

**Public joint stock company
“Ukrainian Railway”**

Consolidated financial statements

*As at 31 December 2017
with independent auditors' report*

Contents

Independent auditors’ report	i
---	----------

Consolidated financial statements

Consolidated statement of financial position.....	1
Consolidated statement of comprehensive income	2
Consolidated statement of changes in equity.....	3
Consolidated statement of cash flows	4

Notes to the consolidated financial statements

1. Description of business and the Group’s structure	5
2. Operating environment, risks and economic conditions in Ukraine	6
3. Basis of preparation.....	12
4. Changes in accounting policy	13
5. Significant accounting judgments, estimates and assumptions	14
6. Summary of significant accounting policies	15
7. Standards issued but not yet effective.....	23
8. Segment reporting	27
9. Property, plant and equipment	30
10. Investment in associates	33
11. Financial assets	35
12. Inventories	35
13. Trade and other receivables	36
14. Prepayments.....	36
15. Taxes receivable, other than income tax.....	37
16. Equity	37
17. Interest-bearing loans and borrowings.....	38
18. Finance lease liability	40
19. Employee benefits.....	41
20. Income tax	42
21. Trade and other payables	44
22. Taxes payable, other than income tax.....	44
23. Provisions	45
24. Taxes, other than income tax	45
25. Other income.....	45
26. Finance income and finance costs	45
27. Foreign exchange loss, net.....	46
28. Contingencies and commitments.....	46
29. Related party disclosure.....	47
30. Fair value of financial instruments	48
31. Financial risk management policies and objectives	50
32. Events after the reporting period	53

INDEPENDENT AUDITOR'S REPORT

To the Shareholder and Supervisory Board of Public joint stock company "Ukrainian railway"

Report on the audit of the consolidated financial statements

Qualified opinion

We have audited the consolidated financial statements of Public joint stock company "Ukrainian railway" and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of 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 possible effects of the matter described in paragraph (i) of the Basis for qualified opinion section of our report, and except for the effects of the matter described in paragraph (ii) of 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 31 December 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

- (i) As disclosed in Note 2 to the consolidated financial statements, certain assets and liabilities of the Group are located in, or otherwise associated with the Autonomous Republic of Crimea and certain territories of Donetsk and Lugansk regions temporarily not controlled by the Ukrainian authorities. In addition, the Group is not considered the legal successor for these assets and liabilities before completion of required statutory legal succession proceedings. There is an uncertainty in respect of timing of the legal succession and the ultimate valuation of the assets and liabilities to be succeeded to the Group as a result of that statutory legal proceedings. We were unable to obtain sufficient appropriate audit evidence in respect of the assets of UAH 16,611,478 thousand and UAH 15,788,047 thousand and liabilities of UAH 7,705,925 thousand and UAH 7,479,020 thousand as at 31 December 2017 and 2016, respectively, and revenues of UAH 4,446,665 thousand and UAH 4,694,905 thousand, share of loss of an associate of UAH 166,794 thousand and UAH 13,597 thousand, and loss of UAH 290,144 thousand and UAH 153,749 thousand for the years ended 31 December 2017 and 2016, respectively.
- (ii) As disclosed in Notes 6 and 9 to the consolidated financial statements the Group changed its accounting policy for property, plant and equipment from cost to revaluation model starting from 1 December 2015. Carrying value of property, plant and equipment was determined based on the revaluation results as at 31 July 2014 performed for statutory purposes adjusted for depreciation and movements in property, plant and equipment for the periods since revaluation, which is not fair value as at 1 December 2015. Such approach is not in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors and IAS 16 Property, Plant and Equipment. The effects of this departure from IFRSs on the carrying amounts of property, plant and equipment, related deferred tax balances as at 31 December 2017 and 2016, depreciation and impairment charges and deferred tax charges for 2017 and 2016 have not been determined.

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 (IESBA Code) together with the ethical requirements that are relevant to our audit of the consolidated financial statements in Ukraine, and we have fulfilled our other ethical responsibilities in accordance with 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. 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. 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. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter

How our audit addressed the key audit matter

Compliance with debt covenants

In accordance with the terms of certain loans and bonds issued, the Group should comply with certain financial and non-financial covenants. We considered compliance with debt covenants to be a key audit matter due to the breaches of covenants that occurred in prior periods and continued in 2017 and the impact that the potential acceleration of debt repayment caused by the breaches of covenants may have on the classification of interest-bearing liabilities in the consolidated statement of financial position and on the going concern assumption used in the preparation of the consolidated financial statements.

