Public Joint Stock Company "Research and Production Corporation "United Wagon Company"

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

PUBLIC JOINT STOCK COMPANY
”RESEARCH AND PRODUCTION CORPORATION “UNITED WAGON COMPANY”

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PUBLIC JOINT STOCK COMPANY
"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"

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 consolidated financial position of Public Joint Stock Company "Research and Production Corporation "United Wagon Company" (PJSC RPC UWC or the "Company") and its subsidiaries (the "Group") as at December 31, 2018, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs").

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

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

Management is also responsible for:

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

The consolidated financial statements of the Group for the year ended December 31, 2018 were approved by management on May 23, 2019.

On behalf of the Management:

Timofey Khryapov
Chief Executive Officer
PJSC RPC UWC

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Public Joint Stock Company "Research and Production Corporation "United Wagon Company":

Qualified Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "Research and Production Corporation "United Wagon Company" and its subsidiaries (hereinafter – the "Group" or PJSC "RPC UWC"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As disclosed in Note 4 to the consolidated financial statements, the Group recognized revenue from sale of railcars in the amount of RUB 6 589 million for the year ended December 31, 2016. In our opinion, the above revenue should have been recognized in 2017, as some of the revenue recognition criteria set out by IAS 18 "Revenue" had not been met in 2016. If this revenue had been appropriately recognized in 2017, the revenue and cost of sales for 2017 would have increased by RUB 6 589 million and RUB 5 374 million, respectively. Net loss for 2017 would have decreased by RUB 972 million. The full effect of the misstatement on the Group's consolidated financial statements for the year ended December 31, 2017 is disclosed in Note 4. Accordingly, we expressed qualified opinion on the consolidated financial statements for 2017 in relation to this misstatement. Our opinion on the consolidated financial statements for the reporting period has also been qualified due to the influence of this matter on the comparability of current and previous reporting periods.

As disclosed in Note 25 to the consolidated financial statements, as at December 31, 2018 and 2017 a number of subsidiaries of the Group did not comply with certain financial and non-financial covenants of their loan agreements. Non-compliance with these covenants could have resulted in penalties being imposed by the banks, including the right to request early repayment of the loans. After the reporting date the Group received documents confirming the consent of the creditors not to request early repayment of the existing obligations under all the loan agreements with the breached covenants (Note 25). The management assessed probability of the call for early repayment of the loans, as low. As a result, the loans in the amount of RUB 22 845 and 45 800 million as at December 31, 2018 and 2017, respectively, are presented in the consolidated financial statements as non-current, in line with the initial repayment terms of the loan agreements. In our opinion, according to the requirements of IAS 1 "Presentation of financial statements", the Group should have classified these loans as current because as at December 31, 2018 and 2017 the Group did not have an unconditional right to postpone the repayment of these loans for at least 12 months after the reporting date.

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We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Why the matter was determined to be a key audit matter?	How the matter was addressed in the audit?
Goodwill impairment test and its carrying value assessment	
As at December 31, 2018 the carrying value of goodwill amounted to RUB 8 778 million (2017: RUB 8 042 million). Further details are disclosed in Note 15 to the consolidated financial statements. We consider impairment of goodwill to be a key audit matter because impairment assessment using valuation techniques involves using significant estimates and assumptions, such as future selling price of railcars and their estimated production costs, future sales volumes and discount rate. In addition, estimated recoverable amount is highly sensitive to changes in the above mentioned assumptions.	We obtained an understanding of Group's goodwill impairment review processes and assessed impairment methodology for its compliance with the standards requirements. We performed the following audit procedures in respect to the goodwill impairment assessment and testing performed by the Group's management: • checked the appropriateness of goodwill allocation to the relevant cash generating units; • verified that the input data used in the impairment testing models is consistent with the approved budgets and forecasts; • with the assistance of our internal valuation specialists, challenged reasonableness of key assumptions used in management's forecasts, including the discount rate; • performed sensitivity analysis of the impairment models' key assumptions within the range of their reasonably possible changes; and • checked adequacy and completeness of the related disclosures in the consolidated financial statements.

Why the matter was determined to be a key audit matter?	How the matter was addressed in the audit?
Uncertainty related to going concern	
As at December 31, 2018 several subsidiaries of the Group did not comply with certain obligatory financial and non-financial covenants set out in the loan agreements. As a result, of non-compliance, the loans became payable on demand. Additionally, during 2018 and 2017 the Group incurred losses and as at December 31, 2018 its current liabilities, net of the loans with the breached default covenants, exceeded its current assets by RUB 22 486 million. The Group's management assessed the negative factors mentioned above and concluded that the going concern basis is appropriate due to the following: • after the reporting date the Group received official letters from creditor banks confirming their intention not to demand early repayment of the existing borrowings with the breached covenants; • after the reporting date a short-term restructuring of the debt portfolio was carried out and the Group received a preliminary approval from the bondholders for the maturity change of the BO 01 series commercial bonds with outstanding amount of RUB 15 000 million. The maturity date for bonds was postponed from the 3rd quarter 2019 to December 31, 2023; • the Group is in the process of restructuring of its loan portfolio and is negotiating a new set of covenants to the loan agreements with the main creditor. Further details are disclosed in Notes 2 and 25 to the consolidated financial statements. We focused on this area because the Group's ability to continue as a going concern has a pervasive effect on the consolidated financial statements. Significant judgment is required for evaluating the Group's future operating and financial performance, as well as the ability of the Group to complete the restructuring process and ensure compliance with the covenants in future.	We performed the following audit procedures: • analysed management's assessment of the appropriateness of going concern assumption, including evaluation of the Group's plans in respect of elimination of the negative effects of non-compliance with covenants as well as the Group's debt portfolio restructuring under such conditions that would allow to reduce the Group's indebtness and ensure its ability to settle short-term liabilities in due course; • verified that after the reporting date the Group received documents confirming intention of all of the creditor banks not to demand early repayment of the existing borrowings with breached covenants; • analysed management's forecasts in respect of the Group's future performance and assessed the reasonableness of key assumptions used in the forecasts; • verified completeness and adequacy of the related disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report and the issuer's quarterly reports for the 1st and 2nd quarters of 2019, but does not include the consolidated financial statements and our auditor's report thereon. We received the issuer's quarterly report for the 1st quarter of 2019 before the date of the auditor's report. The Annual report and the issuer's quarterly reports for the 2nd quarter of 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

If, based on our review of the Annual report and the issuer's quarterly reports for the 2nd quarter of 2019, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance IFRSs, and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

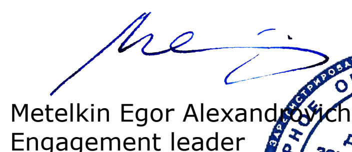
As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.



Metelkin Egor Alexandrovich
Engagement leader

May 23, 2019

Entity: PJSC RPC UWC

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

Primary state registration number: 1147746600539

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

Audit firm: AO Deloitte & Touche CIS

Certificate of state registration No. 018.482, issued by Moscow Registration Chamber on October 30, 1992.

Primary state registration number: 1027700425444

Certificate of registration in the Unified State Register No. 77 004840299 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No 39 on 13 November 2002

Member of Self-Regulated Organization Russian Union of Auditors (Association), ORNZ 11603080484.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED DECEMBER 31, 2018

(in millions of Russian Rubles, unless otherwise indicated)

	Notes	2018	2017
Revenue	7	76 443	62 020
Cost of sales	8	(66 774)	(52 073)
Gross profit		**9 669**	**9 947**
Selling, general and administrative expenses	9	(3 919)	(2 625)
Share of (loss)/profit of associates and joint ventures	16	(2)	370
Other operating income, net		75	38
Impairment of non-current non-financial assets	13,14	(1 580)	-
Operating profit		**4 243**	**7 730**
Finance income	10	1 764	2 449
Finance costs	11,22	(15 512)	(13 675)
Foreign exchange gain/(loss), net		51	(154)
Loss before income tax		**(9 454)**	**(3 650)**
Income tax expense	12	(323)	(875)
LOSS FOR THE YEAR		**(9 777)**	**(4 525)**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment	13	4 714	-
Deferred tax liability on revaluation of property, plant and equipment	12	(943)	-
Other comprehensive income		**3 771**	-
TOTAL COMPREHENSIVE LOSS		**(6 006)**	**(4 525)**
Loss per share			
Weighted average number of ordinary shares outstanding		115 996 689	115 122 662
Loss per share, RUB		(84)	(39)

The notes on pages 11-68 form an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
“RESEARCH AND PRODUCTION CORPORATION “UNITED WAGON COMPANY”

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(in millions of Russian Rubles, unless otherwise indicated)

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	13	82 784	80 237
Prepayments for property, plant and equipment and intangible assets		510	179
Intangible assets	14	6 109	6 732
Goodwill	15	8 778	8 042
Deferred tax assets	12	3 454	2 949
Investments in associates and joint ventures	16	1 154	1 175
Loans receivable	22	9 265	12 503
Prepayment for subsidiary acquisition	6	-	2 000
Long-term trade receivables from the sale of railcars	19	495	565
Finance lease receivables		-	201
Restricted cash	23	146	-
Other non-current assets	17	1 374	649
Total non-current assets		**114 069**	**115 232**
Current assets			
Inventories	18	11 812	12 118
Trade and other receivables	19	8 490	3 510
Finance lease receivables		-	23
VAT receivable		5 995	6 847
Prepayments to suppliers and other assets	21	4 969	3 341
Prepaid income tax		1 091	695
Investment in PTK Holding JSC		-	1 773
Loans receivable	22	92	56
Restricted cash	23	2 117	807
Short-term bank deposits	20	-	5 038
Cash and cash equivalents	23	10 871	3 799
Total current assets		**45 437**	**38 007**
TOTAL ASSETS		**159 506**	**153 239**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital issued	24	116	116
Additional paid-in capital	24	22 993	22 993
Reserve on revaluation of property, plant and equipment	13	12 936	9 171
Accumulated deficit		(28 550)	(18 579)
Total equity and reserves		**7 495**	**13 701**
Non-current liabilities			
Long-term loans and borrowings	25	44 000	75 215
Bonds	26	14 793	29 799
Long-term finance lease liabilities	29	18 282	156
Liability under a leaseback transaction with GTLK PJSC	29	4 967	-
Deferred tax liabilities	12	1 818	479
Accrued expenses for employee remuneration	28	150	156
Advances received	28	78	-
Total non-current liabilities		**84 088**	**105 805**
Current liabilities			
Short-term loans and borrowings	25	18 087	6 962
Bonds	26	15 640	671
Short-term finance lease liabilities	29	3 188	39
Liability under a leaseback transaction with GTLK PJSC	29	1 532	-
Trade and other payables	27	4 893	5 393
Advances received and other current liabilities	28	24 583	20 668
Total current liabilities		**67 923**	**33 733**
TOTAL LIABILITIES		**152 011**	**139 538**
TOTAL EQUITY AND LIABILITIES		**159 506**	**153 239**

The notes on pages 11-68 form an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(in millions of Russian Rubles, unless otherwise indicated)

	Share capital issued	Additional paid-in capital	Reserve on revaluation of property, plant and equipment	Accumulated deficit	Total equity
Balance at 1 January 2017	**113**	**21 169**	**9 193**	**(14 076)**	**16 399**
Loss for the year	-	-	-	(4 525)	(4 525)
Total comprehensive loss for the year	-	-	-	(4 525)	(4 525)
Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period	-	-	(22)	22	-
Issue of shares during additional public offering, net of issuance costs (Note 24)	3	1 824	-	-	1 827
Balance at 1 January 2018 (as previously reported)	**116**	**22 993**	**9 171**	**(18 579)**	**13 701**
Effect of change in accounting policy due to adoption of IFRS 9, net of tax effect (Note 3)	-	-	-	(200)	(200)
Balance at 1 January 2018 (as restated)	**116**	**22 993**	**9 171**	**(18 779)**	**13 501**
Loss for the year	-	-	-	(9 777)	(9 777)
Gain on revaluation of property, plant and equipment, net of tax effect (Note 13)	-	-	3 771	-	3 771
Total comprehensive loss for the year	-	-	3 771	(9 777)	(6 006)
Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period	-	-	(6)	6	-
Balance at 31 December 2018	**116**	**22 993**	**12 936**	**(28 550)**	**7 495**

The notes on pages 11-68 form an integral part of these consolidated financial statements.

