventories	2 975	611
Trade receivables from operating lease of railcars	1 293	37 632
Other accounts receivable	39	63
Allowance for expected credit losses	(33)	(689)
Total trade and other accounts receivable	**86 951**	**42 283**

(in thousands of US dollars, unless otherwise indicated)

As at December 31, 2017 receivables from operating lease of railcars included receivables due from Vostok 1520 LLC in the amount of USD 36 313 thousand.

As at December 31, 2018 trade receivables from sale of railcars included a current portion of accounts receivable from sales of railcars in the amount of USD 262 thousand. These agreements provide for a deferred repayment schedule with credit period from 18 up to 48 months from the date of shipment. Accounts receivable under these agreements were accounted for at amortized cost using the effective interest rate, which reflects the time value of money and ranges 10.74%. Non-current portion of receivables under these agreements was included in the Group's consolidated statement of financial position in long-term trade receivables from the sale of railcars in the amount of USD 2 008 thousand as at December 31, 2018.

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

	December 31, 2018	December 31, 2017
Past due 31-90 days	114	169
Past due 91-180 days	1 331	16 367
Past due 181-365 days	1 283	4 427
Past due over 365 days	757	456
Total	**3 485**	**21 419**

Movement in the allowance for expected credit losses during the years ended December 31, 2018 and 2017 was as follows:

	December 31, 2018	December 31, 2017
Balance at the beginning of the year	**689**	**1 274**
Reversal of the allowance for expected credit losses	(597)	(1 324)
Charge of the allowance for expected credit losses	-	679
Translation to presentation currency	(125)	60
Balance at the end of the year	**33**	**689**

10. PREPAYMENTS AND OTHER CURRENT ASSETS

Prepayments and other current assets comprised the following:

	December 31, 2018	December 31, 2017
Advances paid to a related party (Note 26)	44 429	2 086
Advances paid as future lease payments under leaseback transaction	6 592	-
Prepayments to suppliers	510	269
Bank guarantees and sureties	-	10 844
Prepaid expenses	-	115
Total prepayments and other current assets	**51 531**	**13 314**

In 2018, one of the Group's subsidiaries entered into a trilateral agreement for supply of railcars with subsequent leaseback. This agreement stipulates that, in the period from 2019 to 2020, the Group's entity under common control shall deliver 10 000 railcars to GTLK PJSC with a total value of USD 460 627 thousand (net of VAT) within 21 tranches, which in turn shall transfer them to one of the Group's entities under long-term leaseback. The lease term will be 15 years from the date of supply of each tranche, future lease payments will amount to USD 1 023 539 thousand (net of VAT). The effective interest rate is calculated excluding the effect of cash flows from VAT and varies from 12.4% to 12.8% per annum.

As at December 31, 2018 the amount of advances paid as a part of future lease payments comprised USD 6 592 thousand.

(in thousands of US dollars, unless otherwise indicated)

11. LOANS RECEIVABLE

Loans receivable comprised the following:

	Currency	Interest rate (contractual), %	December 31, 2018	December 31, 2017
Loans receivable at amortized cost				
Loans to related parties				
Unsecured				
TH UWC LLC	RUB	0%	98 972	151 863
Holme Services LTD	RUB	6%	95 614	117 321
Rail1520 Tank Cars Cyprus Holding	RUB	10%	72 914	59 957
Rail 1520 IP LTD	RUB	10%	45 000	39 039
Holme Services LTD	RUB	0%	42 649	-
TM-Energo	RUB	11.5%	31 632	36 083
SZIPK LLC	RUB	2.5%	14 285	23 874
SZIPK LLC	RUB	0%	12 026	-
CTT LLC	RUB	0%	8 978	-
Pegadisa Management LTD	RUB	10%	8 438	8 212
Holme Services LTD	USD	6.4%	6 039	198 157
Deanroad LTD	USD	6.4%	3 313	2 465
Unicon 1520 LLC	RUB	7%	2 460	2 000
Starfire Engineering Inc	USD	4%	1 271	-
Rail1520 Cyprus Man Co LTD	USD	6.4%	579	317
UW Forge Co Ltd	USD	6.4%	404	373
Uniwagon North America	USD	6.0%	206	1 865
Rail1520 Tank Cars BVI Holding LTD	USD	6.4%	38	30
Holme Services LTD	USD	5%	7	-
Ovilleno Holdings LTD	RUB	10%	-	289 426
Restadiana Ventures LTD	RUB	10%	-	24 921
IST-Capital	RUB	11.5%	-	22 842
Re Test Cyprus LTD	USD	6.4%	-	8 184
Re Test LTD	USD	6.4%	-	65
Tikhvin Trial Centre for Railway LLC	RUB	7.5%	-	33
Secured				
SZIZHK LLC	RUB	11%	-	43 897
Business Engineering JSC	RUB	11%	-	12 483
Gross loans granted to related parties			444 825	1 043 408
Allowance for expected credit losses			(31 481)	-
Loans granted to third parties				
Unsecured				
IST-Capital	RUB	11.5%	20 045	-
Re Test Cyprus LTD	USD	6.4%	9 351	-
Re Test LTD	USD	6.4%	71	-
BLK-Proekt LLC	RUB	10%	-	555
Tur LLC	RUB	11%	-	65
Secured				
SZIZHK LLC	RUB	11%	28 132	-
Business Engineering JSC	RUB	11%	4 684	-
Gross loans granted to third parties			**62 283**	**620**
Allowance for expected credit losses			(27 755)	-
Total loans receivable			**447 872**	**1 044 027**
Current part			29 481	60 903
Non-current part			418 391	983 124
Total loans receivable			**447 872**	**1 044 027**