Information on compliance with covenants is disclosed in Note 17 to the consolidated financial statements.

We inspected the terms of loan agreements including covenant ratios and event of default definitions. We analysed the terms of debt restructuring and waivers provided by lenders. We evaluated management's calculations of the covenant ratios and paid special attention to the classification of specific and exceptional items included in and excluded from the ratios. We assessed the classification of interest-bearing loans and borrowings as current or non-current liabilities.

Elimination of intercompany balances and transactions

The Group has extensive intercompany transactions involving components located over the whole territory of Ukraine. During 2017 and 2016, there were changes in internal legal structure resulting in changes of the flows of financial information within the Group. The elimination of intercompany balances and transactions was one of the matters of most significance in our audit due to the volume, number of transactions and changes in internal flows of financial information during 2017 and 2016.

We analysed the process of identification, treatment of exceptions and elimination of intercompany transactions and balances and changes in the process that occurred during the year. We analysed the aggregation of intercompany balances and transactions at the Group components' level, investigated for unusual items and re-performed the elimination procedures at the consolidation level.

Other information included in the Group's Annual information of the securities issuer for 2017

Other information consists of the information included in the Annual information of the securities issuer for 2017 other than the consolidated financial statements and our auditor's report thereon. Management is responsible for the other information. The Annual information of the securities issuer for 2017 is 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.

Responsibilities of management and the Supervisory Board for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRSs, and for such internal control as management determines is necessary to enable the preparation of 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.

The Supervisory Board is 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.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Supervisory Board 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 the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with it 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 the Supervisory Board, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

***Report on the supplementary financial information***

Our audit was conducted for the purposes of expressing an opinion on the consolidated financial statements taken as a whole. Statutory financial reporting forms accompanying these consolidated financial statements which have been disclosed as supplementary financial information are presented for the purpose of compliance with statutory reporting requirements. Such supplementary financial information has been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, in our opinion, except for the possible effects of the matter described in paragraph (i) of the Basis for qualified opinion section of our report, and except for the effects of the matter described in paragraph (ii) of the Basis for qualified opinion section of our report, has been properly prepared, in all material respects, in relation to the Group's consolidated financial statements taken as a whole.

The partner in charge of the audit resulting in this independent auditor's report is Oleksiy Kredisov.

A handwritten signature in black ink, which appears to read 'Oleksiy Kredisov', is written over a faint, illegible printed name.

Kyiv, Ukraine
26 March 2018

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**as at 31 December 2017***(in thousands of Ukrainian hryvnia)*

	Notes	2017	2016
Assets			
Non-current assets			
Property, plant and equipment	9	235,741,862	248,022,035
Investment in associate	10	632,366	760,591
Financial assets	11	93,247	178,882
Taxes receivable, other than income tax	15	849,024	888,602
Prepaid income tax		590,618	702,715
Deferred tax asset	20	376,484	555,722
Assets of uncontrolled territory	2	10,795,149	—
		<u>249,078,750</u>	<u>251,108,547</u>
Current assets			
Inventories	12	8,417,920	6,125,854
Trade and other receivables	13	879,122	2,043,899
Prepayments	14	203,999	321,766
Prepaid income tax		215,752	274,579
Taxes receivable, other than income tax	15	460,132	557,625
Cash and cash equivalents		5,188,988	6,419,746
		<u>15,365,913</u>	<u>15,743,469</u>
Total assets		<u>264,444,663</u>	<u>266,852,016</u>
Equity and liabilities			
Equity			
Contributed capital	16	229,879,115	229,879,115
Additional capital		18,899,383	19,597,430
Accumulated deficit		(38,006,503)	(38,668,315)
		<u>210,771,995</u>	<u>210,808,230</u>
Non-controlling interests		4,983	4,889
		<u>210,776,978</u>	<u>210,813,119</u>
Non-current liabilities			
Interest-bearing loans and borrowings	17	22,620,904	23,832,509
Finance lease liability	18	116,087	459,852
Defined benefit liability	19	2,232,420	2,532,957
Deferred tax liability	20	24,772	24,948
Liabilities of uncontrolled territory	2	4,972,904	—
		<u>29,967,087</u>	<u>26,850,266</u>
Current liabilities			
Interest-bearing loans and borrowings	17	10,890,635	16,679,238
Finance lease liability	18	605,292	1,186,599
Trade and other payables	21	7,791,010	6,912,116
Advances from customers		2,467,817	2,709,998
Income tax payable		630	84
Taxes payable, other than income tax	22	656,425	480,171
Provisions	23	1,288,789	1,220,425
		<u>23,700,598</u>	<u>29,188,631</u>
Total liabilities		<u>53,667,685</u>	<u>56,038,897</u>
Total equity and liabilities		<u>264,444,663</u>	<u>266,852,016</u>

