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, 2017

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, 2017

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, 2017, 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 IFRSs;
- 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, 2017 were authorised for issue by management on April 27, 2018.

On behalf of the Management:

Alexey Tsyplakov
Deputy General Director for Economics and Finance
PJSC RPC UWC
(under letter of attorney 8-1463,
issued on December 12, 2017)

Irina Arkhangelskaya
Chief accountant PJSC RPC UWC

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Russia

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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, 2017, 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 consolidated financial position of the Group as at December 31, 2017, 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 at 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 2016 would have decreased and for 2017 would have increased by RUB 6 589 million and RUB 5 374 million, respectively. Net profit for 2016 would have decreased and for 2017 would have increased by RUB 972 million. The effects of the misstatement on the Group's consolidated financial statements for the years ended December 31, 2017 and December 31, 2016 are disclosed in Note 4.

As disclosed in Note 26 to the consolidated financial statements, as at December 31, 2017 and December 31, 2016 several subsidiaries of the Group did not comply with certain financial and non-financial covenants of their long-term loan agreements. Non-compliance with these covenants result in penalties being imposed by the banks, including the right to request early repayment of the loans. After the reporting date, the Group received waivers confirming the consent of the most creditor banks not to request early repayment of the existing obligations under the loan agreements (Note 26). 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 48 500 and 38 725 million as at December 31, 2017 and December 31, 2016, respectively, are presented in the consolidated financial statements as non-current, in line with the 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, 2017 and December 31, 2016 the Group did not have an unconditional right to postpone the repayment of these loans for at least 12 months after the reporting date.

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 consolidated 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 matters 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
Impairment of goodwill	
As at December 31, 2017 the carrying value of goodwill amounted to RUB 8 042 million (2016: 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 involves the use of significant estimates and assumptions, including forecasted selling price of railcars and their projected production costs, future sales volumes and discount rate.	We obtained an understanding of management's process of goodwill impairment analysis. We performed the following audit procedures in respect to the impairment assessment and testing of goodwill prepared 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, 2017 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. In addition, the Group incurred losses from continuing operations in 2017 and 2016. The Group's management performed an analysis of the negative factors mentioned above and concluded that the use of the going concern assumption is appropriate. Further details are disclosed in Notes 2 and 26 to the consolidated financial statements. We focused on this area because the assessment of whether the going concern assumption is applicable has a pervasive effect on consolidated financial statements. Significant judgment is required in assessing the Group's future operating and financial performance and in respect to the resolution of the issue related to non-compliance with loans' covenants.	We performed the following audit procedures in respect to this key audit matter: • analysed management's assessment of the applicability of the going concern assumption, including the plans in respect of elimination of the negative effects of non-compliance with covenants as well as the Group's plans of future business developments; • verified that after the reporting date the Group received documents confirming intention of most of the banks-creditors 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 the key assumptions used in the forecasts; • verified the 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 2018, but does not include the consolidated financial statements and our auditor's report thereon. The Annual report and the issuer's quarterly reports for the 1st and 2nd quarters of 2018 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.

When we read the Annual report and the issuer's quarterly reports for the 1st and 2nd quarters of 2018, if 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 the 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

April 27, 2018

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: ZAO 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.

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

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

	Notes	2017	2016
Continuing operations			
Revenue	7	62 020	48 505
Cost of sales	8	(52 073)	(38 580)
Gross profit		**9 947**	**9 925**
Selling, general and administrative expenses	9	(2 625)	(2 085)
Share of profit/(loss) of associates and joint ventures	16, 17	370	(113)
Other operating income, net		38	215
Impairment of property, plant and equipment	13	-	(195)
Operating profit		**7 730**	**7 747**
Finance income	10	2 449	1 137
Finance costs	11	(13 675)	(12 589)
Foreign exchange (loss)/gain, net		(154)	1 226
Loss before income tax		**(3 650)**	**(2 479)**
Income tax (expense)/benefit	12	(875)	1 726
Loss for the year from continuing operations		**(4 525)**	**(753)**
Discontinued operations			
Profit for the year from discontinued operations	6	-	1 322
(Loss)/profit for the year		**(4 525)**	**569**
Other comprehensive income			
Items that will not be reclassified subsequently to profit or loss:			
Gain on revaluation of property, plant and equipment		-	11 491
Deferred tax liability on revaluation of property, plant and equipment		-	(2 298)
Other comprehensive income		-	9 193
TOTAL COMPREHENSIVE (LOSS)/INCOME		**(4 525)**	**9 762**
Earnings per share			
From continuing and discontinued operations			
Weighted average number of ordinary shares outstanding		115 122 662	110 255 213
(Loss)/earnings per share, RUB		(39)	5
From continuing operations			
Weighted average number of ordinary shares outstanding		115 122 662	110 255 213
Loss per share, RUB		(39)	(7)

The notes on pages 11-70 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2017
(in millions of Russian Rubles, unless otherwise indicated)

	Note	December 31, 2017	December 31, 2016
ASSETS			
Non-current assets			
Property, plant and equipment	13	80 237	83 630
Prepayments for property, plant and equipment		156	895
Intangible assets	14	6 732	5 853
Goodwill	15	8 042	8 042
Deferred tax assets	12	2 949	3 688
Investments in associates and joint ventures	16	1 175	1 288
Loans receivable	22	12 503	10 877
Prepayment for subsidiary acquisition	23	2 000	-
Long-term trade receivables from sale of railcars	19	565	-
Finance lease receivables		201	224
Restricted cash	24	-	1 923
Other non-current assets		672	202
Total non-current assets		**115 232**	**116 622**
Current assets			
Inventories	18	12 118	10 960
Trade and other receivables	19	3 510	1 701
Finance lease receivables		23	20
VAT receivable		6 847	4 245
Prepayments to suppliers and other assets	21	4 036	3 893
Investment in PTK-Holding JSC	17	1 773	-
Loans receivable	22	56	3 000
Restricted cash	24	807	-
Short-term bank deposits	20	5 038	5 000
Cash and cash equivalents	24	3 799	2 648
Total current assets		**38 007**	**31 467**
TOTAL ASSETS		**153 239**	**148 089**
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital issued	25	116	113
Additional paid-in capital	25	22 993	21 169
Reserve on revaluation of property, plant and equipment	13	9 171	9 193
Accumulated deficit		(18 579)	(14 076)
Total equity and reserves		**13 701**	**16 399**
Non-current liabilities			
Long-term loans and borrowings	26	75 215	59 489
Bonds	27	29 799	29 869
Long-term finance leases liabilities		156	6
Deferred tax liabilities	12	479	2 423
Accrued expenses for employees remuneration	29	156	-
Payables for acquisition of subsidiaries	28	-	4 104
Total non-current liabilities		**105 805**	**95 891**
Current liabilities			
Short-term loans and borrowings	26	6 962	12 609
Bonds	27	671	768
Trade and other payables	28	5 393	8 879
Advances received and other current liabilities	29	20 668	13 536
Short-term finance lease liabilities		39	7
Total current liabilities		**33 733**	**35 799**
TOTAL LIABILITIES		**139 538**	**131 690**
TOTAL EQUITY AND LIABILITIES		**153 239**	**148 089**

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2017
(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 shareholders' equity	Non-controlling - interest	Total equity
Balance at January 1, 2016	**105**	**16 159**	**-**	**(14 645)**	**1 619**	**1**	**1 620**
Profit for the year	-	-	-	569	569	-	569
Gain on revaluation of property, plant and equipment (Note 13)	-	-	9 193	-	9 193	-	9 193
Total comprehensive income for the year	-	-	9 193	569	9 762	-	9 762
Issue of shares during additional public offering, net of issuance costs (Note 25)	8	5 010	-	-	5 018	-	5 018
Disposal of non-controlling interests	-	-	-	-	-	(1)	(1)
Balance at December 31, 2016	**113**	**21 169**	**9 193**	**(14 076)**	**16 399**	**-**	**16 399**
Loss for the year	-	-	-	(4 525)	(4 525)	-	(4 525)
Total comprehensive loss for the year	-	-		(4 525)	(4 525)	-	(4 525)
Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period	-	-	(22)	22	-	-	-
Issue of ashares during additional public offering, net of issuance costs (Note 25)	3	1 824	-	-	1 827	-	1 827
Balance at December 31, 2017	**116**	**22 993**	**9 171**	**(18 579)**	**13 701**	**-**	**13 701**

The notes on pages 11-70 form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2017
(in millions of Russian Rubles, unless otherwise indicated)

	2017	2016
OPERATING ACTIVITIES		
(Loss)/profit for the year	**(4 525)**	**569**
Adjustments for:		
Income tax expense/(benefit)	875	(1 552)
Depreciation and amortization	4 990	5 728
Gain from sale of railcars as part of the railcar fleet replacement program (Notes 7 and 8)	(1 976)	-
Share of (profit)/loss of associates and joint ventures	(370)	113
Effect of discounting of accounts receivable (Note 19)	165	-
Non-operating foreign exchange loss/(gain), net	154	(1 226)
Write-down of inventories to net realizable value	75	388
Loss on disposal of property, plant and equipment and intangible assets	16	176
Change in allowance for doubtful receivables	47	(172)
Gain on disposal of a subsidiary	-	(562)
Impairment loss on property, plant and equipment	-	195
Impairment and write-off of loans receivable	-	21
Loss from sale of accounts receivable under cession agreement	-	34
Finance costs	13 675	12 589
Finance income	(2 449)	(1 137)
Operating profit before changes in working capital	**10 677**	**15 164**
Movements in working capital:		
(Increase)/decrease in trade and other receivables	(2 435)	2 306
Decrease/(increase) in prepayments to suppliers and other assets	706	(3 150)
Increase in VAT receivable	(2 603)	(1 105)
Increase in inventories	(1 498)	(3 066)
(Decrease)/increase in trade and other payables	(2 633)	2 092
Increase in advances received and other current liabilities	7 181	9 584
Cash proceeds from operating activities	9 395	21 825
Cash received from the sale of railcars under the railcar fleet replacement program (Notes 7 and 13)	14 088	-
Cash paid for purchase of railcars (Notes 7 and 13)	(9 556)	-
Income tax paid	(2 169)	(811)
Finance costs paid	(15 258)	(12 101)
Net cash (used in)/generated from operating activities	**(3 500)**	**8 913**
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, including prepayments	(2 890)	(5 955)
Proceeds from disposal of property, plant and equipment and intangible assets	9	63
Purchase of intangible assets	(1 502)	(1 383)
Loans granted	(3 989)	(17 478)
Placement of short-term deposits	(5 000)	(5 000)
Proceeds from repayment of loans granted	6 311	9 920
Proceeds from redemption of short-term deposits	5 000	-
Interest received	1 184	1 087
Net cash outflow on acquisition of subsidiaries	(6 104)	-
Net cash inflow from disposal of subsidiaries	-	1 138
Cash paid on acquisition of investments in associates	(1 290)	(649)
Net cash used in investing activities	**(8 271)**	**(18 257)**
FINANCING ACTIVITIES		
Shareholders' capital contribution, net	1 827	5 018
Proceeds from loans and borrowings	44 372	32 153
Repayment of loans and borrowings	(34 524)	(29 670)
Proceeds from issuance and sale of bonds	-	1 684
Purchase of own bonds	(70)	(131)
Finance lease payments (including leaseback), net	150	31
Cash deposited in accordance with covenants (Notes 24, 26)	(807)	(142)
Redemption of cash deposited in accordance with covenants (Note 26)	1 923	-
Net cash generated from financing activities	**12 871**	**8 943**
Net increase/(decrease) in cash and cash equivalents	**1 100**	**(401)**
Effect of foreign exchange changes including effect of revaluation of cash and cash equivalents	51	(158)
Cash and cash equivalents, beginning of the year	**2 648**	**3 207**
Cash and cash equivalents, end of the year	**3 799**	**2 648**

The notes on pages 11-70 form an integral part of these consolidated financial statements.