PUBLIC JOINT STOCK COMPANY
"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 31 DECEMBER 2018
(in millions of Russian Rubles, unless otherwise indicated)

	2018	2017
OPERATING ACTIVITIES		
LOSS FOR THE YEAR	**(9 777)**	**(4 525)**
Adjustments for:		
Income tax expense	323	875
Depreciation and amortization	5 900	4 990
Impairment of non-current non-financial assets	1 580	-
Loss on disposal of property, plant and equipment and intangible assets	80	16
Write-down of inventories to net realizable price	298	75
Gain from the sale of railcars from the Group's own railcar fleet (Notes 7 and 8)	(908)	(1 976)
Share of loss/(profit) of associates and joint ventures	2	(370)
Effect of discounting of accounts receivable (Note 19)	24	165
Non-operating foreign exchange gain/(loss), net	(51)	154
Change in allowance for expected credit losses on accounts receivable	(6)	47
Finance costs	15 512	13 675
Finance income	(1 764)	(2 449)
Other adjustments	19	-
Operating profit before changes in working capital	**11 232**	**10 677**
Movements in working capital:		
Increase in trade and other receivables	(121)	(2 435)
(Increase)/decrease in prepayments to suppliers and other current assets	(2 164)	706
Decrease/(increase) in VAT receivable	855	(2 603)
Decrease/(increase) in inventories	193	(1 498)
Increase in trade and other payables	(234)	(2 633)
Increase in advances received and other current liabilities	4 082	7 181
Cash proceeds from operating activities	13 843	9 395
Cash proceeds from the sale of railcars from the Group's own railcar fleet (Notes 7 and 13)	3 292	14 088
Cash utilized to increase the Group's own railcar fleet (Notes 7 and 13)	(1 461)	(9 556)
Income tax paid	(1 576)	(2 169)
Finance costs paid	(12 590)	(15 258)
Net cash flows from/(used in) operating activities	**1 508**	**(3 500)**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, including prepayments	(1 986)	(2 890)
Purchase of investment property, including prepayments	(1 137)	-
Proceeds from disposal of property, plant and equipment	39	9
Purchase of intangible assets	(1 316)	(1 502)
Loans receivable	(38)	(3 989)
Placement of short-term deposits	-	(5 000)
Proceeds from repayment of loans receivable	621	6 311
Proceeds from redemption of short-term deposits	5 000	5 000
Interest received	1 559	1 184
Net cash outflow on acquisition of subsidiaries	(1 118)	(6 104)
Cash received from disposal of interest in an associate	1 773	-
Cash paid on acquisition of interest in an associate	-	(1 290)
Net cash generated from/(used in) investing activities	**3 397**	**(8 271)**
FINANCING ACTIVITIES		
Shareholders' capital contribution, net of issuance costs	-	1 827
Proceeds from loans and borrowings	14 500	44 372
Repayment of loans and borrowings	(34 506)	(34 524)
Purchase of own bonds	(6)	(70)
Proceeds from leaseback transactions (Note 29)	24 587	150
Finance lease payments (including leaseback), net	(1 028)	-
Cash deposited in accordance with covenants (Notes 23 and 25)	(2 220)	(807)
Redemption of cash deposited in accordance with covenants (Notes 23 and 25)	807	1 923
Net cash generated from financing activities	**2 134**	**12 871**
Net increase in cash and cash equivalents	**7 039**	**1 100**
Effect of foreign exchange changes including effect of revaluation of cash and cash equivalents	33	51
Cash and cash equivalents, beginning of the year	**3 799**	**2 648**
Cash and cash equivalents, end of the year	**10 871**	**3 799**

The notes on pages 11-68 form an integral part of these consolidated financial statements.

1. GENERAL INFORMATION

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

As at December 31, 2018, the Company is a holding entity for the group of companies (PJSC RPC UWC Group or the "Group") incorporated in the British Virgin Islands (the "BVI"), Cyprus, and the Russian Federation (the "RF").

Principal activities of the Group include:

- Production of railway cars at the manufacturing facility located in the town of Tikhvin, Leningrad region, Russian Federation, and their sale;
- Operating lease of railway cars;
- Rail transportation services.

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

Shareholders	**At 31 December 2018 Share, %**	**At 31 December 2017 Share, %**
Management Consulting LLC D.U.[1]	24.29%	8.14%
Management Company Sever Asset Management LLC	17.93%	15.91%
Concern Uralvagonzavod JSC	9.33%	-
Joint Stock Company Otkritie Holding	7.94%	7.94%
IQG Asset Management JSC (EFG Asset Management JSC)[2]	5.66%	5.66%
SIB (Cyprus) Limited	-	14.33%
Management Company Navigator Management LLC	-	11.56%
Other shareholders	34.85%	36.46%
Total	**100%**	**100%**

[1] Indirect ownership of Otkritie FC Bank PJSC through voting shares (24.29% as at December 31, 2018);
[2] Indirect ownership of Safmar Financial Investments PJSC through voting shares (5.66% as at December 31, 2018);

As at December 31, 2018 and 2017, the Group had no ultimate controlling party.

Information in respect of the Group's significant subsidiaries is disclosed in the table below:

Company name	Place of registration	Principal activities	Ownership interest in the Group At 31 December 2018	Ownership interest in the Group At 31 December 2017
Rail 1520 (BVI) LTD	BVI	Investment company	100%	100%
Rail 1520 Finance Cyprus LTD	Cyprus	Investment company	100%	100%
Rail 1520 Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL 1520 LLC	Russian Federation	Operating lease of railcars	100%	100%
Rail 1520 Service LTD	Cyprus	Investment company	100%	100%
Rail 1520 Service Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Service LLC	Russian Federation	Operating lease of railcars	100%	100%
Rail 1520 Cyprus Leasing LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Leasing LLC	Russian Federation	Finance lease of railcars	100%	100%
Rail 1520 Wagon Cyprus LTD	Cyprus	Investment company	100%	100%
TZK UWC LLC	Russian Federation	Sale of railcars, castings and components	100%	100%
Ovilleno Holdings LTD	Cyprus	Investment company	99%	99%
TyazhMash Joint Stock Company	Russian Federation	Production of railcars	99%	99%
VNICTT LLC	Russian Federation	Engineering and construction bureau	99%	99%
Trade House "UWC" LLC	Russian Federation	Sale of railcars, castings and components	99%	99%
Springs Industrial Technology Center LLC	Russian Federation	Production of springs	99%	99%
TM-Energo LLC	Russian Federation	Power generation	99%	99%
TM-Energoservice LLC	Russian Federation	Power generation	99%	-
TM-Energomash LLC	Russian Federation	Power generation	99%	-
TM-Energoprom LLC	Russian Federation	Power generation	99%	-
TAP Titran-Express JSC	Russian Federation	Repair/production of railcars	99%	99%
UW Forge Company LTD	Cyprus	Investment company	99%	99%
UWC Centrokuz LLC	Russian Federation	Production of railcars	99%	99%
Restadiana Ventures LTD	Cyprus	Investment company	99%	99%
Unikon 1520 LLC	Russian Federation	Organization of transportation of goods	99%	99%
RAIL 1520 Cyprus Management Company LTD	Cyprus	Investment company	100%	100%
UWC Finance LLC	Russian Federation	Issuance of debt securities	100%	100%
RAIL 1520 Tank Cars (BVI) Holding LTD	BVI	Investment company	100%	100%
RAIL 1520 Tank Cars Cyprus Holding LTD	Cyprus	Investment company	99%	99%
TikhvinChemMash Joint Stock Company	Russian Federation	Production of tank cars	99%	99%
TikhvinSpetsMash Joint Stock Company	Russian Federation	Production of platform cars	100%	100%
Holm Services Limited	BVI	Investment company	100%	100%
Pegadisa Management LTD	Cyprus	Investment company	100%	100%
RAIL 1520 IP LTD	Cyprus	Investment company	100%	100%
Raygold Limited	Cyprus	Investment company	99.97%	99.97%
AFCT Advanced Freight Car Technology Limited	Cyprus	Development of production technology for the plant	99.97%	99.97%
DEANROAD Limited	Cyprus	Development of production technology for the plant	98.97%	98.97%
Tikhvin Railway Car Building Plant Joint Stock Company (TVSZ JSC)	Russian Federation	Production of railcars	99.97%	99.97%
United Wagon Europe GmbH	Germany	Investment company	99.97%	-
Uniwagon North America Corp	USA	Investment company	100%	100%
Starfire Engineering, Inc.	USA	Engineering and construction bureau	100%	100%
Rail Holding LTD	BVI	Investment company	100%	100%
Rail 1520 Invest LLC	Russian Federation	Operating lease of railcars	100%	-
SZIPK CJSC*	Russian Federation	Operating company providing utilities	99%	-

*Acquired in 2018 (Note 6).

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

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

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

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

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

Going concern assumption

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

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 the Group's subsidiaries breached a number of financial and non-financial covenants stipulated in loan agreements which could result in negative consequences for the Group, including declaration of default (Note 25). As at December 31, 2018 a long-term portion of loans under such agreements with Otkritie FC Bank PJSC and Gazprombank (JSC) amounted RUB 16 845 million and RUB 6 000 million, respectively.

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 RUB 22 486 million and consolidated loss amounted to RUB 9 777 million in the year 2018 (2017: RUB 4 525 million).

After the reporting date but before the date of approval of these consolidated financial statements, the Group received an official letter from Gazprombank confirming that it will not demand an early repayment of the loans with the breached covenants. The Group did not receive such letter from Otkritie FC Bank PJSC, as the breaches of covenants under loans with this bank will be remedied as part of the Group's comprehensive debt portfolio restructuring, as described below.

At the date of approval of these consolidated financial statements, the Group was at the final stage of the debt portfolio restructuring project from one of its major creditors, Otkritie FC Bank PJSC. The portfolio restructuring project provides for the following arrangements to reduce the Group's short-term indebtness and ensure its ability to settle short-term liabilities in due order:

- On February 18, 2019, the bank's credit committee issued a decision that preliminarily approved a change of maturity of the BO 01 series commercial bonds with outstanding amount of RUB 15 000 million. The maturity date was postponed from September 10, 2019 to December 31, 2023, and the coupon rate was decreased to 9.55% (the weighted average coupon rate was 12.29% during 2018);
- In March 2019, the Group signed addendums to its loan agreements with Otkritie FC Bank PJSC. Those changes reduced rates to a fixed rate of 9.55%, postponed the payment date of interest accrued in 2019 by one quarter and postponed the payment of short-term portion of loan (including future interest expenses) of RUB 2 796 million by one quarter.

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

In addition based on management forecasts, the minimum expected production level at TVSZ JSC, TikhvinChemMash CJSC and TikhvinSpetsMash CJSC in 2019 will be between 19 - 19.5 thousand railcars (actual production in 2018 was 19.7 thousand railcars). The management of the Group expects stable demand for the innovative railcars in 2019: as at the date of approval of these consolidated financial statements, the Group has entered into contracts or made preliminary arrangements for sale of the whole volume of railcars planned for production in 2019, and partially in 2020, at prices on average 15% higher than in 2018, mainly due to an increase in production of special-purpose railcars. In 2019 and beyond, the Group does not expect a significant decrease of demand for the railcars and plans to increase its gross and operating profit by reduction of administrative expenses and increasing the production efficiency.

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

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 companies of the Group is the Russian Ruble ("RUB"). The presentation currency of the consolidated financial statements is the Russian Ruble. These consolidated financial statements are presented in millions of Russian rubles ("RUB million"), except when otherwise indicated.

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.

Foreign currency transactions

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

Exchange rates used in the translation were as follows:

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

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through 31 December 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.

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

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

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.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their:

- Previous carrying amount; and
- Fair value less costs to sell.

Intangible assets

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

Internally-generated intangible assets – research and development expenditure.