(in thousands of US dollars, unless otherwise indicated)

In 2018, the Group changed the terms of the loan agreements with TH UWC LLC and SZIPK LLC. Under the new conditions, the interest rates were reduced to 0% and 2.5% per annum, respectively. The new rate was lower than the market rates, which was estimated by the Group's management at 8.57%-8.96% at the date of the amendments. In 2018, the Group also issued a number of loans to related parties at the interest rate of 0% per annum. Accordingly, these loans were recognized at fair value using the discount rate of 8.57%-8.96% depending on their maturity. The difference between the fair value and nominal value of the loans (USD 71 370 thousand) was recognized as reduction of additional paid-in capital.

As at December 31, 2018 the Group had agreed to discharge payment obligations under the loan issued to Uniwagon North America. The Group forgiven the remaining amount of the borrower's debt in the amount of USD 3 265 thousand which is comprised of the principal debt in the amount of USD 3 048 thousand, and the interest accrued up to December 31, 2018 in the amount of USD 217 thousand with the result of forgiveness recognized in the consolidated statement of profit and loss and other comprehensive income.

In 2017 IST Finance Ltd issued guarantees in respect of loans issued to SZIZHK CJSC and Business Engineering JSC. According to the guarantees ICT Finance Ltd is liable to make payments under the loan agreements in case the borrowers fail to fulfill their obligations to pay the debt. Due to the fact that IST Group disposed its interest in the Group's share capital as at December 31, 2018 the quality of collateral securing several loans significantly deteriorated and the Group recognized lifetime ECL on such assets.

The table below shows movements in ECL on the following financial assets:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Total ECL
Allowance for expected credit losses as at January 1, 2018 under IFRS 9	**59 074**	**-**	**59 074**
Reversal of allowance due to disposal of assets	(20 347)	-	(20 347)
Increase in allowance due significant increase in credit risk	1 918	26 695	28 613
Reclassification	(784)	784	-
Translation to presentation currency	(8 104)	-	(8 104)
Allowance for expected credit losses at December 31, 2018	**31 757**	**27 479**	**59 236**

12. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

	December 31, 2018	December 31, 2017
Short-term bank deposits in RUB	90 788	594
Current accounts in RUB	5 336	1 365
Current accounts in EUR	38	3
Current accounts in USD	15	2
Total cash and cash equivalents	**96 177**	**1 964**

As at December 31, 2018 the Group placed cash on overnight deposits in order to receive interest income, the interest rate on such deposits varied from 3% to 6.9% per annum.

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

(in thousands of US dollars, unless otherwise indicated)

Restricted cash as at December 31, 2018

During 2018, a number of bank guarantees were issued to one of the Group's subsidiaries as a principal in respect of railcar buyers to secure the Groups' participation in tenders, receipt of advance payments for subsequent deliveries and fulfillment of the Group's obligations under contracts. As at December 31, 2018 and 2017 the total amount of funds deposited in collateral accounts that serve as collateral for such guarantees was USD 32 574 thousand and USD 13 934 thousand, respectively. As at December 31, 2018 the long-term portion of such cash totaled USD 2 102 thousand and was included in the consolidated statement of financial position as non-current assets.

Restricted cash as at December 31, 2017

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

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

Other limitations

Under the loan and security documentation concluded between the Group's subsidiary and Gazprombank JSC and Gazprom Leasing LLC, a pledge agreement was signed in respect of the bank collateral account. In accordance with the terms of the agreement, the collateral account shall accumulate proceeds from the railcar lease services under a number of the subsidiary's lease contracts. As at December 31, 2018 the funds accumulated on the collateral account totaled USD 3 455 thousand. The Group did not classify these assets as restricted cash, since as at December 31, 2018 the creditor had no right to restrict the use of funds in the collateral account: the restriction arises only when the Group breaches certain financial covenants established by the loan and lease agreements that had not been breached at the reporting date.

13. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

As at December 31, 2018 and 2017 the Company's issued and registered share capital amounted to USD 1 thousand. The share capital was fully paid as at the reporting date.

As at December 31, 2018 and 2017, the additional paid-in capital of the Group consisted of the contributions made by the sole shareholder of the Group.

14. SHORT-TERM BANK DEPOSITS

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

	Currency	Rate, %	December 31, 2018	December 31, 2017
Promsvyazbank (Cyprus)	RUB	9%	-	87 469
Total short-term bank deposits			**-**	**87 469**

As at December 31, 2017 the Group placed free cash in the amount of RUB 5 000 000 thousand (USD 86 805 thousand as at the reporting date) to bank deposit with a purpose of receiving interest income from Promsvyazbank (Cyprus), at an annual interest rate 9.00 % and maturity on 14 June 2018. As at December 31, 2017 interest accrued, but not paid comprised USD 664 thousand.

(in thousands of US dollars, unless otherwise indicated)

15. LOANS AND BORROWINGS

Loans and borrowings received comprised:

	Maturity	Interest rate	Interest rate, % (at December 31, 2018) contractual	December 31, 2018	December 31, 2017
At amortized cost, including:					
RUB-denominated					
UWC Finance LLC	2021-2024	Fixed	6.6%-12.02%	440 229	622 684
RPC UWC PJSC	2021-2027	Fixed	7.32%-13.9%	187 390	254 026
Gazprombank JSC	2028	Fixed	10.5%	86 367	-
Alfa-Bank JSC	2018	Fixed	12.7%	-	329 744
TH UWC LLC	2018	Fixed	5.9%	-	39 001
USD-denominated					
TH UWC LLC	2018	Fixed	6%	-	425 784
Total loans and borrowings				**713 986**	**1 671 239**
Less: current portion				(51 537)	(76 545)
Long-term loans and borrowings				**662 449**	**1 594 694**

In 2018 the Group repaid a part of loan received from TH UWC LLC, which had been recognized in 2017 at fair value. The difference between the fair and nominal value was reversed from additional paid-in capital.

Security on loans and borrowings

As at December 31, 2018 railcar fleet with the net book value of USD 337 261 thousand was pledged under finance lease agreement (Note 5).

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

- Property and equipment with carrying value of USD 413 116 (Note 5);
- Shares in subsidiaries (Rail 1520 LLC (100%), Rail 1520 Cyprus Ltd (100%)).

Repayment schedule

The repayment schedule of loans and borrowings for five years ending December 31, 2023 and thereafter is as follows:

	Amount to maturity (w/o effect of discounting)
2019	51 537
2020	43 184
2021	248 290
2022	-
2023	-
Thereafter	384 400
Total	**727 411**

(in thousands of US dollars, unless otherwise indicated)

Reconciliation of financial liabilities

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

	January 1, 2018	Cash flows from financial activities	Non-cash changes				Net interest payments	December 31, 2018
			Foreign exchange difference	Effect from discounting	Translation difference	Other non-cash changes		
Borrowings from related parties	1 341 495	(148 771)	44 886	15 609	(190 610)	(443 569)	8 578	627 619
Bank loans	329 744	(206 620)	-	-	(35 263)	(861)	(633)	86 367
Finance lease	2 591	251 866	-	-	(8 980)	63 405	-	308 882
Liability under a leaseback	-	1 926	-	-	(2)	-	(81)	1 843
	1 673 830	(101 599)	44 886	15 609	(199 592)	(381 025)	7 864	1 024 711

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

Covenants

Under the terms of the loan agreements, the Group is required to comply with a number of covenants and restrictions, including maintenance of certain financial ratios and other non-financial conditions. Non-compliance with these covenants may result in negative consequences for the Group, including declaration of default.

Compliance with covenants during the year ended December 31, 2018

In 2018 one of the Group's subsidiaries signed a finance lease agreement with Gazprom Leasing JSC and a respective loan agreement with Gazprombank JSC for RUB 6 000 million. In accordance with both of the agreements, the Group was required to comply with a number of default non-financial covenants, which were breached as at December 31, 2018. Namely, the Group was obliged to sign pledge agreements in respect of property rights, movable property, interests in share capital and not to adjust the terms of deliveries of railcars that are the subject of financial lease. The breaches were technically remedied in February 2019. As at the date of approval of these consolidated financial statements, the Group received an official letter from bank confirming that it will not demand an early repayment of the loan or termination of the respective finance lease. As at December 31, 2018, the long-term portion of the loan was RUB 6 000 million (equal to USD 86 367 thousand as at reporting date).

The management of the Group estimated the probability that banks will demand early repayment of loans under agreements with breached covenants is low and, therefore, as at December 31, 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.

(in thousands of US dollars, unless otherwise indicated)

Compliance with covenants during the year ended December 31, 2017

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

Available credit facilities

As at December 31, 2018 the Group had no unused credit facilities.