(in millions of Russian Rubles, unless otherwise indicated)

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 5, 2015. The Company's registered and business address is 7/11 Novokuznetskaya St., Bld. 1, Moscow.

As at December 31, 2017, 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;
- Finance and operating lease of railway cars;
- Rail transportation services: until disposal of a subsidiary Vostok 1520 LLC in 2016. In 2017 from the date of the renewal of services by one of the Group's subsidiaries.

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

Shareholders	At December 31, 2017 Share, %	At December 31, 2016 Share, %
Management Company Sever Asset Management LLC	15.91%	-
SIB (Cyprus) Limited[1]	14.33%	-
Management Company Navigator Management LLC	11.56%	-
Management Consulting LLC	8.14%	-
Joint Stock Company Otkritie Holding	7.94%	-
Joint Stock Company IQG Assets Management (Joint Stock Company EFG Assets Management)	5.66%	7.98%
United Wagon PLC (ICT-Holding)[2]	-	25.05%
Open Joint Stock Company RONIN Trust	-	9.01%
Other shareholders	36.46%	57.96%
Total	**100%**	**100%**

[1] The share related to a REPO transaction
[2] In July 2017 ICT-Holding sold its share in United Wagon Plc.

As at December 31, 2017 and 2016, the Group had no ultimate controlling party.

(in millions of Russian Rubles, unless otherwise indicated)

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

Company	Place of registration	Principal activities	Ownership interest in the Group As at December 31, 2017	As at December 31, 2016
Rail 1520 (BVI) LTD	BVI	Investment company	100%	100%
RAIL 1520 Finance Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL1520 LLC	Russia	Operating lease of railcars	100%	100%
RAIL 1520 Service (BVI) LTD	BVI	Investment company	100%	100%
RAIL 1520 Service Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL1520 Service LLC	Russia	Operating lease of railcars	100%	100%
RAIL 1520 (BVI) Leasing LTD*	BVI	Investment company	-	100%
RAIL 1520 Cyprus Leasing LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Leasing LLC	Russia	Finance lease of railcars	100%	100%
RAIL 1520 Wagon LTD*	BVI	Investment company	-	100%
RAIL 1520 Wagon Cyprus LTD	Cyprus	Investment company	100%	100%
TZK UWC LLC	Russia	Finance lease of railcars	100%	100%
Kintonia Investments LTD*	BVI	Investment company	-	100%
Ovilleno Holdings LTD	Cyprus	Investment company	99%	99%
TyazhMash Joint Stock Company	Russia	Railway car manufacturing	99%	99%
VNICTT LLC	Russia	Engineering and construction bureau	99%	99%
Trade House "UWC" LLC	Russia	Trading of railcars and equipment	99%	99%
Springs Industrial Technology Center LLC	Russia	Springs production	99%	99%
TM-energo LLC	Russia	Power generation	99%	99%
TAP Titran-Express JSC	Russia	Transport engineering plant	99%	100%
UW Forge Company LTD	Cyprus	Investment company	100%	100%
UWC Centrokuz LLC	Russia	Transport engineering plant	99%	99%
Restadiana Ventures LTD	Cyprus	Investment company	99%	99%
UWC Soyuz LLP*	Kazakhstan	Organization of transportation and transportation of goods	-	99%
Unikon 1520 LLC	Russia	Organization of transportation and transportation of goods	99%	-
RAIL 1520 (BVI) Management Company LTD*	BVI	Investment company	-	100%
RAIL 1520 Cyprus Management Company LTD	Cyprus	Investment company	100%	100%
UWC Finance LLC	Russia	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	Russia	Production of tank cars	99%	99%
TikhvinSpetsMash Joint Stock Company	Russia	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	99.93%	99.93%
DEANROAD Limited	Cyprus	Development of production technology for the plant	99%	99%
Tikhvin Railway Car Building Plant Joint Stock Company (TVSZ JSC)	Russia	Railway cars manufacturing plant	99.97%	99.97%
Uniwagon North America Corp	USA	Investment company	100%	-
Starfire Engineering, Inc.	USA	Engineering and construction bureau	100%	-
Rail Holding LTD	BVI	Investment company	100%	100%

* in 2017 the Group liquidated the following subsidiaries: RAIL 1520 (BVI) Leasing LTD, RAIL 1520 Wagon LTD, Kintonia Investments LTD, RAIL 1520 (BVI) Management Company LTD and UWC Soyuz LLP

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 that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

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

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

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

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

Going concern assumption

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

Under the terms of 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, 2017 the Group's subsidiaries and PJSC RPC UWC breached a number of financial and non-financial covenants stipulated by loan agreements which could result in negative consequences for the Group, including declaration of default (Note 26).

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 have been breached as at the reporting date, or not.

After the reporting date but before the date of approval of these consolidated financial statements a set of documents was agreed and signed, directly or indirectly confirming that creditors have no intention and/or a further legal right to demand early repayment of the loans and borrowings with breached covenants: official letters were received, confirming that the creditors' will not demand an early repayment of the loans and the Group eliminated the breach of certain covenants.

In 2017 the Group's consolidated loss from continuing operations was RUB 4 525 million (2016: RUB 753 million).

In 2017 the production level of 19.1 thousand railcars at manufacturing facilities of the Group was in line with the budget. Based on management forecasts, the minimum expected production level at TVSZ JSC, TikhvinChemMash CJSC and TikhvinSpetsMash CJSC in 2018 will be between 19 - 20 thousand railcars. The management of the Group also expects stable demand for the innovative railcars in 2018: 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 2018 at prices 5-10% higher than in 2017.

In 2019 and beyond, the Group does not expect a significant decrease of demand for the railcars.

At the end of 2016 and in 2017, the Group refinanced part of its borrowings and adjusted its loan portfolio in such a way that floating (variable) interest rates were set for a significant portion of loan agreements. Floating (variable) interest rates which depend either on the Russian Central Bank (hereinafter – the "CBR") REPO rate or on the Mosprime rate. The Group's bonds issued in 2013-2014 also have variable rates depending on the consumer price index (the "CPI") or the CBR REPO rate (note 27). Accordingly, a steady decline in the CBR REPO rate, Mosprime rates and the CPI, which was observed during 2017, will lead to a significant decrease in the Group's effective interest rate in 2018. Management of the Group is also negotiating with creditor banks to decrease the remaining fixed interest rates to the current market level or to refinance loans with high interest rates. In case of successful negotiations, this will also allow the Group to reduce the effective interest rate on borrowings.

According to the Group's management, the above factors will lead to a reduction in the effective interest rate to 10% per annum, which will correspond to the current market rate (Note 32) and will lead to a decrease in interest expenses in 2018 by RUB 1-1.5 billion.

The management believes that these factors taken together will allow the Group to generate profit in 2018.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The functional currency of the Group's subsidiaries is the Russian Ruble ("RUB").
The presentational currency of the consolidated financial statements is the Russian Ruble. These consolidated financial statements are presented in 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.

(in millions of Russian Rubles, unless otherwise indicated)

Foreign currency transactions

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in 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	**2017**	**2016**
At the end of the reporting period		
RUB/ USD	57.60	60.66
RUB/ EUR	68.87	63.81
Average exchange rates for the reporting period		
RUB/ USD	58.35	67.03
RUB/ EUR	65.90	74.23

Basis of consolidation

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

Control is achieved when the Company:

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

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

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

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

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

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

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

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

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

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

Business combinations

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

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

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

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

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

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. The contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 or IAS 37 with the corresponding gain or loss being recognized in profit or loss.

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

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

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

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

Goodwill

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

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

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

Investments in associates and joint ventures

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

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

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

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

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

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

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

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

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

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 IAS 39 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 51 to 174 months. Know-how and production technology development costs are considered to have indefinite useful lives. Such assets are not amortized and are carried at cost less accumulated impairment losses. The ERP system development and installation costs are amortized over 120 months which is the best estimate of their useful economic lives.

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

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

Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible 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.

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 (or cash-generating unit) is reduced to its recoverable amount. Impairment losses are recognized in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or a 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 (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

Property, plant and equipment

Before June 30, 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 June 30, 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. Revaluations are performed with sufficient regularity such that the carrying amounts do not differ materially from those that would be determined using fair values at the end of each reporting period.

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

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

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

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

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

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately to consolidated statement of profit and loss and other comprehensive income. All other costs are recognized in the consolidated statement of profit 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	1-10
Production equipment and motor vehicles	1-26
Railcars	22-32
Production plant and buildings	11-57

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.

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 profit or loss.

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

Leases

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

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

The Group as lessor

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

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

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.

Financial instruments

The Group recognizes financial assets and liabilities in its consolidated statement of financial position when it becomes a party to the contractual obligations 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.

Financial assets

Financial assets are classified into the following categories: financial assets 'at fair value through profit and loss', 'held-to-maturity' investments, 'available-for-sale' financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the marketplace. As at the reporting date, the Group had only financial assets classified as loans and receivables.

Loans and receivables

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

Impairment of financial assets

The financial assets are assessed for indicators of impairment at the end of each reporting period.

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

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

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instruments.

Derecognition of financial assets

The Group derecognizes a financial asset 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. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in other comprehensive income and accumulated in equity is recognized in profit or loss.