The Group recognizes internally-generated intangible assets (which are mainly represented by research and development expenditure) when it can demonstrate all of the following:

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

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

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

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

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

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

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

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

Property, plant and equipment

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

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

Starting from 30 June 2016 items of property, plant and equipment from Group 1 are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequently accumulated depreciation and impairment losses. Property, plant and equipment carried at revalued cost were last revalued on 30 June 2018 (Note 13).

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

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

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

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

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

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

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

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

	Useful life, years
Office equipment and furniture	1-15
Production equipment and motor vehicles	1-30
Railcars	22-40
Production plant and buildings	1-60

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

Spare parts

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

Investment property

Investment property is property held to earn rental income and/or for capital appreciation (including property under construction). Investment property is initially measured at cost, including acquisition costs. Subsequently investment property is measured at fair value. The Group uses the cost model for initial recognition and accordingly all investment property items are recognized in accordance with IAS 16, except items that meet the criteria to be classified as held for sale (or are included in the group of assets that meets the criteria to be classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Investment properties that meet the criteria to be classified as held for sale (or are included in the group of assets that meets the criteria to be classified as held for sale) are measured in accordance with IFRS 5.

An investment property is derecognized upon disposal or when an investment property is permanently withdrawn from use and no future economic benefits are expected from the property. The difference between net disposal proceeds and carrying amount of an investment property included in the consolidated statement of profit or loss and other comprehensive income in the reporting period in which the property is disposed.

Inventories

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

Impairment of non-financial assets

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

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

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

An impairment loss is recognized immediately in the consolidated statement of profit or loss and other comprehensive income.

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.

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.

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.

Provisions

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

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

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated 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.

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;
- Rail-based freight transportation services.

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;
- Income from the sales of rail-based freight transportation services is recognized in the reporting period when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The Group recognizes revenue in the amount of fees for the provision of rolling stock, while charges for railway infrastructure services (railway freight tariff of PJSC Russian Railways) are borne directly by the customers;
- Revenue from the sale of inventories is recognized upon transfer of control to a customer in accordance with the respective contract with the customer. Some contracts provide for the delivery of goods to the customer, others release the Group from the obligation to pay for the delivery to the customer. The Group reviews the moment of transfer of control under each significant inventory sales contract separately, as the sales contracts for components and casting are concluded on an individual basis.

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 included into the price until they are ready for the planned use or sale.

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

Share capital

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

Additional paid-in capital

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

Loans receivable from the parent

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

Employee benefits

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

In the Russian Federation, all payments to extra-budgetary funds including contributions to the State Pension Fund are collected through social security charges calculated by the application of a rate from 10% to 30% to the annual gross remuneration of each employee. The rate of the contribution to the State Pension Fund of the Russian Federation varies from 10% to 22%. If the annual gross remuneration of an employee exceeds the limit of RUB 1 021 thousand (2018 limit) the rate of 10% is applied to the excess amount to determine the amount of the respective contributions. In 2018 contributions were limited to the employee's income threshold of RUB 815 thousand, upon the achievement of which contributions are not charged.

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

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

The Group's financial assets comprise cash and cash equivalents, short-term bank deposits, 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*.

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 receivables	Loans and receivables	At amortized cost
Short-term bank deposits	Loans and receivables	At amortized cost
Cash and cash equivalents	At amortized cost	At amortized cost

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

As at 1 January 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:

	1 January 2018 (as previously reported)	**IFRS 9 adoption**	**1 January 2018 (as restated)**
Non-current assets			
Loans receivable	12 503	(200)	12 303
Change in accounting policy due to IFRS 9 adoption		**(200)**	

IFRS 15 Revenue from Contracts with Customers

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

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

In accordance with IFRS 15 transition rules, the Group's management assessed the impact of IFRS 15 on the consolidated statements and concluded that the 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 1 January 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 related to financing component (Note 11).

Standards and interpretations that have been issued, but not yet effective

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

Based on a preliminary analysis of the Group's leases as at 1 January 2019 and the facts and circumstances known at that date, the Group's management estimated lease liabilities to range from RUB 1 000 million to RUB 1 600 million.

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, plant, and equipment

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

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

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

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

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

Impairment of goodwill and intangible assets with indefinite useful lives

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

Allocation of goodwill to CGUs is disclosed in Note 15. Intangible assets with indefinite useful lives were allocated to CGU "Production" which represents operating segment "Production".

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

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

The results of the impairment test in respect of intangible assets with indefinite useful life and goodwill, as well as estimates used by the Group in performing those tests, are disclosed in Notes 14 and 15, 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. Provisions for bonuses and other employee compensations that depend on certain performance indicators of the Group are also subject to uncertainty. Among other assumptions, the Group's management makes assumptions about the likelihood of adverse outcome and the possibility for making reliable estimates of related costs or losses. Unexpected events or changes in such assumptions may require the Group increase or decrease the existing allowance or create an allowance for events that have not been previously considered probable. Provisions accrued at the reporting date and contingencies are further disclosed in Notes 28 and 31.

Critical judgments 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 rail cars (previously leased out by the Group under the operating leases) with the new generation of railcars manufactured by the Group. Accordingly, a portion of railcars manufactured during the year ended 31 December 2017 were transferred to property, plant and equipment and leased out 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 lessee 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 years ended 31 December 2017 and 2018, in particular the sales of railcars item of the respective disclosure (Note 7). 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 8).

In preparing the consolidated statement of cash flows, the Group's management considered requirements of IAS 7, which specifies that cash payments made to produce 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 production/ (acquisition) of railcars and received from the sale of own railcars are included in operating activities in the consolidated statement of cash flows.

Timing of revenue recognition for sales of railcars to PJSC GTLK in 2016

On December 19, 2016 the Group entered into a tripartite agreement for sale of 2 312 innovative railcars for the amount of RUB 6 589 million with Public Joint Stock Company "State Transport Leasing Company" (PJSC GTLK or the "Buyer") and Vostok 1520 LLC (the Lessee), whereby the buyer of the railcars is PJSC GTLK, and the physical receiver of railcars is Vostok 1520 LLC in accordance with the finance lease agreement, concluded between PJSC GTLK (the Lessor) and Vostok 1520 LLC (the Lessee). Under the terms of the sales agreement, PJSC GTLK paid a 100% advance in December 2016, while delivery of the railcars under the contract was due to take place until January 31, 2017 after receiving of consent from the Federal Antimonopoly Service ("FAS"), if such consent is required by virtue of the current legislation of the Russian Federation. The reply from the FAS was received on 21 February 2017, confirming the absence of requirements for the coordination of such a transaction by the FAS, and the acts of acceptance for the transfer of railcars were signed in March 2017. These railcars were produced by the Group in the second and third quarters of 2016 and were leased to Vostok 1520 LLC under operating lease contract.

Management of the Group carried out an analysis of the fulfillment of the revenue recognition criteria set out in IAS 18 and concluded that revenue should be recognized in 2016, as an agreement to sell these cars was reached in 2016 and cash was collected in full. At the same time, the probability of the negative decision by FAS was deemed minimal, and therefore not taken into account for the analysis.

If the Group recognized the sale in 2017, the effect on the consolidated financial statements for the year ended December 31, 2017 would be as follows:

Consolidated financial statement line item	**As reported in 2017**	**The effect if the sale would be recognized in 2017**	**Would be reported in 2017 if the sale was recognized in 2017**
Revenue	62 020	6 589	68 609
Cost of sales	(52 073)	(5 374)	(57 447)
Income tax expense	(875)	243	632
Loss for the year from continuing operations	**(4 525)**	**972**	**(3 553)**

5. SEGMENT INFORMATION

The Group is divided into business units on the basis of goods manufactured and services rendered, and incorporates two reporting segments:

- The *Production* segment is involved in manufacturing and sale of railway cars;
- The *Lease* segment provides operating lease of railway cars.

The Group's principal business activities are within the Russian Federation. Other activities of the Group do not constitute a separate reporting segment and are included in "Other segments". Accounting principles of the reportable segments are consistent with the Group accounting policies described in Note 2. The Group's management assesses performance of operating segments based on profit before tax adjusted for the following amounts in the consolidated statement of profit or loss and other comprehensive income ("EBITDA"):

- Finance costs (Notes 11 and 22);
- Finance income (Note 10);
- Foreign exchange gain/(loss), net;
- Depreciation and amortization of property, plant, and equipment and intangible assets (Notes 8 and 9);
- Impairment of non-current non-financial assets (Notes 13 and 14).

This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

31 December 2018	Production segment	Lease segment	Other segments	Total segments	Adjust-ments and elimina-tions	Consolida-ted
Revenue	**67 077**	**6 900**	**5 109**	**79 086**	**(2 643)**	**76 443**
including inter-segment revenue	1 482	122	4 066	5 670	(5 670)	-
Cost of sales, including:	**(63 853)**	**(1 701)**	**(5 769)**	**(71 323)**	**4 549**	**(66 774)**
- Inventories	(45 874)	(33)				
- Payroll	(7 207)	-				
- Property tax	(150)	(148)				
- Maintenance and repairs of railcars[1]	(486)	(264)				
- Depreciation and amortization	(4 625)	(1 104)				
- Write-down of inventories to net realizable value	(255)	(54)				
- Other	(5 256)	(98)				
Selling, general and administrative expenses	(1 376)	(1 254)	(473)	(3 103)	(816)	(3 919)
Other operating income, net	43	3	(5)	41	34	75
Share of (loss)/profit of associates and joint ventures	(98)	96	-	(2)	-	(2)
Depreciation and amortization	4 660	1 104	231	5 995	(95)	5 900
EBITDA	**6 453**	**5 148**	**(907)**	**10 694**	**1 029**	**11 723**
Finance income	172	4 458	6 250	10 880	(9 116)	1 764
Finance costs	(5 983)	(11 684)	(7 006)	(24 673)	9 161	(15 512)
Impairment of non-current non-financial assets	(1 580)	-	-	(1 580)	-	(1 580)
Depreciation and amortization						(5 900)
Foreign exchange gain, net						51
Loss before income tax						**(9 454)**

31 December 2017	Production segment	Lease segment	Other segments	Total segments	Adjust-ments and elimina-tions	Consolida-ted
Revenue	**54 742**	**6 146**	**3 271**	**64 159**	**(2 139)**	**62 020**
including inter-segment revenue	12 944	16	3 010	15 970	(15 970)	-
Cost of sales, including:	**(48 786)**	**(1 900)**	**(3 816)**	**(54 502)**	**2 429**	**(52 073)**
- Inventories	(32 319)	(8)				
- Payroll	(6 644)	-				
- Property tax	(64)	(123)				
- Maintenance and repairs of railcars	(406)	(397)				
- Depreciation and amortization	(4 659)	(1 302)				
- Write-down of inventories to net realizable value	(94)	-				
- Other	(4 598)	(68)				
Selling, general and administrative expenses	(1 176)	(416)	(409)	(2 001)	(624)	(2 625)
Other operating income, net	408	38	(50)	396	(358)	38
Share of profit of associates and joint ventures	(140)	21	488	369	-	369
Depreciation and amortization	4 658	1 302	241	6 201	(1 210)	4 991
EBITDA	**9 708**	**5 193**	**(276)**	**14 625**	**(1 906)**	**12 719**
Finance income	32	5 820	7 818	13 670	(11 222)	2 448
Finance costs	(5 814)	(10 451)	(8 759)	(25 024)	11 349	(13 675)
Depreciation and amortization						(4 991)
Foreign exchange loss						(153)
Loss before income tax						**(3 651)**

[1] The cost of maintenance and repairs of railcars in the *Production* segment comprises the cost of railcar repair services sold by the segment, including the cost of inventories, payroll and other costs.

Breakdown of the Group's revenue by main types of sold products and rendered services is presented in Note 7.

In 2017 the Group decided to replace the old railcar fleet. Revenue from the sale of old railcars amounted to RUB 14 088 million; their carrying value at the date of sale was RUB 12 112 million (Notes 7 and 8) and the effect on the EBITDA amounted to RUB 1 976 million. The cost of new railcars amounted to RUB 9 900 million. Intersegment revenue from the transfer of the railcars from the *Production* segment to the *Lease* segment amounted to RUB 12 412 million, and the effect on EBITDA amounted to minus RUB 3 722 million. Both of these transactions are disclosed in the *Adjustments and Eliminations* section and their total effect on EBITDA amounted to minus RUB 1 746 million.