16. FINANCE LEASE LIABILITIES

In 2018, the Group entered into a supply agreement for 11 191 own railcars, which provides for the leaseback of the sold railcars. The lease term under the agreement is 10 years, the effective interest rate calculated excluding the influence of cash flows from VAT is 11%.

Because of the Group did not fully fulfill the obligation for railcars supply, a part of the receivables related to the transaction was not repaid by the leasing company as at December 31, 2018. Outstanding receivables at December 31, 2018 were USD 62 485 thousand (net of VAT 18%) and were taken into account when determining the present value of the minimum lease payments. These receivables were included in trade and other accounts receivable (Note 9) in the amount of USD 71 925 thousand (incl. VAT 18% in amount of USD 11 247 thousand).

The total interest on the lease liabilities for 2018 amounted to USD 10 722 thousand and was recognized as finance expenses in the consolidated statement of profit and loss and other comprehensive income (Note 22).

As at December 31, 2018 and 2017 finance lease liabilities comprised:

	December 31, 2018	December 31, 2017
Minimum lease payments, including		
Current portion (later than 1 year)	49 754	366
From 1 to 5 years	197 900	1 852
More than 5 years	256 030	1 963
Total minimum lease payments	**503 684**	**4 181**
Less interest on the lease liabilities	(192 995)	(1 589)
Less outstanding amount under leaseback transaction as at the reporting date	(62 485)	-
Present value of minimum lease payments		
Current portion (later than 1 year)	45 804	47
From 1 to 5 years	145 190	718
More than 5 years	117 888	1 826
Less outstanding amount under leaseback transaction as at the reporting date	(60 678)	-
Total present value of minimum lease payments	**248 204**	**2 591**
Less current portion of lease liabilities	(45 804)	(315)
Outstanding receivables on transaction as at the reporting date	60 678	-
Non-current portion of lease liabilities	**263 078**	**2 276**

The lease agreement provides for a fixed payment with no contingent lease elements.

Upon expiry of the agreement, the Group can buy out leased property at a price close to zero.

The Group's lease agreements contain railway business-specific covenants, such as the Group's responsibility for regular maintenance, repair and insurance of the leased assets. The lease agreement also provides for financial and non-financial covenants. Information on the fulfillment of such covenants in 2018 and as at December 31, 2018 is disclosed in Note 15.

(in thousands of US dollars, unless otherwise indicated)

The Group's liabilities under this agreement are secured by the lessor's title to leased assets. The net book value of the rail car fleet pledged under a finance lease agreement is USD 337 261 thousand (Note 5, 15).

17. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following:

	December 31, 2018	December 31, 2017
Accounts payable for railcars	48 536	26 094
Taxes payable	20 282	15 586
Total trade and other payables	**68 818**	**41 680**

18. ADVANCES RECEIVED

Advances received comprised the following:

	December 31, 2018	December 31, 2017
Advances received from customers for railcars	167 798	33 889
Operating lease prepayments	1 238	2 208
Other advances received	1 436	2 116
Total advances received	**170 472**	**38 212**

In 2018, the Group entered into railcar supply agreement with supplies due in 2020-2021. As at December 31, 2018 advances for supplies due after December 31, 2019 of USD 563 thousand was recognized separately from advances received for sale of railcars and included in the consolidated statement of financial position as advanced received in non-current liabilities.

19. REVENUE

Revenue of the Group comprised the following (excluding finance income – Note 22):

	2018	2017
Sales of goods (railcars)	160 743	250 945
Operating lease of railcars	102 037	86 358
Sales of castings, components and other inventories (incl. spare parts)	1 110	289
Other revenue	1 124	727
Total revenue	**265 014**	**338 319**

In 2017, the Group's management decided to replace the old fleet of railcars previously leased by the Group with the new innovative railcars. Accordingly 7 379 railcars with a carrying value of USD 188 784 thousand (Notes 5, 20) were transferred from property and equipment to inventories and sold to third parties. The largest customer was Federal Freight Company JSC. The total amount of revenue received by the Group from the sale of these cars was included in the sales of railcars item and amounted to USD 242 470 thousand for the year ended December 31, 2017.

In 2018, the Group's management decided to sell the Group's own fleet of railcars with a carrying values of USD 35 779 thousand to third parties. The revenue from the sale amounted to USD 53 664 thousand.