On derecognition of a financial asset other than in its entirety (e.g. when the Group retains an option to repurchase part of a transferred asset), the Group allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer recognizes on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that had been recognized in other comprehensive income is recognized in profit or loss. A cumulative gain or loss that had been recognized in other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with banks, short-term interest-bearing deposits and short-term bank overdrafts with original maturities of not more than three months. Restricted cash balances are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the financial year-end date are included in other non-current assets.

Accounts payable and other financial liabilities

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

Provisions

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

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

Income tax

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

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

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

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

Deferred tax assets and liabilities are not discounted.

Revenue recognition

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

(i) Sales of railcars and components (castings, components, spare parts)

Revenue from the sale of railcars and inventories is recognized when significant risks and rewards are transferred to the customers. At which time all the following conditions are satisfied:

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

(ii) Rental income

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

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

(iii) Rail-based freight transportation services and other services

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

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

(iv) Interest income

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

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

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized and amortized over the useful life of the asset.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for 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 are credited to profit or loss over the periods of the related interest expense unless the interest was capitalized into the cost of property, plant and equipment in which case they are deducted from the cost of the respective items of property, plant and equipment and credited to the profit or loss on a straight-line basis over the expected lives of these assets.

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

Government grants related to compensation of the Group's transportation 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.

Loan granted to the parent

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

Employee benefits

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

In 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 876 million (2017 limit) the rate of 10% is applied to the excess amount to determine the amount of the respective contributions. In 2017 contributions were limited to the employee's income threshold of RUB 755 million, 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.

Relief from property tax

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

3. NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STATEMENTS

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

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

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

Amendments to IAS 7 *Disclosure Initiative*

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

The Group's liabilities arising from financing activities consist of borrowings and certain other financial liabilities. A reconciliation between the opening and closing balances of these items is provided in Note 26. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior period. Apart from the additional disclosure in Note 26, the application of these amendments has had no impact on the Group's consolidated financial statements.

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

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

Annual Improvements to IFRSs - 2014-2016 Cycle

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

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

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

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

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

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

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

IFRS 9 Financial Instruments

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

Key requirements of IFRS 9 are:

- **Classification and measurement of financial assets.** All recognized financial assets that are within the scope of IFRS 9 are required to be subsequently measured at amortized cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt and equity instruments are measured at their fair values. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading nor contingent consideration recognized by an acquirer in a business combination) in other comprehensive income, with only dividend income generally recognized in profit or loss.

- **Classification and measurement of financial liabilities.** With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in the consolidated statement of profit or loss and other comprehensive income.
- **Impairment.** In relation to the impairment of financial assets, IFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under IAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- **Hedge accounting.** The new hedge accounting requirements retain the three types of hedging relationship as defined in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an 'economic relationship'. Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

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

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

IFRS 15 Revenue from Contracts with Customers

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

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

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

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

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

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

IFRS 16 Leases

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

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

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

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

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

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

The Group continues to evaluate the impact that IFRS 16 will have on the Group's consolidated financial statements: for instance, how operating leases will meet the definition of a lease agreement under IFRS 16, and hence how the Group will recognize a right-of-use asset and a corresponding liability in respect of all these agreements unless leases qualify for low value or short-term leases upon the application of IFRS 16. The new requirement to recognize a right-of-use asset and a related lease liability is expected to have a significant impact on the amounts recognized in the Group's consolidated financial statements and Management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect of IFRS 16 until Management completes the review which is expected to be finalized during the year ended December 31, 2018.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

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

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the 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.

Compliance with tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. It is possible that the tax treatment of transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods.

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

While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group (see Note 31).

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Identification of related parties requires the application of management's professional judgment. Management believes that the related party disclosures in these consolidated financial statements provide all information necessary to attract attention to the potential effect of the Group's transactions and outstanding balances with related parties on Group's financial position and financial performance (Note 30).

IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is market rates for similar types of transactions with unrelated parties and analysis of effective interest rates. Terms and conditions of balances with related parties are disclosed in Note 30.

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

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. If expectations differ from previous estimates, the difference is recognized as a change in accounting estimates, in accordance with IAS 8 *Accounting Policies, Changes in Accounting Estimates and Errors*. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of identifiable assets of CGU "Lease"

At the reporting dates, the Group reviews the carrying amounts of identifiable assets of CGU "Lease" to determine whether there is any indication that assets are impaired. Railcars available for operating and finance lease form the major part of identifiable assets of the CGU. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of decline in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment may exist.

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

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

- The Group estimated its future cash flows for the period from 2018 to 2022, after which it assumed a constant amount of cash flow in real terms for the remaining average useful life of the existing assets;
- Cash inflow projections are based on the average daily contractual revenue, which is calculated by management as average daily leasing rate for leased rail cars;
- Prices for railcar repairs are expected to remain at a level of prices effective in 2017 in real terms.

The pre-tax discount rate used in the calculations was equal to 8.26% in real terms. It has been determined with reference to the estimated weighted average cost of capital of the Group.

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

As a result of tests performed, in 2017 the Group did not recognize any impairment. Management believes that any reasonable change in key assumptions, which are used for calculation of recoverable amount, will not result in carrying value of CGU exceeding its recoverable amount.

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 goodwill for impairment:

- 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 and 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.

In 2017, upon the impairment analysis, no indicators of impairment of goodwill and intangible assets were identified. Key assumptions used by the Group for impairment testing are disclosed in Note 15.

Critical judgements in applying accounting policies

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

In the first half of 2017, the Group's management decided to introduce a program to replace the old fleet of 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 December 31, 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 year ended December 31, 2017, 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 railcars under the railcar fleet replacement program 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 February 21, 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.

(in millions of Russian Rubles, unless otherwise indicated)

If the Group recognized the sale in 2017, the effect on the consolidated financial statements for the year ended December 31, 2016 would be as follows:

Consolidated financial statement line item	**As reported in 2016**	**The effect if the sale would be recognized in 2017**	**Would be reported in 2016 if the sale was recognized in 2017**
Revenue	48 505	(6 589)	41 916
Cost of sales	(38 580)	5 374	(33 206)
Income tax benefit	1 726	(243)	1 483
Loss for the year from continuing operations	**(753)**	**(972)**	**(1 725)**
Inventories	10 960	5 374	16 334
VAT receivable	4 245	1 186	5 431
Advances received	(13 536)	(7 775)	(21 311)
Deferred tax liabilities	(2 423)	243	(2 180)
Accumulated deficit	**14 076**	**972**	**15 048**

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 freight railcars of new generation;
- The "Lease" segment provides operating and finance lease of freight railcars.

The Group's principal business activities are within the Russian Federation. Other activities of the Group do not constitute a separate reporting segment and are included in the Other segments. In 2017 as a result of the reorganization of the manufacturing facility of the Group the results of TAP Titran-Express JSC were transferred to the "Production" segment (Note 15).

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

(in millions of Russian Rubles, unless otherwise indicated)

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

December 31, 2017	**Production segment**	**Lease segment**	**Other segments**	**Total segments**	**Adjustments and eliminations**	**Consolidated**
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-off 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/(expenses), net	408	38	(50)	396	(358)	38
Share of profit/(loss) 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 from continuing operations						**(3 651)**

December 31, 2016	**Production segment**	**Lease segment**	**Other segments**	**Total segments**	**Adjustments and eliminations**	**Consolidated**
Revenue	**43 435**	**5 248**	**5 574**	**54 257**	**(5 752)**	**48 505**
including inter-segment revenue	485	36	4 980	5 501	(5 501)	-
Cost of sales, including:	**(36 010)**	**(2 866)**	**(5 227)**	**(44 103)**	**5 523**	**(38 580)**
- Inventories	(23 499)	-				
- Payroll	(5 738)	-				
- Property tax	-	(555)				
- Maintenance and repairs of railcars	-	(372)				
- Depreciation and amortization	(2 978)	(1 896)				
- Write-down of inventories to net realizable price	(294)	-				
- Other	(3 502)	(43)				
Selling, general and administrative expenses	(1 172)	(400)	(760)	(2 332)	247	(2 085)
Other operating income/(expenses), net	(65)	371	62	368	(153)	215
Share of loss of associates and joint ventures	(122)	9	-	(113)	-	(113)
Depreciation and amortization	2 978	1 896	828	5 702	25	5 727
EBITDA	**9 043**	**4 259**	**476**	**13 778**	**(109)**	**13 670**
Finance income	15	3 231	5 664	8 910	(7 773)	1 137
Finance costs	(4 000)	(9 725)	(6 644)	(20 369)	7 779	(12 589)
Depreciation and amortization						(5 727)
Foreign exchange gain						1 226
Impairment loss						(195)
Loss before income tax from continuing operations						**(2 479)**

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

(in millions of Russian Rubles, unless otherwise indicated)

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 2017, the key external customer of the "Production" segment was PJSC GTLK, which accounted for 56% of the segment's external sales. In 2016, the key external customers of the Production segment were PJSC GTLK and VM-Trans LLC, which accounted for 29% and 31% of the segment's external sales, respectively.

In 2017, the key external customers of the "Lease" segment were Vostok 1520 LLC and SUEK OJSC, which accounted for 43% and 21% of the segment's external sales, respectively. In 2016 the sales to these customers accounted for 49% and 29% 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. DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY

On November 17, 2016 the Group entered into a sale agreement to dispose of its subsidiary Vostok 1520 LLC, which provided rail transportation services.

The Group classified the disposed subsidiary as a component of the Group in accordance with IAS 5 "Long-term assets held for sale and discontinued operations" as Vostok 1520 LLC was a separate reporting segment. Accordingly, operations of Vostok 1520 LLC were presented as discontinued operations in the consolidated financial statements for the year ended December 31, 2016.

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

	Carrying value as at November 17, 2016
Property, plant and equipment	5
Intangible assets	1
Deferred tax assets	3
Inventories	41
Trade and other receivables	103
Prepayments to suppliers and other assets	439
VAT receivable	1 303
Cash and cash equivalents	146
Total assets	**2 041**
Advances received and other current liabilities	345
Trade payables	973
Total liabilities	**1 318**
Net assets disposed of	**723**

(in millions of Russian Rubles, unless otherwise indicated)

Gain from disposal of subsidiary was as follows:

Consideration received	1 285
Net assets disposed of	(723)
Gain on disposal of subsidiary	**562**

Profit for the year ended December 31, 2016 from discontinued operations was as follows:

	2016
Revenue	12 365
Other operating income	90
	12 455
Net expenses, including:	(11 522)
- Cost of sales	(11 216)
- Selling, general and administrative expenses	(309)
- Finance income	7
- Finance costs and foreign exchange loss	(4)
Profit before profit tax	933
Income tax	(173)
	760
Gain on disposal of subsidiary	562
Profit for the year from discontinued operations	**1 322**

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

Cash consideration	1 285
Cash and cash equivalent of disposed subsidiaries	(147)
Cash inflow from disposal of subsidiary	**1 138**

Cash flows from discontinued operations were as follows:

	2016
Net cash	
- received from operating activities	112
- used in operating activities	(1)
Net cash inflows	**111**

7. REVENUE

Revenue of the Group from continuing operations (excluding finance income – Note 10) comprised the following:

	2017	**2016**
Continuing operations		
Sales of railcars	55 106	42 898
Operating lease of railcars	6 126	5 210
Sales of castings, components and other inventories (incl. spare parts)	300	50
Revenue from repair services	111	162
Rail transportation services	100	-
Other	277	185
Total revenue	**62 020**	**48 505**

(in millions of Russian Rubles, unless otherwise indicated)

In the first half of 2017, the Group's management decided to replace the old fleet of railcars previously leased by the Group with the new innovative railcars. Accordingly 7 379 railcars with a carrying value of 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 December 31, 2017.