In 2018, revenue from the sale of the Group's own railcars amounted to RUB 3 408 million; their carrying value at the date of sale was RUB 2 500 million; and the effect on the EBITDA amounted to RUB 908 million. In 2018, new railcars were produced and transferred to the *Lease* segment for subsequent lease out. The intersegment revenue from the transfer was RUB 1 112 million; the cost of production was RUB 1 157 million; and the effect on EBITDA was RUB 45 million. These transactions are disclosed in the *Adjustments and Eliminations* section and their total effect on EBITDA amounted to RUB 953 million in 2018.

In 2018 and 2017, the key external customer of the *Production* segment was PJSC GTLK, which accounted for 58% and 56% of the segment's external sales, respectively. In 2018, the key external customers of the *Lease* segment were Vostok 1520 LLC and SUEK OJSC, which accounted for 65% and 21% of the segment's external sales, respectively. In 2017, the sales to these customers accounted for 43% and 21% of the segment's external sales, respectively.

Revenue in other segments includes intragroup sales of railcar components by Springs Industrial Technology Center LLC, intragroup sales of rights to R&D results and patents by VNICTT LLC and management services provided by PJSC RPC UWC.

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

6. ACQUISITION OF COMPANIES

SZIPK CJSC

In the second quarter of 2017, the Group entered into an agreement for the acquisition of 100% shares of SZIPK CJSC from one of its shareholders, the ICT Group, and made an advance payment in the amount of RUB 2 000 million, which was recorded in the respective line of the consolidated statement of financial position as at December 31, 2017. As at December 31, 2018 the Group repaid the full amount in accordance to the acquisition agreement of RUB 3 200 million. The Group obtained control over the acquired company in September 2018, upon the completion of the relevant registration procedures. Accordingly, the company was included in the Group as of 11 September 2018.

SZIPK CJSC is an operating company that provides heat and power supplies for the Group's Tikhvin manufacturing facility, performs internal transfers within the facility, and leases production and offices premises to the Groups subsidiaries.

The acquisition was accounted for using preliminary fair values of assets and liabilities acquired as provisional values. The Group is in the process of obtaining a third party valuation report on the fair value of the assets and liabilities acquired including obtaining third-party valuation of the property, plant and equipment, and accordingly, these amounts are preliminary and subject to change.
Provisional value of assets and liabilities of SZIPK CJSC at the acquisition date is presented below:

	Provisional value at the acquisition date
Property, plant and equipment	3 125
Deferred tax assets	15
Inventories	29
Long-term loans receivable	555
Trade receivables	673
Advances paid and other current-assets	20
VAT receivable	3
Cash and cash equivalents	82
Total assets	**4 502**
Long-term loans	(1 477)
Deferred tax liabilities	(462)
Trade and other payables	(53)
Advances received and other current liabilities	(46)
Total liabilities	**(2 038)**
Net assets acquired	**2 464**
Goodwill arising on acquisition	**736**
Total purchase consideration	**3 200**
Cash and cash equivalents of subsidiaries acquired	(82)
Prepayment for subsidiary acquisition	(2 000)
Net outflow of cash and cash equivalents on the acquisition date	**1 118**

The preliminary goodwill arising on acquisition was due to expected synergies since the acquired company is located on the same site as the Group's main manufacturing companies and SZIPK's operations are focused on the provision of services to the companies of the Group.

The subsidiary was acquired in late 2018 and, therefore, did not contribute any significant revenue or profit/ (loss) to the Group's consolidated profit or loss for 2018.

In 2018 most of sales of SZIPK CJSC were done to subsidiaries of the Group and, therefore, if the acquisition had occurred on 1 January 2018, the Group's consolidated revenue for 2018 would not have changed significantly and the Group's consolidated loss would have decreased by RUB 48 million.

7. REVENUE

The Group's revenue comprised the following:

	2018	2017
Sales of railcars	64 785	55 106
including sales as part of the fleet replacement program	*3 408*	*14 088*
Operating lease of railcars	6 702	6 126
Sales of castings, components and other inventories (incl. spare parts)	3 394	300
Revenue from repair services	304	111
Rail transportation services	678	100
Other	580	277
Total revenue	**76 443**	**62 020**

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 RUB 12 112 million (Note 13) were transferred from property, plant and equipment to inventories and sold to third parties. The largest customer was Federal Freight Company JSC. The total amount of revenue received by the Group from the sale of these cars was included in the sales of railcars item and amounted to RUB 14 088 million for the year ended 31 December 2017. In 2018, the Group's management decided to sell the Group's own fleet of railcars with a carrying values of RUB 2 500 million to third parties. The revenue from the sale amounted to RUB 3 408 million.

8. COST OF SALES

The Group's cost of sales comprised the following:

	2018	2017
Raw materials used in production	44 011	25 226
Carrying value of railcars sold as part of the fleet replacement program (Note 7)	2 500	12 112
Payroll and social contributions	7 508	5 268
Depreciation and amortization	5 836	4 949
Write-down of inventories to net realizable price	298	75
Property tax	296	165
Empty freight costs	258	44
Railcar repair and maintenance	188	203
Other	5 879	4 031
Total cost of sales	**66 774**	**52 073**

In 2017 the *Raw Materials Used in Production* line included government grants received by several subsidiaries of the Group to partially reimburse costs attributable to the production and purchase of innovative freight railcars in the amount of RUB 692 million. In 2018 no such grants were provided to the Group. In 2017 the *Other* line included grants for the compensation of certification costs in foreign markets in the amount of RUB 11 million (in 2018 no such grants were provided to the Group).

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses comprised the following:

	2018	2017
Payroll, social contributions and other staff costs	1 983	1 075
Information and consulting services	462	410
Leases	387	357
Transportation costs for the delivery of railcars to the buyer	185	29
Railcar-sales related costs	175	119
Advertising expenses	71	87
Other	656	548
Total selling, general and administrative expenses	**3 919**	**2 625**

Transportation costs for the delivery of railcars to the buyer were decreased by the amount of grants of RUB 86 million received in 2018 (2017: RUB 96 million) being a compensation of transportation costs related to export sale of railcar.

10. FINANCE INCOME

The Group's finance income comprised the following:

	2018	2017
Interest income on loans receivable	910	1 407
Interest income on deposits, cash and equivalents	800	963
Interest income from accounting of financial assets using the effective interest rate (accounts receivable)	54	79
Total finance income	**1 764**	**2 449**

11. FINANCE COSTS

The Group's finance costs comprised the following:

	2018	2017
Interest expense on loans and borrowings	8 386	9 865
Interest expense on bonds	2 673	3 133
Increase in allowance for expected credit losses on loans receivable (Note 22)	1 759	-
Interest expense on finance lease transactions (Note 29)	1 072	-
Cost of guarantees and sureties	993	875
Significant financing component of contracts with customers	297	-
Bank commissions	344	332
Government grants	(7)	(577)
Interest expense on liabilities for acquisition of subsidiaries	-	184
Less: amounts included in the cost of qualified assets:		
Capitalized interest expense	(5)	(137)
Total finance costs	**15 512**	**13 675**

The Group receives subsidies for partial compensation of the interest payable on bank loans used for the acquisition and production of innovative railcars.

In 2018 and 2017, the *Bank Commissions* line included expenses related to write-off of bank commissions and other expenses related to early repayment of bank loans totaling RUB 134 million and RUB 118 million, respectively.

12. INCOME TAX

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

	2018	2017
Current income tax expense	(1 071)	(2 039)
Adjustment of income tax for prior years	192	(41)
Deferred income tax benefit	556	1 205
Income tax expense for the year	**(323)**	**(875)**

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

- RF – 20%;
- BVI – 0%;
- Cyprus – 12.5%;
- USA – 28%.

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

	2018	2017
Loss before income tax	**(9 454)**	**(3 650)**
Theoretical tax credit at statutory tax rate: 20%	1 891	730
Tax effect of items which are not deductible or assessable for taxation purposes:		
Unrecognized tax losses of Russian and foreign subsidiaries of the Group	(760)	(301)
Effect of different income tax rates and taxation rules applicable to foreign subsidiaries of the Group	(1 604)	(1 254)
Adjustment of income tax for prior years	192	(41)
Share of profit of associates and joint ventures	-	74
Other items	(42)	(83)
Income tax expense	**(323)**	**(875)**

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

As at December 31, 2018 and 2017 net deferred tax assets are presented as follows:

	2018	2017
Tax losses carried forward in Russian companies of the Group	5 955	6 047
Finance lease liabilities	4 438	-
Accruals	320	183
Trade and other receivables	78	50
Inventories	(109)	(137)
Property, plant and equipment	(8 917)	(3 384)
Intangible assets	(173)	(298)
Other	44	9
Deferred tax asset, net	**1 636**	**2 470**

The movements in deferred tax during the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Deferred tax asset at the beginning of the year, net	2 470	1 265
Deferred tax benefit	556	1 205
Deferred tax liability acquired through business combination	(447)	-
Deferred tax liability on revaluation of property, plant and equipment	(943)	-
Deferred tax asset at the end of the year, net	**1 636**	**2 470**

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 asset	3 454	2 949
Deferred tax liability	(1 818)	(479)
Deferred tax asset, net	**1 636**	**2 470**

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.

As at December 31, 2018 the Group did not recognize deferred tax assets of RUB 493 million in respect of unused tax loss carry forwards of a subsidiary as the management is not certain that these assets will be recovered in full.

13. PROPERTY, PLANT AND EQUIPMENT

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

	Railcars[2]	Equipment and motor vehicles	Production plant and buildings	Office equipment and furniture	Construction in progress[1]	Total
Cost or revalued amount						
At 1 January 2017	**38 955**	**33 283**	**23 478**	**314**	**1 765**	**97 795**
Additions	-	-	-	-	14 155	14 155
Transfers	640	3 551	940	54	(5 185)	-
Transfer of railcars from inventories	532	-	-	-	-	532
Disposals	(55)	(82)	(5)	(7)	(14)	(163)
Railcar fleet replacement (additions)	9 900	-	-	-	(9 900)	-
Railcar fleet replacement (sales)	(16 610)	-	-	-	-	(16 610)
At 31 December 2017	**33 362**	**36 752**	**24 413**	**361**	**821**	**95 709**
Additions	128	1	-	1	3 242	3 372
Transfers	-	1 668	238	46	(1 952)	-
Acquisition of companies	-	705	2 400	10	10	3 125
Disposals	(90)	(80)	-	(2)	(68)	(240)
Gain on revaluation	-	2 246	2 468	-	-	4 714
Netting of accumulated depreciation on revaluation	-	(7 738)	(1 500)	-	-	(9 238)
Railcar fleet replacement (additions)	1 333	-	-	-	(1 333)	-
Railcar fleet replacement (sales)	(3 745)	-	-	-	-	(3 745)
Other internal transfers	(3 610)	-	-	-	-	(3 610)
At 31 December 2018	**27 378**	**33 554**	**28 019**	**416**	**720**	**90 087**
Accumulated depreciation and impairment						
At 1 January 2017	**11 463**	**2 204**	**336**	**213**	**(51)**	**14 165**
Depreciation charges	1 287	3 802	742	60	-	5 891
Disposals	(18)	(59)	(2)	(7)	-	(86)
Railcar fleet replacement (depreciation)	(4 498)	-	-	-	-	(4 498)
At 31 December 2017	**8 234**	**5 947**	**1 076**	**266**	**(51)**	**15 472**
Depreciation charges	1 101	3 567	848	72	-	5 588
Disposals	(11)	(2)	-	(1)	-	(14)
Railcar fleet replacement (depreciation)	(1 245)	-	-	-	-	(1 245)
Netting of accumulated depreciation on revaluation	-	(7 738)	(1 500)	-	-	(9 238)
Impairment loss	-	350	-	-	-	350
Other internal transfers	(3 610)	-	-	-	-	(3 610)
At 31 December 2018	**4 469**	**2 124**	**424**	**337**	**(51)**	**7 303**
Net book value						
At 31 December 2017	**25 128**	**30 805**	**23 337**	**95**	**872**	**80 237**
At 31 December 2018	**22 909**	**31 430**	**27 595**	**79**	**771**	**82 784**

[1] Construction in progress includes primarily expenses for the construction of the railway car manufacturing plant and equipment being prepared for installation.
[2] As at December 31, 2018 the *Railcars* group of property, plant and equipment includes railcars with a carrying value totaling RUB 1 157 million 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.