(in thousands of US dollars, unless otherwise indicated)

20. DIRECT EXPENSES

Direct expenses of the Group comprised the following:

	2018	2017
Direct expenses associated with operating lease		
Depreciation of railcars	17 351	21 011
Maintenance and repairs	5 517	6 831
Property tax	2 359	2 118
Insurance expenses	123	140
Other	356	404
Direct expenses associated with sale of railcars and spare parts		
Net book value of railcars sold from own railcar fleet	35 779	188 784
Cost of railcars sold	106 171	7 059
Cost of castings, components and other inventories (incl. spare parts)	981	272
Total direct expenses	**168 637**	**226 619**

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	2018	2017
Management fees	14 871	2 569
Railcar-sales related costs	2 784	1 682
Railcars disposition information	1 032	820
Transportation costs for the delivery of railcars to the buyer	581	272
Consulting and legal fees	441	460
Change in allowance for expected credit losses in accounts receivable	(596)	679
Write-down of inventories to net realizable price	(459)	493
Other	880	295
Total selling, general and administrative expenses	**19 534**	**7 270**

22. FINANCE COSTS AND FINANCE INCOME

Finance costs of the Group comprised the following:

	2018	2017
Interest expense on loans and borrowings	116 913	165 304
Cost of guarantees and sureties	15 834	11 503
Interest expense on finance lease transactions (Note 16)	10 722	-
Increase in allowance for expected credit losses on loans receivable (Note 11)	8 265	-
Bank charges and commissions	4 919	642
Significant financing component of contracts with customers	2 847	-
Unwinding of discount on financial liabilities	1 555	878
Other items	59	-
Total finance costs	**161 114**	**178 327**

(in thousands of US dollars, unless otherwise indicated)

Finance income of the Group comprised the following:

	2018	2017
Interest income from loans receivable	58 482	83 408
Unwinding of discount on financial assets	7 776	86
Interest income on deposits, cash and equivalents	7 755	10 724
Finance income from sale of debt securities	1 375	3 991
Interest income from finance leases	183	621
Total finance income	**75 571**	**98 830**

23. INCOME TAXES

The components of income tax expense comprised the following:

	2018	2017
Current tax expense	(12 906)	(19 952)
Adjustment of income tax for prior years	3 048	-
Deferred tax benefit / (expense)	983	(2 735)
Total income tax expense	**(8 875)**	**(22 687)**

As at December 31, 2018 the income tax rates applicable to the entities of the Group were as follows:

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

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

	2018	2017
(Loss)/ profit before income tax	**(23 340)**	**28 903**
Theoretical income tax benefit/ (expense) calculated at 20%	4 668	(5 781)
Tax effects of items which are not deductible or assessable for taxation purposes:		
Adjustment of income tax for prior years	3 048	-
Share of profit of the joint venture	305	73
Effect of different income tax rates and taxation rules applicable to foreign subsidiaries of the Group	(11 896)	(10 960)
Unrecognized tax losses of foreign subsidiaries of the Group for the year	(5 766)	(5 849)
Other items	(45)	(170)
Currency translation reserve	811	-
Income tax expense	**(8 875)**	**(22 687)**

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

(in thousands of US dollars, unless otherwise indicated)

As at December 31, 2018 and 2017 net deferred tax assets arose from the following:

	2018	2017
Finance lease liabilities	62 840	-
Financial instruments (loans receivable and borrowings)	11 047	-
Allowance for expected credit losses on loans receivable	2 801	-
Tax losses carried forward in Russian subsidiaries of the Group	1 970	2 919
Trade and other accounts receivable	755	240
Provisions	603	338
Property and equipment	(67 609)	(6 365)
Other	(111)	90
Net deferred tax assets / (liabilities)	**12 296**	**(2 778)**

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

The movements in deferred tax were as follows:

	2018	2017
Deferred tax balance as at the beginning of the year, net	(2 778)	(6)
Deferred tax – effect of initial recognition of financial instruments	13 060	-
Deferred tax – allowance of expected credit losses on transition to IFRS 9	2 197	-
Deferred tax benefit	983	(2 735)
Currency translation reserve	(1 166)	(36)
Deferred tax balance as at the end of the year	**12 296**	**(2 777)**

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as at December 31, 2018 and 2017:

	2018	2017
Deferred tax assets	17 604	2 481
Deferred tax liabilities	(5 308)	(5 258)
Net deferred tax position	**12 296**	**(2 777)**

As at December 31, 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.

24. FINANCIAL RISK MANAGEMENT

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

(in thousands of US dollars, unless otherwise indicated)

Interest rate risk

As at December 31, 2018 and 2017, the Group had no loans and borrowings with variable interest rate.

Credit risk management

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

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

	December 31, 2018	December 31, 2017
Financial assets at amortized cost and FVTPL		
Cash and cash equivalents	96 177	1 964
Loans receivable	447 872	1 044 027
Trade and other receivables	88 959	42 283
Restricted cash	32 574	13 924
Investment in debt securities of a related party	2 920	94 208
Short-term bank deposits	-	87 469
Finance lease receivables	-	3 727
Total	**668 502**	**1 287 602**

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

Concentration of credit risk for account receivables from sale of railcars is about 46% as at reporting date. The balance is formed by outstanding amounts from external customer, however, management of the Group considers credit risk to be limited. Accounts receivable from operating lease of railcars are represented for more than 82% by receivables from SUEK. As at December 31, 2018 the credit risk associated with trade and other receivables related to the outstanding receivables on a leaseback transaction of USD 71 925 thousand. The outstanding balance was fully repaid in 1Q'2019 after the fulfillment by the Group of all its obligations for railcars supply under the leaseback agreement.