8. COST OF SALES

Cost of sales of the Group from continuing operations comprised the following:

	2017	2016
Continuing operations		
Raw materials used in production	25 226	22 989
Carrying value of railcars sold as part of the railcar fleet replacement program (Note 7)	12 112	-
Payroll and social contributions	5 268	5 953
Depreciation and amortization	4 949	5 690
Property tax	165	710
Write-down of inventories to net realizable value	75	388
Railcar repair and maintenance	203	241
Other	4 075	2 609
Total cost of sales	**52 073**	**38 580**

In 2017 and 2016 raw materials used in production 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 and RUB 3 218 million, respectively. In 2017, the "Other" line included grants for the compensation of certification costs in foreign markets in the amount of RUB 11 million (in 2016 no such grants were provided to the Group).

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	2017	2016
Continuing operations		
Payroll, social contributions and other staff costs	1 075	637
Information, consulting and audit services	363	346
Leases	357	353
Railcar-sales related costs	119	6
Advertising expenses	87	30
Other taxes	78	53
Travel expenses	50	52
Expenses for information on railcars disposition	48	38
Change in allowance for doubtful accounts receivable	47	(172)
Depreciation and amortization	41	37
Transportation costs for the delivery of railcars to the buyer	29	215
Disposal and write-off of property, plant and equipment	13	176
Change in railcar warranty provision	(38)	(10)
Other	356	323
Total selling, general and administrative expenses	**2 625**	**2 085**

Transportation costs for the delivery of railcars to the buyer were decreased by the amount of grants of RUB 96 million received in 2017 as a compensation for export railcar transportation costs.

(in millions of Russian Rubles, unless otherwise indicated)

10. FINANCE INCOME

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

	2017	2016
Continuing operations		
Interest income on loans granted	1 407	623
Interest income on deposits, cash and equivalents	963	514
Interest income from accounting of financial assets using the effective interest rate (accounts receivable) (Note 19)	79	-
Total finance income	**2 449**	**1 137**

11. FINANCE COSTS

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

	2017	2016
Continuing operations		
Interest expense on loans and borrowings	9 865	8 753
Interest expense on bonds	3 133	3 779
Cost of guarantees and sureties	875	668
Bank commissions	214	318
Interest expense on liabilities for acquisition of subsidiaries	184	369
Write-off of bank commissions for early repayment of loan	118	340
Government grants	(577)	(624)
Less: amounts included in the cost of qualified assets:		
Capitalized interest expense	(137)	(1 014)
Total finance costs	**13 675**	**12 589**

The Group receives subsidies from the Ministry of Industry and Trade of the Russian Federation, granted within the state-run program on partial compensation of the interest payable on bank loans used for the modernization of the qualifying railcar fleet. Since 2014 onwards the Group also receives subsidies for partial compensation of the interest payable on bank loans used for the acquisition and production of innovative railcars.

12. INCOME TAX

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

	2017	2016
Current income tax expense	(2 080)	(443)
Deferred income tax benefit	1 205	2 169
Total income tax (expense) / benefit for the year from continuing operations	**(875)**	**1 726**

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

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

(in millions of Russian Rubles, unless otherwise indicated)

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:

	2017	**2016**
Loss before income tax	**(3 650)**	**(2 479)**
Theoretical tax credit at statutory tax rate of 20%	730	496
Tax effect of items which are not deductible or assessable for taxation purposes:		
Unrecognized tax losses of foreign subsidiaries of the Group	(301)	(932)
Reduction of current income tax for previously unrecognized deferred tax asset on tax losses	-	802
Recognition of previously unrecognized deferred tax asset on tax losses carried forward	-	2 202
Effect of different income tax rates and taxation rules applicable to foreign subsidiaries of the Group	(1 254)	(699)
Taxes accrued for prior years	(41)	(36)
Share of profit/(loss) of joint venture	74	(23)
Other items	(83)	(84)
Income tax (expense)/benefit	**(875)**	**1 726**

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

Deferred tax assets/(liabilities) as at December 31, 2017 and 2016 are presented as follows:

	2017	**2016**
Tax losses carried forward in Russian companies of the Group	6 047	5 798
Effect of recognition of sales of railcars in different periods	-	(275)
Accounts receivable	50	36
Accruals	183	98
Inventories	(137)	(10)
Property, plant and equipment	(3 384)	(4 113)
Loan commission	(9)	10
Intangible assets	(298)	(312)
Other	18	33
Deferred tax asset, net	**2 470**	**1 265**

The movements in deferred tax during the years ended December 31, 2017 and 2016 were as follows:

	2017	**2016**
Deferred tax asset at the beginning of the year, net	1 265	1 496
Deferred tax benefit	1 205	2 169
Deferred tax expense from discontinued operations	-	(102)
Deferred tax liability from revaluation of property, plant and equipment	-	(2 298)
Deferred tax asset at the end of the year, net	**2 470**	**1 265**

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

	2017	**2016**
Deferred tax asset	2 949	3 688
Deferred tax liability	(479)	(2 423)
Deferred tax asset, net	**2 470**	**1 265**

(in millions of Russian Rubles, unless otherwise indicated)

As at December 31, 2017 and 2016, temporary differences associated with undistributed earnings of subsidiaries are not recognized in the consolidated financial statements as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

As at December 31, 2016 the Group recognized a deferred tax asset in respect of unused tax loss carry forwards of RUB 3 004 million. The deferred tax asset was recognized because management had the confidence in their recoverability, Production segment where they had been previously unrecognized generates positive financial results, and its performance shows positive dynamics.

13. PROPERTY, PLANT AND EQUIPMENT

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

	Railcars	Equipment and motor vehicles	Production plant and buildings	Office equipment and furniture	Construction in progress (i)	Total
Cost						
As at January 1, 2016	**38 894**	**22 330**	**14 482**	**325**	**14 804**	**90 835**
Additions	-	10	-	-	5 301	5 311
Transfers	72	12 001	6 191	3	(18 267)	-
Disposals	(11)	(52)	(33)	(10)	(73)	(179)
Disposal of subsidiary	-	(9)	-	(4)	-	(13)
Gain on revaluation	-	6 919	4 572	-	-	11 491
Netting of accumulated depreciation on revaluation	-	(7 916)	(1 734)	-	-	(9 650)
As at December 31, 2016	**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)
As at December 31, 2017	**33 362**	**36 752**	**24 413**	**361**	**821**	**95 709**
Accumulated depreciation and impairment						
As at January 1, 2016	**9 744**	**6 922**	**1 482**	**147**	**(51)**	**18 244**
Depreciation charge	1 727	3 021	587	78	-	5 413
Disposals	(8)	(11)	-	(10)	-	(29)
Disposal of subsidiary	-	(6)	-	(2)	-	(8)
Netting of accumulated depreciation on revaluation	-	(7 916)	(1 734)	-	-	(9,650)
Impairment loss	-	194	1	-	-	195
As at December 31, 2016	**11 463**	**2 204**	**336**	**213**	**(51)**	**14 165**
Depreciation charge	1 287	3 802	742	60	-	5 891
Disposals	(18)	(59)	(2)	(7)	-	(86)
Railcar fleet replacement (depreciation)	(4 498)	-	-	-	-	(4 498)
As at December 31, 2017	**8 234**	**5 947**	**1 076**	**266**	**(51)**	**15 472**
Residual value						
As at December 31, 2016	**27 492**	**31 079**	**23 142**	**101**	**1 816**	**83 630**
As at December 31, 2017	**25 128**	**30 805**	**23 337**	**95**	**872**	**80 237**

(i) Construction in progress includes primarily expenses for the construction of the railway car manufacturing plant and equipment being prepared for installation.

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 Note 26.

(in millions of Russian Rubles, unless otherwise indicated)

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.

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 performed by independent appraiser as at June 30, 2016. 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 Group's management considers that the carrying amounts of revalued categories of property, plant and equipment approximate their fair value as at December 31, 2017.

The key assumptions used in the valuation were the degree of deterioration (29% 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 fixed assets are specific, thus, direct analogues are not available at the market and therefore an independent appraiser applied the method of indexation of costs incurred during construction, acquisition or installation of the assets to estimate the replacement cost. Considering the unique characteristics of the revalued items, assumptions used in assessment of fair value, and level of observable input data, the fair value was categorized into Level 3.

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

	Level 1	**Level 2**	**Level 3**	**Fair value as at December 31, 2017**
Equipment and motor vehicles	-	-	17 859	17 859
Production plant and buildings	-	-	16 501	16 501

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

	December 31, 2017	**December 31, 2016**
Equipment and motor vehicles	10 529	11 922
Production plant and buildings	11 947	12 126

(in millions of Russian Rubles, unless otherwise indicated)

14. INTANGIBLE ASSETS

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

	Intangible assets at the develop ment stage	Know-how and patents	Software	Total
Cost				
As at January 1, 2016	**1 100**	**4 263**	**294**	**5 657**
Additions	1 002	73	141	1 216
Acquisition of subsidiaries	-	-	(1)	(1)
Disposal of subsidiaries	-	(6)	-	(6)
Transfers	(414)	470	(56)	-
As at December 31, 2016	**1 688**	**4 800**	**378**	**6 866**
Additions	988	190	100	1 278
Disposals	(6)	(3)	-	(9)
Transfers	(644)	639	5	-
At December 31, 2017	**2 026**	**5 626**	**483**	**8 135**
Accumulated depreciation				
As at January 1, 2016	-	**571**	**65**	**636**
Depreciation charge	-	319	61	380
Disposals	-	(3)	-	(3)
Transfers	-	16	(16)	-
As at December 31, 2016	-	**903**	**110**	**1 013**
Depreciation charge	-	309	81	390
At December 31, 2017	-	**1 212**	**191**	**1 403**
Residual value				
As at December 31, 2016	**1 688**	**3 897**	**268**	**5 853**
As at December 31, 2017	**2 026**	**4 414**	**292**	**6 732**

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.