Signed and authorised for release on behalf of Public joint stock company "Ukrainian Railway" on 26 March 2018 by:

Acting Chief Executive Officer

Yevgen P. Kravtsov

Member of the board

Oleksandr Y. Buzhor

Chief accountant

Tamara S. Ryabchun

The accompanying notes form an integral part of the consolidated statements.

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia)*

	Notes	2017	2016
Revenues			
Cargo revenues		60,112,590	54,460,057
Passenger revenues		7,318,542	6,720,345
Other revenues		6,507,019	5,389,762
Total revenues		73,938,151	66,570,164
Operating expenses			
Staff costs		(31,973,995)	(25,665,850)
Depreciation		(14,662,305)	(17,910,127)
Electricity		(7,865,933)	(7,813,910)
Fuel		(7,307,862)	(5,877,363)
Maintenance		(5,809,691)	(5,316,235)
Taxes, other than income tax	24	(1,803,000)	(1,093,293)
Social expenses		(470,130)	(283,186)
Change in provisions	23	(100,243)	(318,615)
Other income	25	2,451,001	559,075
Other expenses		(1,061,392)	(1,008,650)
Total operating expenses		(68,603,550)	(64,728,154)
Operating profit		5,334,601	1,842,010
Finance income	26	554,799	364,872
Finance costs	26	(3,810,903)	(4,803,518)
Foreign exchange loss, net	27	(1,139,624)	(4,505,516)
Share of profit of associates	10	(166,780)	(13,597)
Profit/(loss) before income tax		772,093	(7,115,749)
Income tax expense	20	(657,544)	(206,292)
Profit/(loss) for the year		114,549	(7,322,041)
Attributable to:			
Equity holder of the parent		114,424	(7,322,101)
Non-controlling interests		125	60
		114,549	(7,322,041)
Other comprehensive income			
<i>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Remeasurement (losses)/gains on defined benefit plans	19	(136,378)	(224,801)
Share of other comprehensive (losses)/income of associates	10	(55,411)	116,827
Other comprehensive loss for the year, net of tax		(191,789)	(107,974)
Attributable to:			
Equity holder of the parent		(77,365)	(7,430,075)
Non-controlling interests		125	60
Total comprehensive loss for the year, net of tax		(77,240)	(7,430,015)

The accompanying notes form an integral part of the consolidated statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia)*

	<i>Notes</i>	<i>Contributed capital</i>	<i>Additional capital</i>	<i>Accumulated deficit</i>	<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
At 1 January 2016		229,879,115	19,597,430	(31,237,446)	218,239,099	–	218,239,099
Loss for the period		–	–	(7,322,101)	(7,322,101)	60	(7,322,041)
Other comprehensive income		–	–	(224,801)	(224,801)	–	(224,801)
Share of other comprehensive income of associates (net of income tax)		–	–	116,827	116,827	–	116,827
Total comprehensive loss		–	–	(7,430,075)	(7,430,075)	60	(7,430,015)
Dividends	16	–	–	(794)	(794)	–	(794)
Acquisition of a subsidiary	16	–	–	–	–	4,829	4,829
At 31 December 2016		229,879,115	19,597,430	(38,668,315)	210,808,230	4,889	210,813,119
Profit for the period		–	–	114,424	114,424	125	114,549
Other comprehensive income		–	–	(136,378)	(136,378)	–	(136,378)
Share of other comprehensive income of associates (net of income tax)		–	–	(55,411)	(55,411)	–	(55,411)
Total comprehensive income		–	–	(77,365)	(77,365)	125	(77,240)
Dividends	16	–	–	(6,513)	(6,513)	–	(6,513)
Dividends paid to non-controlling interests		–	–	–	–	(31)	(31)
Addition of associates	10	–	47,643	–	47,643	–	47,643
Reclassification of additional capital	16	–	(745,690)	745,690	–	–	–
At 31 December 2017		229,879,115	18,899,383	(38,006,503)	210,771,995	4,983	210,776,978

The accompanying notes form an integral part of the consolidated statements.