Information on capitalized borrowing costs and interest rates used for calculation is presented in Note 11. Information on property, plant and equipment pledged as collateral is disclosed in Notes 25 and 29. As at December 31, 2018 railcars with a carrying value totaling RUB 21 357 million were leased under a finance lease agreement, (Note 29).

Subsidies granted to the Group for the production of railcars

Total expenses incurred by the Group in connection with the production of railcars, which were transferred to property, plant and equipment during 2017 and held for subsequent leases as at December 31, 2017 were reduced by RUB 987 million of government grants received by the Group as compensation for the costs of production and acquisition of innovative railcars. In 2018, no such subsidies were granted to the Group.

Property, plant and equipment carried at revalued amounts

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

The key assumptions used in the valuation as at 30 June 2018 were the degree of deterioration (34% at revaluation date) and the replacement cost. Even a slight increase in the degree of deterioration will result in significant decrease in fair value of property, plant and equipment, and slight increase in the replacement cost will result in significant increase in fair value of the assets.

The majority of revalued property, plant and equipment items are special-purpose assets, thus, no direct substitutes are available on the market and therefore an independent appraiser applied the method of indexation of costs incurred during construction, acquisition or installation of the assets to estimate the replacement cost. Considering the unique characteristics of the revalued items, assumptions used in assessment of fair value, and level of observable input data, the fair value was categorized into Level 3.

Details of the Group's revalued items of property, plant and equipment and information about the fair value hierarchy as at the reporting period were as follows:

	Level 1	**Level 2**	**Level 3**	**Fair value as at December 31, 2018**
Production equipment and motor vehicles	-	-	30 707	30 707
Production plant and buildings	-	-	25 080	25 080

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

	31 December 2018	**31 December 2017**
Production equipment and motor vehicles	20 647	23 379
Production plant and buildings	18 219	18 657

14. INTANGIBLE ASSETS

The Group is engaged in research and development of freight rolling stock technologies. Intangible assets at the development stage include capitalized expenses for development of casting and railway car building technologies for future use in production of the new generation railway cars in the town of Tikhvin.

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

	Intangible assets at the development stage	**Know-how and patents**	**Software**	**Total**
Cost				
At 1 January 2017	**1 688**	**4 800**	**378**	**6 866**
Additions	988	190	100	1 278
Disposals	(6)	(3)	-	(9)
Transfers	(644)	639	5	-
At 31 December 2017	**2 026**	**5 626**	**483**	**8 135**
Additions	721	156	252	1 129
Disposals	(9)	(2)	-	(11)
Transfers	(893)	893	-	-
At 31 December 2018	**1 845**	**6 673**	**735**	**9 253**
Accumulated amortization and impairment				
At 1 January 2017	-	**903**	**110**	**1 013**
Depreciation charge	-	309	81	390
At 31 December 2017	-	**1 212**	**191**	**1 403**
Depreciation charge	-	437	74	511
Impairment loss	1 206	24	-	1 230
At 31 December 2018	**1 206**	**1 673**	**265**	**3 144**
Residual value				
At 31 December 2017	**2 026**	**4 414**	**292**	**6 732**
At 31 December 2018	**639**	**5 000**	**470**	**6 109**

Intangible assets pledged as collateral are disclosed in Note 25.

Internally generated intangible assets

As at December 31, 2018 and 2017, the historical cost of internally generated intangible assets was RUB 2 495 million and RUB 3 045 million, respectively. The respective accumulated amortization as at December 31, 2018 and 2017 was RUB 75 million and RUB 25 million, respectively. The total amount of additions of internally generated intangible assets in 2018 and 2017 amounted to RUB 610 million and RUB 980 million with amortization charges of RUB 50 million and 11 million, respectively.

Patents

In 2018 and 2017, the Group registered a number of patents in the amount of RUB 63 million and RUB 30 million, respectively, in respect of exclusive rights to industrial designs and technical specifications. Registered patents were transferred from intangible assets under development to know-how and patents in the respective reporting periods.

Software

In 2018 and 2017, the Group acquired a license pack for SAP ERP system. Total capitalized costs amounted to RUB 198 million and RUB 75 million, respectively. SAP licenses are included in the *Software* item of this note, together with the ERP system implemented at TVSZ JSC.

Impairment of intangible assets

In 2018, in the course of the annual impairment testing of intangible assets with indefinite useful lives and assets under development, the Group identified indicators of impairment of several assets. In 2018, the Group recognized impairment loss in the consolidated statement of profit or loss and other comprehensive income of RUB 1 230 million (with RUB 1 161 million of which attributable to the Group's internal developments).

Determining and revising useful life

On 1 January 2018 the Group reconsidered the useful lives of its intangible assets. As a result, the residual useful life for assets previously recognized as assets with indefinite useful lives was set to 43 years, which is equal to the average residual life of immovable property used by the Group for the production of railway cars at the manufacturing facility. As at 1 January 2018 the carrying value of such assets totaled RUB 2 066 million with the respective depreciation charged for 2018 totaling RUB 59 million.

15. GOODWILL

The carrying value of goodwill was allocated to the following cash-generating units ("CGUs"):

	Carrying value	
	31 December 2018	**31 December 2017**
CGU – "Production":		
TM-Energo LLC	5 436	5 436
TAP Titran-Express JSC	2 498	2 498
SZIPK CJSC	736	-
TVSZ JSC	108	108
Total goodwill	**8 778**	**8 042**

In 2018 the Group acquire SZIPK CJSC (Note 6). The acquisition was recognized at provisional values of assets and liabilities. The preliminary estimated goodwill arising on the acquisition of SZIPK CJSC was allocated to CGU *Production*.

As at December 31, 2018 CGU *Production* represented the lowest level within the Group at which the goodwill is monitored for internal management and management reporting purposes. Neither before nor after the aggregation of the CGU *Production* had this CGU exceeded the *Production* reporting segment (Note 5).

Information about annual impairment test

At 31 December 2018 the Group performed an impairment test of goodwill. For this purpose, the recoverable amount of the CGU *Production* was calculated based on value in use approach. The calculation uses cash flow projections based on actual operating results and business plan approved by management and corresponding discount rate, which reflects time value of money and risks associated with the Group's operations.

The key assumptions that management used in their value in use calculation as at December 31, 2018 were as follows:

- Forecasted cash flows are based on the Group's business plan for 2019-2023, approved by management. The production plan takes into account long-term trends developed in 2018 and provide a significant reallocation of manufacturing capacities to production of hopper cars, special-purpose cars and platforms. In addition, as of 2019, gross margins are expected to increase due to the introduction of more expensive new models of tanks and special-purpose rolling stock. In the medium term, the production of advanced models will allow to achieve gross margin targets;
- The Group calculated the average selling prices for railcars for 2019 on the basis of the current price lists and contracts for the sale of finished products actually concluded by the Group. The average cost of railcars production until the end of 2019 is based on the company's forecasts of raw materials and rates under the current supply contracts;
- Cash flows for 2020-2023 were determined by extrapolation using a growth rate equal to 1% per quarter, which is estimated based on historical experience and expectations of market development, expected production volumes and railcar selling prices in 2020 (4% annual growth rate).
- Cash flows after 2023 were determined by extrapolation using a steady growth rate equal to 3.5% per year, which reflects the forecasted long-term growth rates of Russian industry.
- Discount rate for CGU *Production* was calculated based on weighted-average cost of capital for the Group before taxation; its nominal value is 14.2%.

The analysis indicated that the estimated recoverable value of CGU *Production* exceeded its carrying amount by RUB 2 492 million.

Sensitivity analysis

During the testing it was identified that the most significant impact on the recoverable amount of the CGU *Production* was resulted by changes in sales volumes, expected gross margins and discounting rates.

The table below presents sales volumes and expected gross margins for the following five years that were used in determining the recoverable amount of the CGU *Production*

Indicators used in determining the recoverable amount	**2019**	**2020**	**2021**	**2022**	**2023**
Sales volumes, items	18 554	22 000	22 000	22 000	22 000
Gross margin, %	26.5%	27.2%	28.1%	28.4%	28.6%

Below is a sensitivity analysis for each of the assumption that have the most significant impact on the resulting estimate (with all the other assumptions constant):

- If the expected sales volumes decreased by 1.5 %, the recoverable amount of the CGU *Production* would have been approximately equal to its carrying amount;
- If the expected gross margin decreased by 30 basis points, the recoverable amount of the CGU *Production* would have been approximately equal to its carrying amount;
- If the discounting rate increased by 40 basis points, the recoverable amount of the CGU *Production* would have been approximately equal to its carrying amount;

The sensitivity analysis presented above may be different from the actual change in the recoverable amount of the CGU *Production* as it is unlikely that the change in assumptions would occur in isolation of one another (some of the assumptions may be correlated).

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's significant associates and joint ventures include the following:

			Ownership and voting interest of the Group	
Name	**Type of investment**	**Place of incorporation and operation**	**31 December 2018**	**31 December 2017**
MRC 1520 LLC	Joint venture	Moscow, Russia	50%	50%
Timken UWC LLC	Associate	Tikhvin, Russia	49%	49%
JV Wabtec-UWC LLC	Associate	Tikhvin, Russia	49%	49%

MRC 1520 LLC

In 2012, the Company entered into a joint venture agreement with MRC 1520 LLC and Mitsui Corporation and acquired a 50% share in IMRCR Limited, the owner of MRC 1520 LLC.

The joint venture'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 or loss and other comprehensive income amounted to RUB 97 million and RUB 21 million, respectively. Summarized financial information in respect of the Group's joint venture and its reconciliation to the carrying amount of the interest in the joint venture are set out below. The summarized financial information below represents amounts shown in the joint venture's consolidated financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

	31 December 2018	31 December 2017
Cash and cash equivalents	182	131
Trade receivables	4	5
Property, plant and equipment	742	569
Deferred tax assets	-	3
Other current liabilities	(27)	(13)
Non-current liabilities	(14)	-
Net assets of the joint venture	**887**	**695**
Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	**444**	**347**
Less a mark-up on the sale of railcars to the joint venture	(19)	-
The Group's interest in the joint venture, including sales to the joint venture	**425**	**347**

	2018	2017
Revenue	133	131
Profit and total comprehensive income for the year	194	42
Share of profits of joint venture	97	21

The above profit for the year includes the following:

	2018	2017
Gross profit from the sale of railcars	120	-
Depreciation and amortization	(20)	(42)
Interest income	7	-
Income tax expense	(49)	(11)
Foreign exchange gain/(loss)	24	(3)

Timken UWC LLC

In 2015, the Group signed an agreement on establishing an associate "Timken UWC" LLC with Timken Lux Holdings II S.A.R.L. and establishing TUBC Limited, the founder of Timken UWC LLC, with a 49% share of the Group in the associate. The principal activity of the associate is the production of bearings for freight railcars. In 2015 and 2016 years, Timken UWC LLC was constructing a plant for production of bearings. The associate commenced its operating activity in 2017. Timken UWC LLC is an associate of the Group as the Group has significant influence over its financial and operating activities, i.e. the Group has decision-making powers but cannot control activities of Timken UWC LLC.

The Group's share in the loss of the associate recognized in the statement of profit or loss and other comprehensive income for 2018 and 2017 was RUB 99 million and RUB 139 million, respectively.