As at December 31, 2017 and 2016, the historical cost of internally generated intangible assets was RUB 3 045 million and RUB 2 072 million, respectively. As at December 31, 2017 and 2016, accumulated amortization of such intangible assets amounted to RUB 25 million and RUB 14 million, respectively. The total amount of additions of internally generated intangible assets in 2017 and 2016 amounted to RUB 980 million and RUB 988 million with amortization charges of RUB 11 million and 12 million, respectively.

In 2017 and 2016, the Group registered a number of patents in the amount of RUB 30 million and RUB 42 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.

(in millions of Russian Rubles, unless otherwise indicated)

In 2017, the Group acquired a license pack for SAP ERP system. Total capitalized costs amounted to RUB 75 million. The Group also made advance payments of RUB 23 million for the development of SAP implementation methodology, which is included in other long-term assets in the consolidated statement of financial position.

SAP licenses are included in "Software" item of this disclosure, together with the ERP system implemented at TVSZ JSC.

Production technologies development costs are considered to have indefinite useful lives and are carried at cost less accumulated impairment losses. The total amount of know-hows and patents with indefinite useful lives was RUB 2 066 million and RUB 1 404 million as at December 31, 2017 and 2016, respectively.

Intangible assets pledged as collateral are disclosed in Note 26.

15. GOODWILL

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

	Carrying value	
	December 31, 2017	**December 31, 2016**
CGU – "Production":		
TVSZ JSC	108	108
TM-energo LLC	5 436	5 436
TAP Titran-Express JSC	2 498	-
CGU – "Repair and maintenance of railcars"		
TAP Titran-Express JSC	-	2 498
Total	**8 042**	**8 042**

In 2015 the Group acquired TM-energo LLC and TAP Titran-Express JCS and recognized goodwill in the amount of RUB 7 934 million.

Goodwill recognized on acquisition of TM-energo LLC was allocated to CGU "Production".

According to management's assessment, CGU "Production", consisting of the power station and railcar manufacturing plant, represents the smallest group of assets generating cash flows, significantly independent from cash flows from other assets or group of assets.

Management's assessment on allocation of goodwill recognized on acquisition of TM-energo LLC to CGU "Production" was based on the following assumptions:

- CGU "Production", particularly railcar manufacturing plant, is a main beneficiary of the acquisition, receiving main synergetic effect;
- TVSZ JSC signed a long-term lease agreement of production facilities of the power station, maintenance and management of TM-energo LLC are performed by personnel of the plant;
- TVSZ JSC received the permission of the Market Council for a sale of part of the energy produced by TM-energo LLC on the retail market (no more than 25% from the level of energy consumed within the Group).

Goodwill arising on the acquisition of TAP Titran-Express JSC was initially allocated to CGU "Repair and maintenance of railcars", because the initial purpose of the acquisition was to get a facility allowing the Group to carry out current and capital repairs of both railcars owned and leased out by the Group and railcars owned by third parties. In 2017 the Group's management decided to replace the old railcars manufactured during 2011 to 2014 with the new innovative railcars produced in 2017. As a result the need in repairs, which are usually carried out once in 5 years or later, has significantly decreased. Thus, the availability of free production capacities of TAP Titran-Express JSC, a significant number of qualified employees and location in the production site resulted in a re-profile of TAP Titran-Express JSC's facility. In particular, the facility became a part of the railcar production process of the Group. In 2017, TAP Titran-Express JSC mainly operated as one of the Group's railcar production facilities for the assembly of railcars and the preparation of components. At the same time, the company continued to provide railcar repair services, however, the share of such services in the total revenue of TAP Titran-Express JSC was insignificant.

As at December 31, 2017, after the inclusion of restructuring TAP Titran-Express JSC to the Group`s railcar production process, 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 CGU "Production" it does not exceed the "Production" reporting segment (Note 5).

Information about annual impairment test

At December 31, 2017 the Group performed an impairment test of goodwill. For this purpose, the recoverable amount of the CGU "Production" was determined based on value in use calculations. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and corresponding discount rate, which reflects time value of money and risks associated with the Group's operations.

Key assumptions management used in their value in use calculation as at December 31, 2017 are as follows:

- Forecasted cash flows are based on business plan of the Group for 2018-2024, approved by Management and assuming increase in gross margin and increase in prices for raw materials during this period. The expected increase in gross margin is based on achievement of heavy castings plant full production capacity after the commissioning of the 4th production line, which will allow to utilize the balance of capacities for the sales to external customers and to increase revenues not only from the sale of finished railcars, but also from the sale of castings and components. The business plan includes key industry and market trends, such as appearance of new competitors, change in structure of demand for railcars, implementation of innovation technologies etc. The macroeconomic trends used by the Group`s management reflect the lower threshold of the long-term forecast of the Central Bank of the Russian Federation.
- Cash flows after 2024 were determined by extrapolation using a steady growth rate equal to 2.6% per year, which is estimated based on historical experience and expectations of market development and reflects the forecasted long-term growth rates of Russian industry.
- The Group calculated the average selling prices for railcars for 2018 on the basis of the current price lists and contracts for the sale of finished products actually concluded by the Group.
- Discount rate for CGU "Production" was calculated based on weighted-average cost of capital for the Group before taxation; its nominal value is 15.96%.

The analysis indicated that the estimated recoverable value of CGU "Production" exceeded its carrying amount.

(in millions of Russian Rubles, unless otherwise indicated)

Sensitivity Analysis

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

16. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The Group's significant associates and joint ventures include:

			Ownership and voting interest of the Group	
Name	**Type of investment**	**Place of incorporation and operation**	**December 31, 2017**	**December 31, 2016**
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

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

The joint venture commenced its operations in 2013. The joint venture's primary business is operating lease and sale of railcars to transportation and manufacturing companies within Russia.

The Group's share in profit of the joint venture for 2017 and 2016 recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 21 million and RUB 10 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.

	December 31, 2017	**December 31, 2016**
Cash and cash equivalents	131	44
Trade receivables	5	5
Property, plant and equipment	569	612
Deferred tax assets	3	-
Other current liabilities	(13)	(8)
Non-current liabilities	-	(1)
Net assets of the joint venture	**695**	**652**
Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	**347**	**326**

	2017	**2016**
Revenue	131	143
Profit and total comprehensive income for the year	42	20
Share of profits of joint venture	21	10

(in millions of Russian Rubles, unless otherwise indicated)

The above profit for the year includes the following:

	2017	2016
Depreciation and amortization	(42)	(44)
Interest income	-	2
Interest expense	-	(9)
Income tax expense	(11)	(5)
Foreign exchange loss	(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 shareholder of Timken UWC LLC. The Group owns a 49% share in TUBC Limited.

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.

In February and October 2016, the Group acquired 98 of additionally issued shares of Timken UWC LLC at 97.6 and 92.6 USD per share, respectively. Total amount of additional investments in associate comprised RUB 649 million at exchange rate effective at the date of acquisition of additional shares.

The Group's share in the loss of the associate recognized in the statement of profit or loss and comprehensive income for 2017 and 2016 was RUB 139 million and RUB 122 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.

	December 31, 2017	December 31, 2016
Cash and cash equivalents	158	504
Accounts receivable	187	170
Inventories	298	107
Property, plant and equipment	1 312	1 418
Deferred tax assets	156	12
Trade payables	(399)	(234)
Other current liabilities	(33)	(13)
Net assets of the associate	**1 679**	**1 963**
Group's ownership interest in the associate	49%	49%
Carrying amount of the Group's interest in the associate	**823**	**962**

	2017	2016
Revenue	298	-
Loss and total comprehensive loss for the year	(284)	(250)
Group's share in (loss)/profit of the associate	(139)	(122)

(in millions of Russian Rubles, unless otherwise indicated)

The above loss for the year includes the following:

	2017	2016
Cost of sales	(480)	(4)
Selling expenses	(145)	(201)
Foreign exchange loss	(21)	(58)
Other expenses	(8)	(29)
Income tax benefit	72	42

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 December 31, 2017 and 2016, the carrying value of the Group's interest in the associate amounted to RUB 6 million and RUB 0.4 million respectively. The Group's share in the profit of the associate for 2017 was RUB 0.2 million.

17. INVESTMENT IN PTK-HOLDING JSC

In 2016, the Group and Industrial Investors Group made an arrangement on a transaction. According to the transaction's terms Joint Stock Company Pervaya Tyazhelovesnaya Kompaniya (PTK JSC), a member of the Industrial Investors Group, acquired 100% share in the company Vostok 1520 LLC, and the Group, in turn, has to purchase 19.9% of shares of PTK-Holding JSC, a shareholder of PTK JSC.

In November 2016, the Group completed the first stage of the transaction: sold a 100% share in Vostok 1520 LLC to PTK JSC (Note 6). The next stage was the acquisition of a 19.9% share in PTK-Holding JSC, which was completed in April 2017. The consideration paid for the acquisition of 19.9% share in PTK-Holding JSC was equal to the consideration received for the sale of Vostok 1520 LLC and amounted to RUB 1 285 million. As a part of this transaction in March 2017 the Group and Industrial Investors Group entered into an option agreement. According to the option agreement PTK JSC received a call option to purchase under certain conditions 19.9% of shares of PTK-Holding JSC. The call option could be exercised during the period from 1 January to April 30, 2018 and the exercise price of the call option should be equal to the fair value of the seller's share in PTK-Holding JSC as at the option exercise date and should be confirmed by an independent valuation.

In 2016 apart from Vostok 1520 LLC, a leasing company NitroChemProm LLC became a part of PTK-Holding JSC. As a result, PTK JSC became the largest owner and operator of innovative railway freight cars with a car fleet of more than 23 thousand units.

The Group also agreed to assist NitroChemProm LLC with refinancing its loan portfolio. As part of this assistance the Group purchased a promissory note issued by NitroChemProm LLC of RUB 5 500 million with a maturity date not earlier than 2027 and an annual interest rate of 10%, which was then pledged to the new creditor bank (PJSC Sberbank). As at December 31, 2017 and 2016, the promissory note was presented as loans to related parties (Note 22).

(in millions of Russian Rubles, unless otherwise indicated)

As a result of the above transactions, in 2017 the Group received a 19.9% share in the associated company PTK-Holding JSC and the right to appoint two out of six members in the Board of Directors. This together with the purchased promissory note of NitroChemProm LLC allowed the Group to classify this investment as an associate, since the Group has a significant impact on the financial and operating activities of the company, i.e. the Group has decision-making powers but cannot control activities of PTK-Holding JSC.