CONSOLIDATED STATEMENT OF CASH FLOWS**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia)*

	Notes	2017	2016
Cash flows from operating activities			
Profit (Loss) before income tax		772,093	(7,115,749)
<i>Adjustments to reconcile profit/(loss) before income tax to net cash provided by operations</i>			
Depreciation		14,662,305	17,910,127
Finance costs, net	26	3,256,104	4,438,646
Result of disposal of property, plant and equipment		–	(3,201)
Movements in defined benefit liability and provisions		(291,814)	408,026
Allowance for estimated irrecoverable amounts		100,486	249,743
Unrealised foreign exchange loss, net		896,694	4,479,346
Share of loss of associates	10	166,780	13,597
Operating profit before working capital changes		19,562,648	20,380,535
<i>Changes in working capital</i>			
Trade and other receivables		(369,827)	(1,384,545)
Prepayments		78,371	(68,116)
Inventories		(2,538,250)	(1,077,279)
Taxes receivable and prepaid, other than income tax		57,087	(309,968)
Trade and other payables		841,154	1,129,592
Advances from customers		(18,423)	844,826
Taxes payable, other than income tax		244,021	(100,617)
Cash generated from operating activity		17,856,781	19,414,428
Income tax paid		(360,359)	(557,501)
Interest paid		(3,437,303)	(4,054,202)
Dividends paid	16	(6,513)	(166,480)
Repayment of provisions	23	(60,328)	–
Net cash flows from operating activities		13,992,278	14,636,245
Cash flows from investing activities			
Acquisition of property, plant and equipment		(10,872,454)	(6,799,448)
Proceeds from disposal of property, plant and equipment		–	5,282
Purchase of financial instruments		–	(53,095)
Dividends received from an associate	10	7,988	–
Interest received		548,968	357,765
Cash received as result of the Reorganisation		–	881
Net cash flows used in investing activities		(10,315,498)	(6,488,615)
Cash flows from financing activities			
Proceeds from Interest-bearing loans and borrowings		–	982,145
Repayment of Interest-bearing loans and borrowings		(2,718,312)	(5,377,703)
Proceeds from domestic bonds		–	269,000
Repayment of domestic bonds		(1,720,000)	(1,775,625)
Repayment of finance lease obligations		(381,786)	(749,376)
Dividends paid to non-controlling interests		(31)	–
Net cash flows used in financing activities		(4,820,129)	(6,651,559)
Net (decrease)/increase in cash and cash equivalents		(1,143,349)	1,496,071
Reclassified to assets of uncontrolled territories	2	(103,594)	–
Net foreign exchange difference		16,185	38,767
Cash and cash equivalents at 1 January		6,419,746	4,884,908
Cash and cash equivalents at 31 December		5,188,988	6,419,746

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***1. Description of business and the Group’s structure*****Creation and operations of the Company and the Group***

Public joint stock company “Ukrainian Railway” (JSC “Ukrzaliznytsia” or “the Company”) was registered on 21 October 2015 and started economic activities since 1 December 2015.

JSC “Ukrzaliznytsia” was created as a result of reorganisation through merger of public service railway enterprises and institutions (“the Reorganisation”). All assets and liabilities of entities previously subordinated to and effectively controlled by State Administration of Railway Transport of Ukraine were transferred to the Company.

The consolidated financial statements include financial statements of JSC “Ukrzaliznytsia” and its subsidiaries (together – “The Group”). The list of entities included in the Group is presented further.

Principal activities of the Group are provision of services for cargo and passengers railway transportation, access to the railway infrastructure, logistics, repairs and maintenance of rolling stock.

The Company is recognised as a natural monopoly in the area of access to public service infrastructure for railway transportation and railway traffic control function.

Corporate information

The sole shareholder of JSC “Ukrzaliznytsia” is the State of Ukraine represented by the Cabinet of Ministers of Ukraine acting in capacity of the sole shareholder of the Company.