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

	31 December 2018	31 December 2017
Cash and cash equivalents	55	158
Receivables	84	187
Inventories	396	298
Property, plant and equipment	1 109	1 312
Deferred tax assets	218	156
Trade payables	(350)	(399)
Other current liabilities	(34)	(33)
Net assets of the associate	**1 478**	**1 679**
Group's ownership interest in the associate	49%	49%
Carrying amount of the Group's interest in the associate	**724**	**823**

	2018	2017
Revenue	944	298
Loss and total comprehensive loss for the year	(201)	(284)
Group's share in loss of the associate	(99)	(139)

The above loss for the year includes the following:

	2018	2017
Cost of sales	(1 020)	(480)
Selling expenses	(116)	(145)
Foreign exchange loss	(85)	(21)
Other expenses	(5)	(8)
Income tax benefit	81	72

JV Wabtec UWC LLC

In 2015 the Group signed an agreement on establishing an associate JV Wabtec UWC LLC with Wabtec Corporation and establishing WABTEC-UWC LTD, the shareholder of JV Wabtec UWC LLC. The Group owns a 49% share in WABTEC-UWC LTD. The principal activity of the associate is the development and production of innovative components for freight rolling stock, including the heavy one. JV Wabtec-UWC LLC is an associate of the Group as the Group has significant influence over its financial and operating activities, i.e. the Group has decision-making powers but cannot control activities of JV Wabtec-UWC LLC. At 31 December 2018 and 2017, the carrying value of the Group's interest in the associate amounted to RUB 5.5 million and RUB 5.5 million respectively.

17. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following:

	31 December 2018	31 December 2017
Advances paid for investment property	687	-
Investment property	451	-
Inventories	236	200
Advances paid for guarantees and sureties	-	361
Other	-	88
Total non-current assets	**1 374**	**649**

Investment property and advances paid for investment property comprise residential apartments and a residential complex in Tikhvin.

18. INVENTORIES

Inventories comprised:

	31 December 2018	31 December 2017
Raw materials and components for railcar production	10 460	9 474
Finished goods (railcars)	1 042	2 304
Other inventories	310	340
Total inventories	**11 812**	**12 118**

19. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following:

	31 December 2018	31 December 2017
Trade receivables from leaseback transactions (Note 29)	4 996	-
Trade receivables from the sale of railcars	2 318	863
Trade receivables from the sale of castings, components and other inventories	551	265
Trade receivables from repair of railcars	350	92
Trade receivables from operating lease and other services	193	2 306
Other receivables	109	30
Allowance for expected credit losses	(27)	(46)
Total trade and other receivables	**8 490**	**3 510**

As at December 31, 2018 and 2017, receivables from sale of railcars included a current portion of accounts receivable from sales of railcars in the amount of RUB 397 million and RUB 349 million, respectively. The export agreements provide for a deferred repayment schedule with credit period from 17 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 from 7% to 10.7% depending on the currency of agreements. The difference between the carrying amount and the fair value of the asset was charged to revenue from the sale of railcars for 2018 and 2017 in the amount of RUB 24 million and RUB 165 million, respectively. Non-current portion of receivables under these agreements was included in the Group's consolidated statement of financial position in non-current receivables from the sale of railcars in the amount of RUB 495 million and RUB 565 million as at December 31, 2018 and 2017, respectively.

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

	31 December 2018	31 December 2017
Past due 31 - 90 days	327	104
Past due 91 - 180 days	133	973
Past due 181 - 365 days	14	283
Past due over 365 days	18	16
Total	**492**	**1 376**

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

	2018	2017
Balance at the beginning of the year	46	90
Reversal of the allowance for expected credit losses	(38)	(10)
Use of the allowance for expected credit losses	-	(77)
Charge of the allowance for expected credit losses	19	43
Balance at the end of the year	**27**	**46**

20. SHORT-TERM BANK DEPOSITS

Short-term deposits with banks including accrued interest comprised:

	Currency	Interest rate, %	31 December 2018	31 December 2017
Promsvyazbank PJSC (Cyprus branch)	RUB	9.00%	-	5 038
Total short-term deposits			**-**	**5 038**

As at December 31, 2017 the Group deposited available cash of RUB 5 000 million with PJSC Promsvyazbank (Cyprus branch) with annual interest rate of 9%.

21. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS

Prepayments to suppliers and other assets comprised:

	31 December 2018	31 December 2017
Prepayments to suppliers	4 794	2 453
Prepaid expenses	190	201
Prepaid taxes and social contributions	58	101
Prepayment to customs	35	65
Bank guarantees and sureties	-	625
Allowance for expected credit losses	(108)	(104)
Total prepayments to suppliers and other assets	**4 969**	**3 341**

22. LOANS RECEIVABLE

Loans receivable including interest accrued were as follows:

	Currency	Interest rate (as at December 31, 2018)	31 December 2018	31 December 2017
Loans receivable at amortized cost				
Secured				
SZIZhK CJSC	RUB	11.00%	1 954	2 529
Business Engineering CJSC	RUB	11.00%	325	719
Unsecured				
NitroChemProm LLC	RUB	10.00%	6 421	6 067
IST-Capital LLC	RUB	11.50-12.50%	1 618	1 316
Re Test Cyprus LTD	USD	6.40%	650	471
SZIPK CJSC	RUB	13%	-	1 375
Others	RUB	1-12.50%	348	82
Gross loans			**11 316**	**12 559**
Allowance for expected credit losses			(1 959)	-
Total loans receivable			**9 357**	**12 559**
Short-term loans			92	56
Long-term loans			9 265	12 503
Total loans receivable			**9 357**	**12 559**

Due to the fact that ICT Group sold its interest in the Group's share capital 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 at 1 January 2018 under IFRS 9	**200**	-	**200**
Reversal of allowance due to disposal of assets	(22)	-	(22)
Decrease in allowance due to decrease in credit risk	(69)	-	(69)
Increase in allowance due to significant increase in credit risk	-	1 850	1 850
Reclassification	(61)	61	-
Allowance for expected credit losses at 31 December 2018	**48**	**1 911**	**1 959**

23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

	31 December 2018	31 December 2017
Bank deposits in RUB	9 796	3 072
Current accounts in RUB	886	704
Current accounts in USD	154	7
Bank deposits in foreign currency	24	3
Current accounts in EUR	11	13
Total cash and cash equivalents	**10 871**	**3 799**

As at December 31, 2018 and 2017 the Group placed cash in overnight deposits to gain interest income. The interest rate on ruble deposits ranges from 3% to 6.9% and for the deposit in USD the interest rate is set at 2.16%.

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 RUB 2 263 million and RUB 807 million, respectively. As at December 31, 2018 the long-term portion of such cash totaled RUB 146 million 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 RUB 807 million was included in current assets in the consolidated statement of financial position.

Other limitations

Under the loan and security agreements 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 RUB 239 million. 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.

24. SHARE AND ADDITIONAL PAID-IN CAPITAL

As at December 31, 2018, the Group's issued and registered share capital amounted to RUB 116 million, divided into 116 million ordinary non-certificated registered shares with par value of RUB 1 each. The share capital was fully paid as at the reporting date.

On February 8, 2017 the Group's shareholders approved a decision to increase the share capital of the Group by an additional public issue of 7 500 000 ordinary shares. In May 2017 the Group held an additional public offering of 2 572 741 shares by listing its shares on the Moscow stock exchange for RUB 1 853 million (based on the issuance price of RUB 720 per share with a par value of RUB 1). The difference between the issuance price and the par value was recorded in additional paid-in capital of the Company. Issuance costs comprised RUB 26 million.

25. LOANS AND BORROWINGS

Loans and borrowings received comprised:

At amortized cost	Maturity	Interest rate (at 31 December 2018)		31 December 2018	31 December 2017
Otkritie FC Bank PJSC	2019-2024	Floating	Key rate of the CBR +3.5%	36 212	36,751
Otkritie FC Bank PJSC	2021	Fixed	13.80%	8 250	9 000
Gazprombank (JSC)	2028	Fixed	10.50%	6 000	-
Otkritie FC Bank PJSC	2020	Floating	MosPrime 3M + 2.5%	3 919	7 517
National Bank Trust PJSC	2023	Floating	Key rate of the CBR +2.5%	3 871	3 946
Otkritie FC Bank PJSC	2022-2024	Floating	8.75%[2]	2 503	2 940
UniCredit Bank	2024	Floating	MosPrime 3M + 1.5%	718	806
ROSEXIMBANK JSC	2021	Fixed	9.00%	552	777
Industry Development Fund	2021	Fixed	5.00%	62	62
Alfa-Bank JSC	2018	Fixed	12.70%	-	18 993
National Bank Trust PJSC	2018	Floating	MosPrime 3M + 1.5%	-	1 385
Total loans and borrowings				**62 087**	**82 177**
Less: short-term portion				18 087	6 962
Long-term loans and borrowings				**44 000**	**75 215**

[1] within the range of the key rate of CBR + 1.5% and the rate for investment projects support program +2.5%

Security on loans and borrowings

Under the terms of the loan agreements as at December 31, 2018 and 2017, the Group provided the following types of security:

- Property, plant and equipment with a carrying value of RUB 38 156 and 63 297 million, accordingly;
- Intangible assets with a carrying value of RUB 47 and 0.31 million, respectively;
- Rights to claim proceeds from export revenue in the amount of RUB 734 and 914 million, accordingly;
- Other assets with a carrying value of RUB 0 and 89 million, accordingly;

In addition, as at December 31, 2018 the Group provided the pledge of share in the following subsidiaries: TM-Energo (100%), TikhvinSpecMash CJSC (100%), TikhvinChemMash CJSC (100%), AFCT Advanced Freight Car Technology Limited (100%), DEANROAD Limited (100%), Raygold Limited (100%) and TVSZ JSC (100%). As at December 31, 2017, under the terms of the borrowing and security agreements, the Group provided the pledge of share in the following subsidiaries: RAIL1520 LLC (100%), RAIL 1520 Cyprus Ltd (75%), TM-Energo (100%) and TikhvinSpecMash CJSC (100%).

Repayment schedule

The repayment schedule of loans and borrowings (excluding future interest) for five years ending 31 December 2023 and thereafter is as follows:

Year ended 31 December	Amount to maturity
2019	18 087
2020	8 195
2021	14 487
2022	3 060
2023	12 139
Thereafter	6 119
Total	**62 087**

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.

	1 January 2018	Cash flows from financial activities[1]	Other non-cash changes	Net interest payments	31 December 2018
Bank loans from related parties	-	(6 604)	57 581	(93)	50 884
Bonds	30 470	(6)	-	(31)	30 433
Bank loans	82 115	(13 402)	(57 508)	(64)	11 141
Finance lease liabilities	195	17 060	4 215	-	21 470
Other borrowings	62	-	-	-	62
Liabilities under a leaseback transaction with GTLK PJSC	-	6 499	-	-	6 499
	112 842	**3 547**	**4 288**	**(188)**	**120 489**

	1 January 2017	Cash Cash flows from financial activities[1]	Non-cash changes: Foreign exchange differences	Non-cash changes: Other non-cash changes	Net interest payments	31 December 2017
Bank loans	69 061	12 726	504	126	(302)	82 115
Bonds	30 637	(70)	-	-	(97)	30 470
Borrowings from related parties	2 175	(2 078)	(1)	-	(96)	-
Other borrowings	862	(800)	-	-	-	62
Finance lease liabilities	13	150	-	32	-	195
	102 748	**9 928**	**503**	**158**	**(495)**	**112 842**

[1] Cash flows from bank loans and bonds comprise net amount of inflows and outflows related to borrowed funds specified in the statement of cash flows. Cash flows from lease liabilities comprise amount of principal under lease agreements.

Covenants

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

Compliance with covenants during the year ended 31 December 2018

As at December 31, 2018 one of the Group's subsidiaries breached a number of obligatory default financial covenants stipulated in the loan agreement with Otkritie FC Bank PJSC. As at the reporting date non-current portion of liabilities under these agreement amounted to RUB 16 845 million:

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

The penalties imposed on the borrower included an increase of the interest rate by 1% (percentage point) as of 8 February 2018. In 2019, the Group received an official letter from the Otkritie FC Bank PJSC confirming that it would not impose additional penalties, apart from those already notified to the borrower, for breaches of the above covenants in the first, second and third quarters of 2018. At the date of approval of these consolidated financial statements, the Group was at the final stage of the project for the restructuring of its portfolio of loans from one of the major creditors, Otkritie FC Bank PJSC. The restructuring is aimed, among other things, at the approval of a new set of financial and non-financial covenants to eliminate the breach of covenants in the fourth quarter of 2018 (Note 2).