Accordingly, during 2017 the Group accounted for the investment in PTK-Holding JSC as an associate and recognized the share of the profit of PTK-Holding JSC in the consolidated statement of profit or loss and other comprehensive income in the amount of RUB 1 161 million. As at December 31, 2017, management of the Group assessed that it is highly probable that the call option will be exercised by PTK JSC. That was confirmed in April 2018 (Note 33), when the Group received a notification from PTK JSC stating that they exercise the call option and will redeem the Group's 19.9% share in PTK-Holding JSC for a consideration equal to the shares fair value of RUB 1 773 million. Accordingly, for the purpose of these consolidated financial statements the Group's share in the profit of PTK-Holding JSC was adjusted for the difference of RUB 673 million between the carrying amount of the investment calculated using the equity method and the consideration receivable by the Group for the sale of investment under the call option. Thus, the Group's income from equity interests in PTK-Holding JSC for the year ended December 31, 2017 was RUB 488 million (RUB 1 161 million less RUB 673 million) and was included in the share in profit/ (loss) of associates and joint ventures line of the consolidated statement of profit or loss and other comprehensive income; the investment in PTK-Holding JSC of RUB 1 773 million was included in current assets in the consolidated statement of financial position.

18. INVENTORIES

Inventories comprised:

	December 31, 2017	December 31, 2016
Raw materials and components for railcar production	9 474	8 151
Finished goods (railcars)	2 304	2 563
Other inventories	340	246
Total inventories	**12 118**	**10 960**

19. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following:

	December 31, 2017	December 31, 2016
Trade receivables from operating lease and other services	2 306	703
Trade receivables from sale of railcars	863	708
Trade receivables from sale of castings, components and other inventories	265	193
Trade receivables from repair of railcars	92	83
Other receivables	30	104
Allowance for doubtful trade and other receivables	(46)	(90)
Total trade and other receivables	**3 510**	**1 701**

(in millions of Russian Rubles, unless otherwise indicated)

As at December 31, 2017 and 2016, receivables from operating lease and other services included receivables due from the Group's related party Vostok 1520 LLC in the amount of RUB 2 092 million and RUB 495 million, respectively. In October 2017 the Group and Vostok 1520 LLC signed an additional agreement to the principal lease agreement. According to the additional agreement the credit period for Vostok 1520 LLC was increased up to 5 months. This led to an increase in accounts receivable balance.

As at December 31, 2017, receivables from sale of railcars included accounts receivable for the export sales of railcars in the amount of RUB 349 million. The export agreement provides a deferred repayment schedule with credit period up to 48 months from the date of shipment. Accounts receivable under this agreement were accounted at amortized cost using the effective interest rate, which reflects the time value of money and equals to 7%. The difference between the carrying amount and the fair value of the asset was charged to revenue from the sale of railcars in the amount of RUB 165 million. Non-current portion of receivables under this agreement 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 565 million.

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

	December 31, 2017	**December 31, 2016**
Past due 31 - 90 days	104	459
Past due 91 - 180 days	973	21
Past due 181 - 365 days	283	70
Past due over 365 days	16	32
Total	**1 376**	**582**

Movements in the allowance for doubtful trade and other receivables during the years ended December 31, 2017 and 2016 were as follows:

	2017	**2016**
Balance at the beginning of the year	90	295
Reversal of the allowance for doubtful trade receivables	(10)	(193)
Use of the allowance for doubtful trade receivables	(77)	-
Reversal of the allowance for doubtful trade receivables from discontinued operations	-	(21)
Write-off of the allowance for doubtful trade receivables of a disposed of subsidiary	-	(3)
Charge of the allowance for doubtful trade receivables	43	12
Balance at the end of the year	**46**	**90**

20. SHORT-TERM BANK DEPOSITS

Short-term deposits with banks including accrued interest comprised:

	Currency	**Interest rate, %**	**December 31, 2017**	**December 31, 2016**
PJSC Promsvyazbank (Cyprus branch)	RUB	9.00%	5 038	-
Rigensis Bank (Latvia)	RUB	10.65%	-	5 000
Total short-term deposits			**5 038**	**5 000**

(in millions of Russian Rubles, unless otherwise indicated)

As at December 31, 2017 and 2016, the Group deposited available cash of RUB 5 000 million with PJSC Promsvyazbank (Cyprus branch) and Rigensis Bank (Latvia) with annual interest rates of 9% and 10.65%, respectively. The deposit with PJSC Promsvyazbank (Cyprus branch) matures on June 14, 2018.

The interests accrued but not paid as at December 31, 2017 were RUB 38 million (as at December 31, 2016, all accrued interests were paid).

21. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS

Prepayments to suppliers and other assets comprised:

	December 31, 2017	December 31, 2016
Prepayments to suppliers	2 453	3 302
Prepaid taxes and social contributions	796	275
Bank guarantees and sureties	625	166
Prepaid expenses	201	187
Prepayment to customs	65	91
Allowance for doubtful prepayments	(104)	(128)
Total prepayments to suppliers and other assets	**4 036**	**3 893**

As at December 31, 2017 and 2016 Prepaid taxes and social contributions include prepaid income taxes of RUB 695 million and RUB 266 million, respectively.

22. LOANS RECEIVABLE

Loans issued including interest accrued were as follows:

	Currency	Interest rate, %	December 31, 2017	December 31, 2016
Loans to related parties				
Secured				
SZIZhK CJSC	RUB	11.00%	2 529	1 915
Business Engineering CJSC	RUB	11.00%	719	511
Unsecured				
NitroChemProm LLC	RUB	10.00%	6 067	5 517
SZIPK CJSC	RUB	15%	1 375	1 196
IST-Capital LLC	RUB	11.50%	1 316	1 184
Re Test Cyprus LTD	USD	6.40%	471	392
PTK Holding JSC	RUB	1-10.75%	42	-
Re Test LTD	USD	6.40%	4	4
TTC RT LLC	RUB	7.50%	2	2
United Wagon PLC	USD	6.4%	-	203
Doland Business Ltd	USD	8.00%	-	2 929
Doland Business Ltd	RUB	11.00%	-	4
Loans to third parties				
BLK-Proekt LLC	RUB	10.00%	32	19
TUR LLC	RUB	11.00%	4	1
Total loans receivable			**12 559**	**13 877**
Short-term loans			56	3 000
Long-term loans			12 503	10 877
Total loans receivable			**12 559**	**13 877**

(in millions of Russian Rubles, unless otherwise indicated)

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

In 2016 as part of the acquisition of shares in PTK-Holding JSC (Note 17) the Group also agreed to assist NitroChemProm LLC with refinancing its loan portfolio. As part of this assistance the Group purchased a promissory note issued by NitroChemProm LLC of RUB 5 500 million.

23. PREPAYMENT FOR SUBSIDIARY ACQUISISITON

In December 2017, the Group entered into a preliminary agreement for the acquisition of 100% shares of SZIPK CJSC 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 the reporting date, the Group had not received control of the acquired entity as its shares were pledged as collateral.

24. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

	December 31, 2017	December 31, 2016
Bank deposits in RUB	3 072	1 707
Current accounts in RUB	704	920
Current accounts in EUR	13	9
Current accounts in USD	7	12
Bank deposits in foreign currency	3	-
Total cash and cash equivalents	**3 799**	**2 648**

As at December 31, 2017 and 2016 the Group placed cash in overnight deposits to gain interest income. The interest rate on ruble deposits ranges from 5% to 8% and for deposits in US dollars the interest rate is set at 1.55%.

Restricted cash

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

As at December 31, 2017, the amount of restricted cash accumulated on the collateral bank account of RUB 807 million was included in current assets in the consolidated statement of financial position.

In July 2015, in accordance with covenants imposed by the syndicated loan agreement with Vnesheconombank and Eurasian Development Bank one of the Group's subsidiaries deposited cash to the reserve bank account until December 23, 2025. Under the terms of the loan agreement, the use of deposited funds is possible only with the consent of the creditors, and the amount of funds should be sufficient to cover a short-term portion of the principal and interest accrued in the next 6 months. As at December 31, 2016, the deposited funds in the amount of RUB 1 923 million were recorded in non-current assets in the line item restricted cash. In 2017, the funds held in the reserve account were used to repay the syndicated loan as a part of the refinancing arrangement (Note 26).

(in millions of Russian Rubles, unless otherwise indicated)

25. SHARE AND ADDITIONAL PAID-IN CAPITAL

As at December 31, 2017, 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 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.

On March 29, 2016, the Group's shareholders approved a decision to increase the share capital of the Group by an additional issue of 8 500 000 ordinary shares. In May 2016 the Group held an additional public offering of 7 867 948 shares by listing its shares on the Moscow stock exchange for RUB 5 036 million (based on the issuance price of RUB 640 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 18 million.

26. LOANS AND BORROWINGS

Loans and borrowings comprised:

	Maturity	Interest rate (at December 31, 2017)		December 31, 2017	December 31, 2016
At amortized cost, including:					
RUB-denominated					
Otkritie FC Bank PJSC	2024	Floating	Key rate of the CBR +2.5%	27 806	-
Alfa-Bank JSC	2023	Fixed	12.7%	18 993	19 172
Otkritie FC Bank PJSC	2021-2023	Fixed	13.8-15%	9 000	7 500
Otkritie FC Bank PJSC	2021	Floating	Key rate of the CBR +3.5%	8 944	533
Khanty-Mansiysk Bank Otkritie PJSC	2018-2020	Floating	MosPrime 3m +2.5%	7 517	7 304
National Bank Trust PJSC	2023	Floating	Key rate of the CBR +2.5%	3 946	-
Otkritie FC Bank PJSC	2022-2024	Floating	9.25%*	2 940	2 902
National Bank Trust PJSC	2020	Floating	MosPrime 3m +1.5%	1 385	-
UniCredit Bank JSC	2024	Floating	MosPrime 3m +1.5%	806	-
ROSEXIMBANK JSC	2021	Fixed	9%	778	125
Fund of industry development	2021	Fixed	5%	62	62
Vnesheconombank and EDB	2022	Fixed	11.8%	-	16 027
Otkritie FC Bank PJSC	2017	Floating	MosPrime 3m +4%	-	5 704
Gasprombank (JSC)	2022	Fixed	12.15%	-	1 998
TM Energo Finance Ltd	2019	Fixed	11.75%	-	1 973
Otkritie FC Bank PJSC	2020	Floating	MosPrime 3m +1.5%	-	1 391
RUSNANO Group	2017	Fixed	14%	-	800
MOSCOW CREDIT BANK PJSC	2017	Fixed	14%	-	783
Inbank LLC	2021	Fixed	15%	-	175
Khanty-Mansiysk Bank Otkritie PJSC	2017	Fixed	13.5%	-	50
Khanty-Mansiysk Bank Otkritie PJSC	2017	Floating	Key rate of the CBR +3.5%	-	28
United Wagon PLC	2018	Fixed	6.5%	-	8
EUR-denominated					
Otkritie FC Bank PJSC	2022	Fixed	10%	-	4 437
Khanty-Mansiysk Bank Otkritie PJSC	2017	Floating	Euribor + 5.7%	-	1 107
USD-denominated					
Doland Business Ltd	2017	Fixed	8%	-	19
Total loans and borrowings				82 177	72 098
Less: current portion				6 962	12 609
Long-term loans and borrowings				**75 215**	**59 489**

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

(in millions of Russian Rubles, unless otherwise indicated)

Security on loans and borrowings

Under the terms of the borrowing agreements as at December 31, 2017 and 2016, the Group provided the following types of security:

- Property, plant and equipment with a carrying value of RUB 63 297 and 62 015 million accordingly;
- Intangible assets with a carrying value of RUB 0.31 and 86 million accordingly;
- Rights to claim proceeds from export revenue in the amount of RUB 914 and 0 million accordingly;
- Other financial instruments with a carrying value of RUB 89 and 0 million accordingly.