The credit risk on liquid funds represented by cash and cash equivalents, excluding restricted cash, is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Name of bank	Rating agency	Rating	December 31, 2018	December 31, 2017
Otkritie FC Bank PJSC	Moody's	Ba2	81 484	1 029
MOSCOW CREDIT BANK PJSC	Fitch Ratings	BB-	8 553	-
Gazprombank (JSC)	Fitch Ratings	BB+	5 369	108
Other			771	827
Total			**96 177**	**1 964**

(in thousands of US dollars, unless otherwise indicated)

The Group has a significant concentration of credit risk in regards to loans provided to TH UWC LLC, Rail1520 Tank Cars Cyprus Holding LTD and Holme Services LTD related parties of the Group.

Currency risk

Foreign exchange risk arises when future commercial transactions or recognized assets or liabilities are denominated in the currency different from the functional currency of each entity in the Group. During 2018 and 2017 the Group entered into certain transactions denominated in USD and EUR.

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

	December 31, 2018			December 31, 2017		
	Monetary financial assets	Monetary financial liabilities	Net monetary position	Monetary financial assets	Monetary financial liabilities	Net monetary position
USD	21 318	-	21 318	211 457	425 784	(214 327)
EUR	1 812	1 492	320	4 668	-	4 668
Total	**23 130**	**1 492**	**21 638**	**216 125**	**425 784**	**(209 659)**

The table below details the Group's sensitivity to weakening of the Russian Ruble against US Dollar and Euro by 20%, all other variables being held constant. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	USD – impact		EUR – impact	
	December 31, 2018	December 31, 2017	December 31, 2018	December 31, 2017
Gail / (loss)	4 264	(42 865)	64	934

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

As at December 31, 2018 the Group does not have formal arrangements to hedge foreign exchange risks of the Group's operations. The Management monitors all changes in the exchange rates and does not expect any material negative fluctuations in the medium-term.

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

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. Management controls current liquidity based on expected cash flows and revenue receipts through establishing and maintaining a cash fund sufficient to cover its contractual obligations for the period of three to six upcoming months. Such funds are normally kept as highly liquid short-term bank deposits, and are available on demand.

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

(in thousands of US dollars, unless otherwise indicated)

	Less than 12 months	1-5 years	Over 5 years	Total
December 31, 2018				
Fixed interest rate instruments	122 940	494 989	457 310	1 075 239
Non-interest bearing	48 535	-	-	48 535
Finance lease liabilities	49 754	197 900	256 030	503 684
Liability under a leaseback transaction	319	1 533	-	1 852
	221 548	694 422	713 340	1 629 310

	Less than 12 months	1-5 years	Over 5 years	Total
December 31, 2017				
Fixed interest rate instruments	229 053	1 184 408	1 180 431	2 593 892
Non-interest bearing	26 094	-	-	26 094
Variable interest rate instruments	315	2 276	-	2 591
	255 462	1 186 684	1 180 431	2 622 577

The following table details the Group's expected maturity for its non-derivative financial assets. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets. The inclusion of information on non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

	Less than 12 months	1-5 years	Over 5 years	Total
December 31, 2018				
Fixed interest rate instruments	132 496	347 049	379 416	858 961
Non-interest bearing	117 422	4 153	-	121 575
Variable interest rate instruments	2 920	-	-	2 920
	252 838	351 202	379 416	983 456

	Less than 12 months	1-5 years	Over 5 years	Total
December 31, 2017				
Fixed interest rate instruments	182 987	487 072	769 124	1 439 183
Variable interest rate instruments	123 512	166 400	-	289 912
Non-interest bearing	56 208	-	-	56 208
Finance lease receivables	940	3 762	1 293	5 995
	363 647	657 234	770 417	1 791 298
Net (asset) / liability positions as at December 31, 2018	**(31 290)**	**343 220**	**333 924**	**645 854**
Net (asset) / liability positions as at December 31, 2017	**(108 185)**	**529 450**	**410 014**	**831 279**

Capital management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through optimization of the debt and equity balance within the limits imposed by its providers or finance. The capital structure of the Group consists of net debt (borrowings as detailed in Note 15, offset by cash and cash equivalents balances) and equity and reserves.