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.

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.

Compliance with covenants during the year ended 31 December 2017

As at December 31, 2017 PJSC RPC UWC breached an obligatory financial covenant stipulated in the loan agreement, in particular prevention of the deterioration of the financial position of the Company. This covenant prohibits the increase of the financial liabilities of the borrower, including the provision of guarantees exceeding 10% of the net asset value of the borrower in favor of the third parties that are not subsidiaries of the Group. This covenant drives default. This means if the covenant is breached the creditor bank may demand an early repayment of the debt. The breach was due to a guarantee provided by the Company in 2017 in favor of Vostok1520 LLC to secure its leasing payments to PJSC GTLK. Due to the breach of covenants under the loan agreement, the creditor bank was entitled to demand an early repayment of the entire debt amount within the relevant loan agreement. On 23 March 2018, PJSC RPC UWC entered into additional agreements with PJSC GTLK and Vostok1520 LLC, under which the total amount of guarantees was reduced to RUB 812 million, which eliminated the breach of the covenant provided for by the loan agreement.

In September 2017 a subsidiary of the Group breached a covenant with respect to monthly turnover on its current accounts in the bank (Otkritie FC Bank PJSC). The bank applied 0.5% penalty charges for outstanding balance of the loan and obliged the Group to pay RUB 45 million (the penalty is included in the finance costs line of consolidated statement of profit and loss and other comprehensive income). The bank notified the Group that it did not plan to apply other penalties for the breach. As at December 31, 2017 the borrower fulfilled the covenant for the corresponding reporting period. In addition as at December 31, 2017 the same subsidiary of the Group breached a covenant stipulated in a loan agreement with Otkritie FC Bank PJSC that was transferred to National Bank Trust PJSC. The covenant prohibits providing guarantees to the third parties for the amount higher than 10% of the carrying value of the borrower's assets calculated according to the statutory financial statements. The company provided a guarantee for a promissory note issued by its related party NitroChemProm LLC. Both breached covenants drive default.

As at December, 31 2017, one of the group's subsidiaries breached a number of default financial covenants stipulated in the loan agreement with Bank FC Otkritie PJSC. In particular: the ratio of the accounts payable less inventory and accounts receivable to total assets, determined in accordance to the statutory financial statements and the ratio of intra-group (settlements with the companies of the Group) accounts payable and accounts receivable balances. This loan agreement was concluded as part of the refinancing of the syndicated loan received by the Group's main manufacturing asset from Vnesheconombank ("VEB") and the Eurasian Bank of Development ("EABR"). The sanction applied to the borrower was an increase of the interest rate by 1% (one percentage point) from February 8, 2018. In April 2018, the Group received a waiver from the bank with a validity period of 12 months from the reporting date.

In addition as at December 31, 2017 the Group breached a number of other covenants stipulated in the loan agreements with Bank FC Otkritie PJSC. The maximum exposure for non-compliance with these covenants are penalties, but not an early demand for the debt repayment.

During the preparation of the consolidated financial statements for the year ended December 31, 2017, the Group's management estimated the probability that banks will use their right and demand an early repayment of the borrowings under agreements with breached covenants is low and, therefore, as at December 31, 2017 such borrowings were presented in the consolidated financial statements as non-current liabilities according to the initial payment terms stipulated in the loan agreements.

Available credit facilities

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

26. BONDS

In 2014 and 2013 the Group issued and placed 30 000 000 bonds (Series BO 01 and Series 01) at par value of RUB 1 thousand each on the MICEX.

In 2017, the Group issued and placed 5 000 000 bonds (Series BO-P03) at par value of RUB 1 thousand each on the MICEX. As at December 31, 2017 the bonds were held by a subsidiary of the Group. In 2018 the bonds were purchased by the subsidiary-issuer and repaid in full.

As at December 31, 2018 and 2017, subsidiaries of the Group held bonds for RUB 207 million and RUB 5 201 million, respectively, for a purpose of their future resale on the market.

The annual coupon rate of bonds was set at:

- 8.7% for bonds of Series 01 for the first half-year period and Russia CPI + 3% thereafter with interest being paid semi-annually. In 2018 the following coupon rates were used:
  - 4.12% from 1 January 2018 to 29 May 2018;
  - 6.68% from 30 May 2018 to 27 November 2018;
  - 6.34% from 28 November 2018 to 31 December 2018.
- CBR REPO rate for bonds of Series BO 01 on the 7th day prior to coupon payment + 3.5% with interest being paid semi-annually. In 2018 the following rates were used:
  - 13.5% from 1 January 2018 to 12 March 2018;
  - 12% from 13 March 2018 to 31 December 2018.

The bonds are guaranteed by several entities of the Group.

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

	Maturity	Weighted average interest rate for the twelve months ended 31 December 2018	31 December 2018	31 December 2017
Series 01	24 November 2021	5.60%	14 793	14 799
Series BO 01	10 September 2019	12.29%	15 000	15 000
Total			**29 793**	**29 799**

The balance of interest accrued as at December 31, 2018 and 2017 in the amount of RUB 640 million and RUB 671 million, respectively, is included in the consolidated statement of financial position as the short-term portion of the bonds.

27. TRADE AND OTHER PAYABLES

Trade and other payables comprised:

	31 December 2018	31 December 2017
Trade payables	4 662	5 109
Payables for property, plant and equipment and intangible assets	231	284
Total trade and other payables	**4 893**	**5 393**

28. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

Advances received and other current liabilities comprised:

	31 December 2018	31 December 2017
Advances received from customers, including:	19 223	15 810
Advances received for sale of railcars	*19 018*	*15 527*
Operating lease prepayments	*128*	*227*
Taxes payable (incl. VAT)	4 095	3 884
Provisions and accrued expenses	964	799
Other short-term payables to employees	301	175
Total advances received and other current liabilities	**24 583**	**20 668**

The line *Provisions and accrued expenses* include the short-term portion of remuneration for 2018 and 2017 payable to the key management personnel in the amount of RUB 244 million (including social contributions taxes). The long-term portion of remuneration payable not earlier than in 12 months is presented as accrued expenses for employee remuneration in the consolidated statement of financial position in the amount of RUB 150 million (including social contributions). The estimated liability of remuneration is based on the assumption that the approved key performance indicators will be achieved at 100%.

In 2018, the Group entered into a number of railcar supply agreements with supplies due in 2020-2021. As at December 31, 2018 a portion of advances for supplies due after December 31, 2019 of RUB 78 million was included in the consolidated statement of financial position as advanced received in non-current liabilities.

29. FINANCE LEASE TRANSACTIONS

Liability under a leaseback transaction with GTLK PJSC

In 2018, several subsidiaries of the Group 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 shall deliver 10 000 railcars to GTLK PJSC with a total value of RUB 32 000 million (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 RUB 71 105 million (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.

The agreement provides for advances to the Group for the subsequent production of railcars: in August 2018 the Group received an advance of RUB 7 552 million (incl. VAT 18% of RUB 1 152 million), which is 20% of the prepayment under each tranche. The lease liability arises for the Group only after the first tranche of railcars is delivered and leased back in accordance with the pre-set schedule, therefore as at December 31, 2018 the Group recognized the advance payment in accordance with IFRS 9 as a financial liability carried at amortized cost using the effective interest rates that determine the future lease payments under the lease agreement. As at December 31, 2018 the short- and long-term portions of this financial liability were RUB 1 509 million and RUB 4 862 million, respectively. The effect of the application of the effective interest method for calculating the amortized cost amounted to RUB 359 million and was recognized as finance expenses in the consolidated statement of profit and loss and other comprehensive income.

Finance lease liabilities

In 2018, the Group entered into a sale agreement for 11 191 own railcars, which provides for the subsequent 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 paid by the leasing company as at December 31, 2018. Outstanding receivables at 31 December 2018 were RUB 4 341 million (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 receivables (Note 19) in the amount of RUB 4 996 million (incl. VAT 18% in amount of RUB 781 million).

The total interest on the lease liabilities for 2018 amounted to RUB 708 million and was recognized as finance expenses in the consolidated statement of profit and loss and other comprehensive income.

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

	31 December 2018	**31 December 2017**
Minimum lease payments, including		
Current portion (less than 1 year)	3 463	42
From 1 to 5 years	13 754	132
More than 5 years	17 787	113
Total minimum lease payments	**35 004**	**287**
Less interest on the lease liabilities	(13 408)	(92)
Less outstanding amount under leaseback transaction as at the reporting date	(4 341)	-
Present value of minimum lease payments		
Current portion (less than 1 year)	3 188	39
From 1 to 5 years	10 092	51
More than 5 years	8 190	105
Less outstanding amount under leaseback transaction as at the reporting date	(4 215)	-
Total present value of minimum lease payments	**17 255**	**195**
Less current portion of lease liabilities	(3 188)	(39)
Outstanding receivables on transaction as at the reporting date	4 215	-
Non-current portion of lease liabilities	**18 282**	**156**

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 25.

The Group's liabilities under this agreement are secured by the lessor's title to leased assets. The carrying value of the rolling stock pledged under a finance lease agreement is RUB 21 357 million.

30. RELATED PARTY TRANSACTIONS

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

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

As at 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 the Group as at December 31, 2018, exceeding 20%, which gives the bank significant influence over the Group.

In 2018, the ICT Group sold its share in the Group's share capital and 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 entities that have a significant influence on PJSC RPC UWC, but are included in related party transactions for 2018.

In 2017, transactions with United Wagon Plc were included within the transactions of the entities with significant influence over RPC UWC. In 2018, transactions with United Wagon Plc were included within the transactions with other related parties.

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.

As at December 31, 2018 and 2017, the Group had the following balances with its related parties:

	31 December 2018	**31 December 2017**
Trade and other receivables		
Associates and joint ventures	9	2 211
Entities with significant influence over RPC UWC	-	15
Cash and cash equivalents		
Otkritie FC Bank PJSC	8 801	-
Loans receivable and deposits		
Entities with significant influence over RPC UWC	-	6 415
Associates and joint ventures	-	6 108
Prepayment for the acquisition of the subsidiary		
Entities with significant influence over RPC UWC	-	2 000
Prepayments to suppliers and other assets		
Otkritie FC Bank PJSC	31	-
Associates and joint ventures	18	485
Entities with significant influence over RPC UWC	-	995
TOTAL ASSETS	**8 859**	**18 229**
Short-term loans and borrowings		
Otkritie FC Bank PJSC	50 884	-
Bonds		
Otkritie FC Bank PJSC	23 882	-
Trade and other payables		
Otkritie FC Bank PJSC	2	-
Associates and joint ventures	1	48
Entities with significant influence over RPC UWC	-	662
Advances received		
Associates and joint ventures	19	6 183
TOTAL LIABILITIES	**74 788**	**6 893**

For the years ended 31 December 2018 and 2017, the Group's transactions with its related parties were as follows:

	2018	2017
Sales of railcars and inventories		
Associates and joint ventures	752	64
Entities with significant influence over RPC UWC	57	7
Lease income		
Associates and joint ventures	-	3 329
Income from consulting services		
Associates and joint ventures	12	11
Rent income		
Associates and joint ventures	25	95
Entities with significant influence over RPC UWC	2	3
Other income		
Entities with significant influence over RPC UWC	21	29
Associates and joint ventures	6	75
Raw materials used in production		
Entities with significant influence over RPC UWC	(62)	(117)
Associates and joint ventures	(1 074)	(295)
Services included in the cost for the current period		
Entities with significant influence over RPC UWC	(396)	(707)
Associates and joint ventures	-	(47)
Finance income		
Associates and joint ventures	-	552
Entities with significant influence over RPC UWC	526	1 094
Otkritie FC Bank PJSC	442	-
Finance costs		
Otkritie FC Bank PJSC	(8 468)	-
Other related parties	(985)	-
Entities with significant influence over RPC UWC	-	(1 099)
Other costs		
Entities with significant influence over RPC UWC	(6)	(130)
Associates and joint ventures	-	(8)
Purchase of property, plant and equipment, intangible assets and investment property (including advances for subsequent purchase)		
Entities with significant influence over RPC UWC	(1 859)	(389)
Acquisition of subsidiaries (Note 6)		
Entities with significant influence over RPC UWC	(1 200)	(2 000)

Compensation to key management personnel

Compensation to key management personnel and to the Board of Directors is made up of a contractual salary and a performance bonus depending on operating results. The total amount of the remuneration to the key management personnel and to the Board of Directors for the year ended December 31, 2018 and 2017 amounted to RUB 1 233 and 459 million (including social contributions taxes).