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%), TikhvinSpecMash CJSC (100%).

At December 31, 2016 the Group provided the pledge of share in the following subsidiaries: TVSZ JSC (100%), Advanced Freight Car Technology Limited (100%), DEANROAD Limited (100%), Raygold Limited (99.9%); RAIL1520 LLC (100%), RAIL1520 Service LLC (100%); PJSC RPC UWC (13.7852%), RAIL 1520 Cyprus Ltd (75%), TikhvinChemMash CJSC (100%), TM-Energo (100%), TikhvinSpecMash CJSC (100%).

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

Year ended December 31	Amount to maturity
2018	6 962
2019	10 422
2020	11 086
2021	16 382
2022	5 544
Thereafter	31 781
Total	**82 177**

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.

			Non-cash changes			
	January 1, 2017	**Cash flows from financial activities**	**Foreign exchange difference**	**Other non-cash changes**	**Net interest payments**	**December 31, 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 leases	13	150	-	32	12	195
	102 748	**9 928**	**501**	**158**	**(495)**	**112 842**

Covenants

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

Compliance with covenants during the year ended December 31, 2017

As at 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 exercise the right to demand an early repayment of the debt. The reason for the breach was providing the guarantee in favor of Vostok1520 LLC under its leasing payments to PJSC GTLK. Due to the violation of the obligatory terms of the loan agreement, the creditor bank was entitled the right to demand an early repayment of the entire debt amount within the relevant loan agreement. On March 23, 2018, PJSC RPC UWC entered into additional agreements with PJSC GTLK and Vostok1520 LLC, according to the agreement the amount of liability of the guarantee was reduced to RUB 812 million, which eliminated the breach of the covenant provided by the loan agreement.

In September 2017 a subsidiary of the Group breached the obligatory financial 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 does not plan to apply other sanctions for this 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 the obligatory financial 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 Nitrokhimprom LLC. Both breached covenants drive default. As at the date of approval of these consolidated financial statements, the management of the Group believes that the waiver from the application of sanctions for this covenant received from Bank FC Otkritie PJSC continues in 2017, despite the transfer of the debt to National Bank Trust PJSC.

As at December 31, 2017, one of the group's subsidiaries breached a number of obligatory default financial covenants stipulated in the loan agreement with Bank FC Otkritie PJSC. In particular: the ratio of the accounts payable less inventory and accounts receivable to total assets, determined in accordance to the statutory financial statements and the ratio of intra-group (settlements with the companies of the Group) accounts payable and accounts receivable balances to the total amounts of accounts payable and accounts receivable. 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. As at the date of approval of these consolidated financial statements, the Group has received a letter from the bank confirming that the bank does not have plans to impose additional sanctions, apart from those previously notified to the borrower.

In addition as at December 31, 2017 the Group breached a number of other obligatory financial 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.

(in millions of Russian Rubles, unless otherwise indicated)

The management of the Group estimated the probability that banks will use their right and demand an early repayment of the borrowings is low and therefore as at December 31, 2017 such borrowings were presented in these consolidated financial statements as non-current liabilities according to the initial payment terms stipulated in the loan agreements.

Compliance with covenants during the year ended December 31, 2016

As at December 31, 2016 the Group breached a number of obligatory financial and non-financial covenants.

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

In the first half of 2016 one of the Group's subsidiaries breached a Debt Service Coverage Ratio covenant set out in the syndicated loan agreement with Vnesheconombank ("VEB") and Eurasian Bank of Development ("EABR"). In addition to that, at December 31, 2016 the subsidiary-borrower breached a minimal working capital requirement and starting from June 30, 2016 a non-financial obligation to merge with TikhvinChemMash CJSC. In August 2017 the Group refinanced this syndicated loan agreement and entered into the loan agreement with Otkritie FC Bank PJSC with repayment date in 2024 and the available credit facility of RUB 20 000 million.

As at December 31, 2016 one of the Group's subsidiaries breached a covenant stipulated in a loan agreement with Otkritie FC Bank PJSC, prohibiting guarantees provision to third parties for the amount higher than 10% of the carrying value of the borrower's assets according to statutory financial statements. In April 2017 the Group received an official letter confirming that the bank has no plans to impose sanctions in relation to this loan agreement.

As at December 31, 2016 one of the Group's subsidiaries breached a Net debt to EBITDA and positive net assets covenants set out in a loan agreement with Otkritie FC Bank PJSC. In 2017 the borrower signed the additional agreement with the bank, which moved the first compliance period to the fourth quarter of 2018.

The management of the Group estimated that probability that banks will use their right and demand an early repayment of the borrowings is low and therefore as at December 31, 2016 such borrowings were presented in these consolidated financial statements as non-current liabilities according to the initial payment terms stipulated in the loan agreements. This was confirmed in 2017, as no banks exercised their right to demand an early repayment of the debt.

Available credit facilities

As at December 31, 2017 the Group's total unused credit facilities amounted to RUB 600 million and related to the following credit lines:

	Maturity	Interest rate	Available till	Amount
ROSEXIMBANK JSC	2019	7.5%	29 December 2018	600
Total				**600**

(in millions of Russian Rubles, unless otherwise indicated)

27. 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 addition 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 and 2016, subsidiaries of the Group held bonds for RUB 5 201 million and RUB 131 million, respectively, for a purpose of their future resale on the market.

The annual coupon rate of the bonds was set at:

- 8.7% for bonds of Series 01 for the first half-year period and Russia CPI + 3% thereafter with interest being paid semi-annually. In 2017 the following coupon rates were used:
  - 6.86% from January 1, 2017 to May 30, 2017;
  - 7.04% from May 31, 2017 to November 28, 2017;
  - 4.12% from November 29, 2017 to December 31, 2017.

- 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 2017 the following rates were used:
  - 15.0% from January 1, 2017 to March 13, 2017;
  - 14.5% from March 14, 2017 to September 11, 2017;
  - 13.5% from September 12, 2017 to December 31, 2017.

- 14% for bonds of Series BO-P03 for the first coupon period (from September 5, 2017 to December 31, 2017).
  - 14.0% September 5, 2017 to December 31, 2017.

The bonds are guaranteed by certain entities of the Group.

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

	Maturity	Effective interest rate for 2017	December 31, 2017	December 31, 2016
Series 01	November 24, 2021	6.70%	14 799	14 869
Series BO 01	September 10, 2019	14.29%	15 000	15 000
Series BO-P03[1]	August 30, 2022	14%	-	-
Total			**29 799**	**29 869**

[1] As at the reporting date Series BO-P03 bonds are held by a subsidiary of the Group.

The balance of interest accrued as at December 31, 2017 and 2016 in the amount of RUB 671 million and RUB 768 million, respectively, is included in the consolidated statement of financial position as the short-term portion of the bonds.

(in millions of Russian Rubles, unless otherwise indicated)

28. TRADE AND OTHER PAYABLES

Trade and other payables comprised:

	December 31, 2017	December 31, 2016
Trade payables	5 109	8 084
Payables for property, plant and equipment and intangible assets	284	405
Accounts payable under guarantees	-	267
Payables for acquisition of subsidiaries	-	123
Total trade and other payables	**5 393**	**8 879**

At December 31, 2016 the total payables for share of TM-energo LLC acquired in 2015 amounted to RUB 4 227 million. Including RUB 123 million presented in payables for acquisition of subsidiaries within short-term liabilities and RUB 4 104 million presented as long-term payables in the consolidated statement of financial position with maturity date of August 28, 2019.
At June 23, 2017 the Group fully repaid the amount of payables ahead of schedule, including interest accrued over the period of using the commercial loan.

Interest accrued for the period of the commercial loan is recognized in finance costs of the consolidated statement of profit or loss and other comprehensive income.

29. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

Advances received and other current liabilities comprised:

	December 31, 2017	December 31, 2016
Advances received from customers, including:	15 810	9 242
Advances received for sale of goods (railcars)	*15 527*	*8 811*
Operating lease prepayments	*227*	*361*
Taxes payable	3 884	3 276
Provisions and accrued expenses	799	640
Payables for acquisition of intangible assets	-	204
Other short-term payables to employees	175	174
Total advances received and other current liabilities	**20 668**	**13 536**

The line provisions and accrued expenses includes the short-term part of the remuneration for 2017 payable to the key management personnel in the amount of RUB 332 million (including social contributions taxes). The long-term part of the remuneration payable not earlier than 12 months is presented as accrued expenses for employees remuneration in the consolidated statement of financial position in the amount of 156 million rubles (including social contributions taxes).

The estimated liability of remuneration is based on the assumption that the approved key performance indicators will be achieved for 100%.

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 directed to the substance of the relationship not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

(in millions of Russian Rubles, unless otherwise indicated)

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

The nature of the related party relationships for those related parties, with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2017 are entities with significant influence over RPC UWC, associates and joint ventures. Transactions with United Wagon Plc, that was a parent company in 2016, were included within the transactions of the entities with significant influence over RPC UWC in 2017.

The balances with other related parties as at December 31, 2016 includes balances with PTK-Holding JSC and balances with its subsidiaries Nitrokhimprom LLC and Vostok 1520 LLC. Vostok 1520 LLC is a former subsidiary of the Group that was disposed in November 2016 (Note 6). In 2017 for the purposes of this disclosure due to the acquisition of 19.9% shares in PTK-Holding JSC (Note 17), transactions and balances with Nitrokhimprom LLC and Vostok 1520 LLC are presented as transactions with associates and joint ventures.