(in thousands of US dollars, unless otherwise indicated)

25. FINANCIAL INSTRUMENTS

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

	December 31, 2018	December 31, 2017
Financial assets		
Loans receivable	447 872	1 044 027
Trade and other receivables	88 958	42 283
Restricted cash	32 573	13 924
Short term deposits	-	87 469
Finance lease receivables	-	3 727
Total loans and receivables	**569 404**	**1 191 430**
Cash and cash equivalents	96 177	1 964
Total cash and cash equivalents	**96 177**	**1 964**
Investments in debt securities of a related party	2 920	94 208
Total financial assets at FVTPL	**2 920**	**94 208**
Financial liabilities at amortized cost		
Loans and borrowings	713 986	1 671 239
Financial lease liabilities	308 882	2 591
Trade and other payables	48 535	26 094
Liability under a leaseback transaction	1 843	-
Total financial liabilities at amortized cost	**1 073 246**	**1 699 924**

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

The carrying amounts and fair values of the Group's loans and borrowings as at December 31, 2018 and 2017 were presented as follows:

	December 31, 2018		December 31, 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and borrowings*	713 986	746 514	1 671 239	1 720 145
Financial lease liabilities	308 882	308 882	-	-
Liability under a leaseback transaction	1 843	1 843	-	-
	1 024 710	**1 057 239**	**1 671 239**	**1 720 145**

* For the fair value estimation the Group used 9.55% as market rate of cost of debt for RUB.

Inputs of Level 2 of the fair value hierarchy were used to measure the fair value of loans and borrowings received from third parties and related parties.

The fair value of financial liabilities was determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the weighted average interest rate on loans (in RUB and with maturities of over 3 years) received by non-financial organizations from credit institutions.

In determining the fair value of finance lease liabilities (including liability under a leaseback transaction), the Group's management relied on the assumption that the carrying amount of finance lease liabilities approximates their fair value as at December 31, 2018 as the Group recognized these liabilities in the second half 2018 and their effective interest rate is higher compared to market indicators as at December 31, 2018 due to the Group's risk premium.

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

As at December 31, 2018 fair value of the loans receivable was lower than their carrying value by USD 24 059 thousand. As at December 31, 2017 fair value of loans granted was greater than the carrying value by USD 14 628 thousand.

26. RELATED PARTY TRANSACTIONS

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

The Group enters into various purchases and service transactions with related parties, such as purchase of railcars and management services provided by the management company. In addition, the Group enters into financing and investing transactions with related parties.

As at December 31, 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 December 31, 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 December 31, 2018 the outstanding balances with the ICT Group and its former subsidiaries were not included in the balances with the Group's 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 December 31, 2017 are: the parent, entities with significant influence over the Group, entities under common control with the Group, associates and joint ventures of PJSC RPC UWC.

(in thousands of US dollars, unless otherwise indicated)

The Group had the following balances with its related parties:

	December 31, 2018	December 31, 2017
Prepayments for property and equipment		
Entities under common control	-	23 548
Loans to related parties, net of allowance for expected credit losses		
Entities under common control	413 344	950 815
Entities with significant influence over the Group	-	111 379
Investments in debt securities of a related party		
Entities under common control	2 920	94 208
Cash and cash equivalents		
PJSC "Bank Otkritie Financial Corporation"	81 484	-
Trade and other accounts receivable		
Associates and joint ventures of PJSC RPC UWC	-	36 313
Entities under common control	3 366	616
Advances paid to a related party		
Entities with significant influence over the Group	-	17 104
Entities under common control	44 429	2 086
	545	
TOTAL ASSETS	545 542	1 236 069
Trade and other accounts payable		
Entities under common control	48 460	25 997
Associates and joint ventures of PJSC RPC UWC	-	21
Advances received from a related party		
Associates and joint ventures of PJSC RPC UWC	-	33 889
Entities under common control	1 436	1 732
Borrowings		
Entities under common control	440 229	1 087 470
Parent company	187 390	254 025
TOTAL LIABILITIES	677 515	1 403 134

(in thousands of US dollars, unless otherwise indicated)

The amounts outstanding are unsecured (expect as disclosed in Note 11) and will be settled in cash. There have been no guarantees provided or received for any related party accounts receivable or payable. No expense has been recognized in the current or prior periods for bad or doubtful debts in respect of the amounts owed by related parties. The Group's transactions with its related parties were as follows:

	2018	2017
Purchase of railcars		
Entities under common control	(59 913)	(215 036)
Associates and joint ventures of PJSC RPC UWC	-	(122)
Purchase of railcars for further resale		
Entities under common control	(106 171)	(7 059)
Purchase of spare parts		
Entities under common control	(981)	(272)
Maintenance, repair and service expenses		
Entities under common control	(1 565)	(2 468)
Transportation expenses		
Entities under common control	(224)	-
Management fee		
Parent company	(14 871)	(2 276)
Railcars disposition information		
Entities under common control	(920)	-
Cost of guarantees and sureties		
Entities with significant influence over the Group	(15 710)	(11 503)
Other expenses		
Entities under common control	(39)	(295)
Parent company	(52)	-
Revenue – operating lease of railcars		
Associates and joint ventures of RPC UWC	-	45 532
Entities under common control	132	-
Revenue – sales of railcars		
Entities under common control	-	161
Joint ventures	12 152	-
Revenue – sales spare parts		
Entities under common control	1 110	289
Other revenue		
Entities under common control	5	-
Interest income		
Entities under common control	60 490	73 295
Entities with significant influence over the Group	6 787	18 321
PJSC "Bank Otkritie Financial Corporation"	3 526	-
Interest expenses		
Entities under common control	(63 808)	(91 497)
Parent company	(28 366)	(8 844)
Entities with significant influence over the Group	(13)	(18 590)
(Loss)/ gain on forex exchange differences, net		
Entities under common control	(14 905)	8 155
Entities with significant influence over the Group	1 754	749
Related party debt forgiveness		
Entities under common control	(3 265)	(5 227)

(in thousands of US dollars, unless otherwise indicated)

Compensation of key management personnel

In 2018 and 2017 management of the Group was largely conducted by a management company, a related party to the Group, under a management fee structure. Total remuneration of the management company is disclosed in the table above under the Management fee line.

27. OPERATING LEASE ARRANGEMENTS

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

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

	December 31, 2018	December 31, 2017
Not later than 1 year	100 492	90 968
Later than 1 year and not longer than 5 years	163 074	261 454
Later than 5 years	10 182	29 537
	273 748	**381 959**

28. COMMITMENTS AND CONTINGENCIES

Commitments for capital expenditure

As at December 31, 2017, the Group had no commitments to acquire property and equipment except for those which were 100% prepaid. As at December 31, 2018 the Group had no advances paid for property and equipment.

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. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

The Group identified possible contingent tax liabilities for the three-year period ended December 31, 2018. Management estimates that the Group's possible exposure in relation to the aforementioned tax risks will not exceed 4% of the Group's total revenue for the year ended December 31, 2018.

Legal proceedings

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

29. SUBSEQUENT EVENTS

On February 15, 2019, PJSC RPC UWC became the management company of several of the Group's subsidiaries.

In March 2019 within the trilateral agreement for supply of railcars with subsequent leaseback (Note 10), one of subsidiary of the Group received 1 010 railcars from GTLK PJSC under the long-term leaseback agreement.

In March 2019, the Group changed the terms of the loan agreement with UWC Finance LLC dated July 3, 2014. Under the new conditions, the interest rate was changed from 12.02% to 12.08% per annum with the maturity of the loan moved from 2024 to September 2019.

In the first quarter of 2019 the Group fulfilled the obligation for railcars supply under the leaseback agreement, on March 4, 2019 the Group received the final payment under the supply agreement as a part of the leaseback transaction in the amount of USD 71 925 thousand (incl. VAT).

As at June 26, 2019 one of the Group's subsidiaries entered into a number of agreements. Assignment agreements between Rail 1520 Finance Cyprus Ltd and First Heavy Haul Company JSC were signed in respect of loan granted by the Group to ICT-Capital, SZIZHK LLC and JSC Business Engineering. According to these agreements Rail 1520 Finance Cyprus Ltd assigned all the rights (demands) for the loans mentioned above to First Heavy Haul Company JSC whereas First Heavy Haul Company JSC will pay to the Group the outstanding amount of these loans including interest accrued and not paid as at the date of the assignment agreement, the amount of these loans totaled to USD 52 862 thousand as at December 31, 2018 as stated in Note 11.

Previously Rail 1520 Finance Cyprus Ltd purchased the right to claim two loans granted by SZIPK CJSC (a related party) to ICT-Capital and Recital in the amount of USD 9 182 thousand (exchange rate as at June 26, 2019) and then transferred this right to First Heavy Haul Company JSC which will pay for it the respective amount of 9 182 thousand.

Moreover, Rail 1520 Finance Cyprus Ltd purchased a promissory note of nominal value of RUB 5 500 000 thousand (USD 84 280 thousand with exchange rate as at June 26, 2019) from TH UWC LLC (a related party) for the amount of USD 105 500 thousand (exchange rate as at June 26, 2019) and sold the note to Plainwhite Consultants Ltd for the respective amount which will be paid in two tranches - USD 22 784 thousand (exchange rate as at June 26, 2019) will be transferred in accordance with the agreement and USD 82 716 thousand (exchange rate as at June 26, 2019) in 3 years and 3 months with interest rate equal to 10% per annum. Plainwhite Consultants Ltd provided PJSC RPC UWC ordinary shares as collateral: 17 399 503 shares of nominal value RUB 1, fair value of the collateral was linked to the market price of PJSC RPC UWC as at the pledge agreement date.