31. COMMITMENTS AND CONTINGENCIES

Guarantees issued

Guarantees issued under lease payments as of December 31, 2018 are as follows:

Name of debtor	Name of creditor	Start of validity period	End of validity period	Currency of the contract	The amount of the contract
Vostok 1520 LLC	PJSC GTLK	31 March 2017	30 Septembe r 2034	RUB	555
Vostok 1520 LLC	PJSC GTLK	31 March 2017	31 January 2035	RUB	261
Total					**816**

Guarantees issued under lease payments as of December 31, 2017 are as follows:

Name of debtor	Name of creditor	Start of validity period	End of validity period	Currency of the contract	The amount of the contract
Vostok 1520 LLC	PJSC GTLK	31 March 2017	30 Septembe r 2034	RUB	36 900
Vostok 1520 LLC	PJSC GTLK	31 March 2017	31 January 2035	RUB	15 844
Total					**52 744[1]**

[1] On 23 March 2018 the Group signed additional agreements to the guarantees issued during 2017. According to the guarantees, the Group acted as a guarantor of leasing payments of Vostok 1520 LLC to the creditor PJSC GTLK. Based on the additional agreements the total amount of the guarantees were reduced from RUB 52 744 million to 812 million. Accordingly, as at December 31, 2017 the contractual amount was RUB 812 million.

As at December 31, 2018 and 2017 the promissory note issued by NitroChemProm LLC and acquired by the Group was pledged as a guarantee for the liabilities of NitroChemProm LLC.

Operating lease

The Group as a lessor

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

Non-cancellable operating lease payments are presented as follows:

	31 December 2018	31 December 2017
Less than one year	6 302	5 804
Later than 1 year and not longer than 5 years	10 226	16 220
Over 5 years	639	1 758
	17 167	**23 782**

Operating environment

Because Russia produces and exports large volumes of oil and gas, Russia's 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 March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. 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 change rapidly. 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 Therefore, the tax assessment approaches that have not been challenged in the past, might be challenged during further tax audits. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years following 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.

Legal proceedings

As at December 31, 2018 the Group is involved in legal proceedings initiated by some of its shareholders (Investment Management LLC, IQG Asset Management JSC) who filed a claim against RPC UWC PJSC to redeem its ordinary shares with a total value of about RUB 8 185 million. The claim has been filed against the Group based on the respective right of the shareholders. In March 2018, the extraordinary shareholders' meeting (hereinafter – the "EGMS") of RPC UWC approve a number of large transactions with the total value exceeding 50% of the carrying amount of total assets of RPC UWC. The shareholders who did not participate in the meeting received the right to demand from RPC UWC the redemption of all or part of the shares of RPC UWC, that they own. The management of RPC UWC considers that the approval of the transactions was not within the responsibility of the general meeting of shareholders, therefore in May 2018 the General Director of RPC UWC PJSC also initiated a legal proceeding to invalidate this decision since the Company's management considers that this decision was not within the responsibility of the general meeting of shareholders.

In November 2018, Board of Appeals of the Arbitration court invalidated these EGMS decisions as the significant transactions approved by the EGMS relate to the Company's ordinary activities and are not significant for the Company, therefore, there were no grounds for their approval at the EGMS, accordingly, the EGMS decisions were beyond the competence of the general meeting of shareholders and shall be deemed invalid. Thus, according to the court decision the shareholders' claim to redeem the own shares is invalid.

Due to the consideration of the cassation appeal against the decision of the Court of Appeal and the subsequent filing of an application to reschedule the court trial, the legal proceeding was postponed to April 2019 in order to conclude an amicable agreement. On 18 April 2019, the Moscow District Commercial Court dismissed the cassation appeal and left unchanged the Court of Appeal's decision of 20 November 2018. Given the existing court practice the Company's management assesses the possibility of unfavorable outcome of the court proceedings, which could oblige the Company to redeem its own shares of about RUB 8 185 million as low. Nevertheless, the Company admits the uncertainty with respect to the outcome of the court proceeding as at the approval date of these consolidated financial statements.

Capital expenditure commitments

As at December 31, 2018 and 2017 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RUB 333 million and 387 million. As at December 31, 2018 the Group's future liabilities for scheduled depot repair of railcars are estimated at RUB 41 million.

32. 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.

Main categories of financial instruments

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

	31 December 2018	31 December 2017
Financial assets at amortized cost		
Cash and cash equivalents	10 871	3 799
Loans receivable	9 357	12 559
Trade and other receivables (including non-current accounts receivable)	8 985	4 075
Restricted cash	2 263	807
Short-term deposits	-	5 038
Investment in JSC PTK Holding	-	1 773
Finance lease receivables	-	224
Financial liabilities at amortized cost		
Loans and borrowings	62 086	82 177
Bonds	30 433	30 470
Finance lease liabilities	21 470	195
Liability under a leaseback transaction with GTLK PJSC	6 499	-
Trade and other payables	5 194	5 568
Provisions and accrued expenses	452	955

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

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

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and borrowings with variable interest	47 223	47 223	53 344	53 344
Bonds	29 793	28 017	30 470	29 788
Loans and borrowings with fixed interest	14 864	15 951	28 833	31 593
Finance lease liabilities	21 470	21 470	195	195
Liability under a leaseback transaction with GTLK PJSC	6 499	6 499	-	-
	119 849	**119 160**	**112 842**	**114 920**

Inputs of Level 2 and 3 of the fair value hierarchy were used to measure the fair value of bank loans and borrowings received from third parties and related parties.

The fair values of the financial liabilities have been 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 Group's debt portfolio discount rate of 9.55% of Otkritie FC Bank PJSC, one of its main lenders, which is equal to the weighted average interest rate on loans (in Rubles and with maturity period of 3 years) received by non-financial organizations from credit institutions in the first quarter of 2019.

In determining the fair value of financial liabilities, management of the Group relied on the assumption that the carrying amount of variable rate financial liabilities approximates their fair value at December 31, 2018, as it reflects changes in market conditions, takes into account the risk premium and the time value of money.

In determining the fair value of bonds, the Group used a weighted average market-based transaction price on these financial instruments (as a percentage of the nominal value).

To calculate the fair value of fixed rate loans received in Russian rubles in 2018 and 2017 the Group applied market value of borrowed capital at a rate of 9.55% and 10.43%, respectively, which does not include the effect of received governmental grants.

In determining the fair value of finance lease liabilities (including liability under a leaseback transaction with GTLK PJSC), 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 receivable, short-term bank deposits, cash and cash equivalents corresponds to their carrying value, excluding loans receivable.
For assessment of the fair value for long-term loans, inputs from Level 2 and 3 of fair value hierarchy were used. Fair value was estimated based on discounted cash flows with key assumption - discount rate. The discount rate reflects the weighted average interest rate on loans received by the Group, as it takes into account credit risk (estimated by management of the Group as average) of all borrowers, including those to whom the Group has issued the loans.

As at December 31, 2018 fair value of the loans receivable was lower than their carrying value by RUB 1 436 million. As at December 31, 2017 fair value of the loans receivable was lower than their carrying value by RUB 499 million.

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.

	Less than 12 months	1 year to 5 years	Over 5 years	Total
31 December 2018				
Fixed interest rate instruments	5 071	9 065	8 886	23 022
Variable interest rate instruments	36 728	58 205	129	95 062
Finance lease liabilities	3 463	13 754	17 787	35 004
Liability under a leaseback transaction with GTLK PJSC	1 649	4 885		6 534
Non-interest bearing liabilities	5 194	-	-	5 194
Provisions and accrued expenses	301	151	-	452
Total	**52 406**	**86 060**	**26 802**	**165 268**
31 December 2017				
Fixed interest rate instruments	5 610	26 234	11 827	43 671
Variable interest rate instruments	13 715	77 273	23 375	114 363
Finance lease liabilities	43	159	-	202
Non-interest bearing liabilities	5 568	-	-	5 568
Provisions and accrued expenses	799	156	-	955
Total	**25 735**	**103 822**	**35 202**	**164 759**

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

	Less than 12 months	1 year to 5 years	Over 5 years	Total
31 December 2018				
Fixed interest rate instruments	128	3 421	14 362	17 911
Non-interest bearing assets	10 607	539	146	11 292
Total	**10 735**	**3 960**	**14 508**	**29 203**
31 December 2017				
Fixed interest rate instruments	5 362	4 297	16 595	26 254
Non-interest bearing assets	6 090	651	-	6 741
Finance lease receivables	54	217	74	345
Total	**11 506**	**5 165**	**16 669**	**33 340**

Market risk

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

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

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

Currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. During 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:

	31 December 2018			31 December 2017		
	Monetary financial assets	Monetary financial liabilities	Net monetary position	Monetary financial assets	Monetary financial liabilities	Net monetary position
USD	1 060	69	991	598	198	400
EUR	917	498	418	1 290	197	1 093
Total	**1 977**	**567**	**1 409**	**1 888**	**395**	**1 493**

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

	USD - impact		EUR – impact	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Gain	99	40	42	109

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

During 2017 the Group entered into several forward contracts to hedge its foreign exchange risks in respect of the acquisition of certain components and raw materials. A net loss from forward transactions amounted to RUB 47 million and was included into the line Foreign exchange gain/(loss), net. In 2018 the Group did not enter into forward contracts.

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.

Interest rate risk

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

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

Had interest rates been 3% higher/ (lower) and all other variables were held constant, the Group's consolidated loss for 2018 and 2017 would have increased/ (decreased) by RUB 2 310 and 2 406 million, respectively.

Credit risk

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

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

	31 December 2018	31 December 2017
Cash and cash equivalents	10 871	3 799
Loans receivable	9 357	12 559
Trade and other receivables	8 985	4 075
Restricted cash	2 263	807
Short-term deposits	-	5 038
Investment in PTK Holding JSC	-	1 773
Finance lease receivables	-	224
Total	**31 476**	**28 275**

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 57% 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 38% 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 RUB 4 341 million. The outstanding balance was fully repaid in 1Q2019 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	31 December 2018	31 December 2017
Otkritie FC Bank PJSC	Moody's	Ba2	8 801	2 860
Sberbank PJSC	Fitch Ratings	BBB-	813	4
MOSCOW CREDIT BANK PJSC	Fitch Ratings	BB-	594	859
Gazprombank (JSC)	Fitch Ratings	BB+	374	7
Other			289	69
Total			**10 871**	**3 799**

As regards loans receivable, the Group constantly monitors changes in the credit rating of its debtors and makes a provision for expected credit losses. (Note 22).

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through optimization of the debt and equity balance within the limits imposed by its providers or finance. The capital structure of the Group consists of net debt (borrowings and bonds as detailed in Notes 25 and 26, offset by cash and cash equivalents balances), and equity.

33. EVENTS AFTER THE REPORTING DATE

On February 18, 2019 Otkritie FC Bank PJSC credit committee issued a decision that preliminarily approved a change of maturity of the B-01 series commercial bonds with outstanding amount of RUB 15 000 million. The maturity date was postponed from September 10, 2019 to December 31, 2023, and the coupon rate was decreased to 9.55% (the weighted average coupon rate was 12.29% during 2018);

In January and February 2019, one of the Group's subsidiaries repaid a loan provided by Otkritie FC Bank PJSC in the amount of RUB 8 500 million. In March 2019, the Group signed addendums to its loan agreements with Otkritie FC Bank PJSC. Those changes reduced interests to a fixed rate of 9.55%, postponed the payment date of interest accrued in 2019 by one quarter and postponed the payment of short-term portion of loan by one quarter.

In the first quarter of 2019 the Group fully fulfilled the obligation for railcars supply under the leaseback agreement, on 4 March 2019 the Group received the final payment under the supply agreement as a part of the leaseback transaction in the amount of RUB 5 122 million (incl. VAT).