As at December 31, 2017 and 2016 the Group had the following balances with its related parties:

	December 31, 2017	December 31, 2016
Trade and other receivables		
Entities with significant influence over RPC UWC	15	62
Associates and joint ventures	2 211	47
Other related parties	-	561
Loans granted and deposits		
Parent company	-	203
Entities with significant influence over RPC UWC	6 415	13 136
Associates and joint ventures	6 108	
Other related parties	-	5 517
Prepayment for the acquisition of the subsidiary		
Entities with significant influence over RPC UWC	2 000	-
Prepayments to suppliers and other assets		
Entities with significant influence over RPC UWC	995	20
Associates and joint ventures	485	-
Other related parties	-	1 990
TOTAL ASSETS	**18 229**	**21 536**
Loans and borrowings		
Parent company	-	8
Entities with significant influence over RPC UWC	-	2 167
Trade and other payables		
Parent company	-	267
Entities with significant influence over RPC UWC	662	473
Associates and joint ventures	48	
Other related parties	-	155
Advances received		
Associates and joint ventures	6 183	-
Other related parties	-	256
Payables for acquisition of subsidiaries		
Entities with significant influence over RPC UWC	-	4 227
TOTAL LIABILITIES	**6 893**	**7 553**

(in millions of Russian Rubles, unless otherwise indicated)

For the years ended December 31, 2017 and 2016 the Group's transactions with its related parties were as follows:

	2017	2016
Sales of railcars and inventories		
Entities with significant influence over RPC UWC	7	77
Associates and joint ventures	64	1
Lease income		
Associates and joint ventures	3 329	-
Income from consulting activities		
Associates and joint ventures	11	28
Rent income		
Associates and joint ventures	95	28
Entities with significant influence over RPC UWC	3	2
Other income		
Entities with significant influence over RPC UWC	29	-
Associates and joint ventures	75	63
Purchase of inventories for railcar production		
Entities with significant influence over RPC UWC	(117)	(160)
Associates and joint ventures	(295)	-
Cost of goods sold (other) and maintenance		
Entities with significant influence over RPC UWC	(707)	(563)
Associates and joint ventures	(47)	-
Expenses on consulting activities		
Parent company	-	(230)
Finance income		
Parent company	-	22
Associates and joint ventures	552	-
Entities with significant influence over RPC UWC	1 094	740
Finance expense		
Parent company	-	(268)
Entities with significant influence over RPC UWC	(1 099)	(601)
Foreign exchange loss		
Parent company	-	(70)
Entities with significant influence over RPC UWC	(51)	(109)
Associates and joint ventures	(1)	(1)
Other expense		
Entities with significant influence over RPC UWC	(130)	(44)
Associates and joint ventures	(8)	-
Purchase of property, plant and equipment		
Entities with significant influence over RPC UWC	(90)	(8)

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, 2017 and 2016 amounted to RUB 459 и 119 million (including social contributions taxes).

(in millions of Russian Rubles, unless otherwise indicated)

31. COMMITMENTS AND CONTINGENCIES

Capital expenditure commitments

As at December 31, 2017 and 2016 the Group had contractual capital expenditure commitments in respect of property, plant and equipment totaling RUB 387 and 1 150 million.

Guarantees issued

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

Name of debtor	Name of creditor	Start of validity period	The end of the validity period	Currency of the contract	The amount of the contract *
Vostok 1520 LLC	PJSC GTLK	March 31, 2017	September 30, 2034- January 31, 2035	RUB	812
Total					**812**

*as at March 23, 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 its related party 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 to 812 million.

As at December 31, 2017 and 2016 the promissory note issued by Nitrokhimprom LLC and acquired by the Group was transferred as a guarantee for the liabilities of Nitrokhimprom LLC (Note 17).

As of December 31, 2016, there were no guarantees issued by the Group with respect to leasing payments.

Operating leases

The Group as a lessor

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

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

	December 31, 2017	December 31, 2016
Less than one year	5 804	5 191
Later than 1 year and not longer than 5 years	16 220	14 253
Over 5 years	1 758	4 559
	23 782	**24 003**

Operating environment

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

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

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. These sanctions remained in 2017. Moreover, downgrade of Russia's long-term foreign currency sovereign rating by international credit agencies has led to reduced access of the Russian businesses to international capital and export markets, increased inflation, economic recession and other negative economic consequences.

The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

Taxation

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

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

Legal proceedings

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

Environmental issues

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

(in millions of Russian Rubles, unless otherwise indicated)

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:

	December 31, 2017	December 31, 2016
Financial assets		
Loans receivable	12 559	13 877
Short-term deposits	5 038	5 000
Trade and other receivables (including long term accounts receivables)	4 075	1 701
Cash and cash equivalents	3 799	2 648
Investment in JSC PTK-Holding	1 773	-
Restricted cash	807	1 923
Finance lease receivables	224	244
Financial liabilities at amortized cost		
Loans and borrowings	82 177	72 098
Bonds	30 470	30 637
Trade and other payables	5 568	9 258
Accounts payable on acquisition of subsidiaries	-	4 104
Provisions and accrued expenses	955	640
Finance lease liabilities	195	13

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, 2017 and 2016 were presented as follows:

	December 31, 2017		December 31, 2016	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and borrowings with variable interest	53 344	53 344	18 970	18 970
Bonds	30 470	30 470	30 637	30 637
Loans and borrowings with fixed interest	28 833	31 593	53 128	53 687
	112 647	**115 407**	**102 735**	**103 294**

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

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

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, 2017, as it reflects changes in market conditions, takes into account the risk premium and the time value of money. A similar assumption was applied in determining the fair value of the Group's bonds, which have a floating rate correlating with the consumer price index (CPI) or CBR REPO rate (Note 27), and, therefore, their carrying amounts approximate their fair values as at the reporting date.

(in millions of Russian Rubles, unless otherwise indicated)

To calculate the fair value of fixed rate loans received in Russian rubles in 2017 and 2016 the Group applied market value of borrowed capital at a rate of 10.43% and 12.76%, respectively, which does not include the effect of received governmental grants. Also in 2016 rates of 6.47% and 5.23%, respectively, were applied to calculate the fair value of fixed rate loans and borrowings received in euros and US dollars. In 2017 the Group had no loan and borrowings in a currency other than the Russian rubles.

Fair value of accounts receivable, short-term loans granted, short-term bank deposits, cash and cash equivalents corresponds to their carrying value, excluding assets at amortized cost (Note 19). For assessment of the fair value for long-term loans granted to third and related parties, inputs from Level 2 of fair value hierarchy were used. Fair value was estimated based on discounted cash flows with key assumption - 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, 2017 and 2016 fair value of the loans granted was higher than their carrying value by RUB 499 and 403 million respectively.

Liquidity risk

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

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

	Less than 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 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**
December 31, 2016				
Fixed interest rate instruments	12 514	48 976	24 799	86 289
Variable interest rate instruments	12 399	49 390	-	61 789
Finance lease liabilities	7	6	-	13
Non-interest bearing liabilities	13 361	-	-	13 361
Provisions and accrued expenses	640	-	-	640
Total	**38 921**	**98 372**	**24 799**	**162 092**

* This calculation of future undiscounted cash flows that are fell due by the Group does not include the effect of the possible application to the Group future penalties with respect to the bank loans with the breached covenants (Note 26). If the Group does not remedy the breach of the covenants, future payments with respect to the variable interest rate instruments would increase as follows: within 12 months by RUB 241 million, within one to five years by RUB 1,190 million, exceeding 5 years on RUB 797 million.

(in millions of Russian Rubles, unless otherwise indicated)

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

	Less than 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 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	75	345
Total	**11 506**	**5 165**	**16 669**	**33 340**
December 31, 2016				
Fixed interest rate instruments	8 702	7 147	6 653	22 502
Non-interest bearing assets	1 702	-	1 923	3 625
Finance lease receivables	54	217	129	399
Total	**10 458**	**7 364**	**8 705**	**26 526**

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 2017 and 2016 the Group entered into certain transactions denominated in USD and EUR.

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

	December 31, 2017			December 31, 2016		
	Monetary financial assets	Monetary financial liabilities	Net monetary position	Monetary financial assets	Monetary financial liabilities	Net monetary position
USD	598	198	400	3 543	283	3 260
EUR	1 290	197	1 093	626	5 785	(5 159)
Total	**1 888**	**395**	**1 493**	**4 169**	**6 068**	**(1 899)**

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

	USD - impact		EUR – impact	
	December 31, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Gain/(loss)	40	326	109	(516)

(in millions of Russian Rubles, unless otherwise indicated)

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. As of December 31, 2017, the Group does not have open 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 the 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.

If interest rates had been 3% higher (lower) and all other variables were held constant, the Group's loss for 2017 and 2016 would increase/(decrease) by RUB 2 406 and 1 380 million.

Credit risk

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

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

	December 31, 2017	December 31, 2016
Loans receivable	12 559	13 877
Short-term deposits	5 038	5 000
Cash and cash equivalents	3 799	2 648
Trade and other accounts receivable	4 075	1 702
Investment in PTK Holding JSC	1 773	-
Restricted cash	807	1 924
Finance lease receivables	224	244
Total	**28 275**	**25 395**

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 64% 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 as revenue from sale of railcars is divided between a large numbers of customers. Accounts receivable from operating lease of railcars are represented for more than 91% by receivables from Vostok 1520 LLC, which was earlier one of the Group's subsidiaries.

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

The credit risk associated with loans issued is limited because the counterparties for the majority of loans are related parties well known to the Group. The Group also has a significant concentration of credit risk in regards to loans provided to Nitrokhimprom LLC.

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 26 and 27, offset by cash and cash equivalents balances), and equity.

33. SUBSEQUENT EVENTS

At January 15, 2018 Otkritie FC Bank PJSC obtained the control share (more than 99%) in equity of certain shareholders of the Group (Management Company Navigator LLC and Management-Consulting LLC). This gives the bank significant influence over the Group.

In April 2018, before the date of the approval of these consolidated financial statements the shareholders of PTK-Holding JSC notified the Group about execution of their rights to exercise the option agreement. According to the option agreement the shareholders of PTK-Holding JSC under certain conditions before April 30, 2018 had a call – option to buy out the Group's share in the equity of PTK-Holding JSC (Note 17). The call option was exercised, the option compensation due to the Group amounted to RUB 1,773 million. The amount of the compensation equals to the fair value of the Group's share in PTK-Holding JSC based on the independent valuation. This event occurred after the reporting date and was classified as adjusting, therefore the value of the assets held by the Group as at December 31, 2017 was adjusted accordingly.