The registered address of JSC “Ukrzaliznytsia” is 5, Tverska St., Kyiv 03150, Ukraine.

Entities included in the consolidated financial statements

The financial statements of the following entities are included in the consolidated financial statements as at 31 December :

	<i>Share as at 31 December 2017</i>	<i>Share as at 31 December 2016</i>
1 Public joint stock company “Ukrainian Railway”	Parent	Parent
2 Private joint-stock company “Dnipropetrovsk Diesel Locomotive Repair Plant”	100%	100%
3 Private joint-stock company “Zaporizhzhya Electric Locomotive Repair Plant”	100%	100%
4 Private joint-stock company “Lviv Locomotive Repair Plant”	100%	100%
5 Private joint-stock company “Kyiv Electrical Carriage-Repair Plant”	100%	100%
6 Private joint-stock company “Korosten Plant Of Railway Sleepers”	100%	100%
7 Private joint-stock company “Hnivan Special Reinforced Concrete Plant”	100%	100%
8 Private joint-stock company “Transsignal Kyiv Electrical Engineering Plant”	100%	–
9 Private joint-stock company “Insurance Company “Tast Garantiya” (Note 16)	65.62%	65.62%

JSC “Ukrzaliznytsia” consists of six regional branches and 28 other branches included in the consolidated financial statements. The Company continues its internal reorganisation and forms its target organisational structure through segregation of market-oriented branches. During 2017 the following new branches started their activities: “Passenger’s company”, “Enerhoremtrans”, “Diagnostic center for railway infrastructure” and “Center of building-assembling works and exploitation of buildings and structures”.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

1. Description of business and the Group’s structure (continued)

Pricing policy

Cargo and passenger transportation is regulated area and is subject to the following tariffs regulations:

Tariffs for domestic cargo transportation – approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine and the Ministry of Finance of Ukraine. The tariffs are denominated in Ukrainian hryvnia and are generally subject to inflation adjustments and changes in consumer prices. There were increases in the cargo tariff rates during 2017 (by 15% started from 31 October) and 2016 (by 15% started from 30 April).

Tariffs for domestic transportation of passengers and baggage – approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine. The tariffs are denominated in Ukrainian hryvnia. During 2017, there was no increase in tariffs for domestic transportation of passengers and baggage, except for a slight increase in tariffs for some suburban destinations. During 2016, the increase of tariffs for domestic transportation of passengers and baggage by 5% was only for the first class of trains “Intercity+”.

Tariffs for international cargo transportation – regulated by special Tariff Policy annually approved by the Ministry of Infrastructure of Ukraine based on intergovernmental agreements. Tariffs are denominated in Swiss Francs. There were no adjustments to the above tariffs in 2017 and 2016.

Tariffs for international transportation of passengers and baggage – approved by the Ministry of Infrastructure of Ukraine, based on certain intergovernmental agreements. They are denominated in Swiss Francs for the countries of the Commonwealth of Independent States, Latvia, Lithuania, Estonia and in euro for transportation in other countries. There were no adjustments to the above tariffs in 2017 and 2016.

2. Operating environment, risks and economic conditions in Ukraine

The Group conducts its operations in Ukraine. The Ukrainian economy while deemed to be of market status continues to display certain characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, low levels of liquidity in the capital markets, high inflation, and significant imbalances in the public finance and foreign trade.

Following the significant deterioration in 2014 and 2015, the current political and economic situation in Ukraine remains unstable. Amid embittered bilateral relations with the Russian Federation over its role in the temporary occupation of Autonomous Republic of Crimea in April 2014 and continuing armed confrontation with separatists over the certain parts of the Donetsk and Lugansk regions (anti-terrorist operation), the Ukrainian government yet attempts to pursue a comprehensive structural reform agenda aiming at the removal of the existing imbalances in the economy, public finance and governance, fighting corruption, reforming judiciary system, etc. with the ultimate goal to secure conditions for the economic recovery in the country.

The weakness of the national currency (UAH), which experienced more than triple devaluation against US dollar and 2.5 times devaluation against euro since the beginning of 2014, combined with cross border settlement restrictions, negative external trade balance, along with continued volatility in the country’s traditional export commodity markets, high inflation and considerable external debt represent key risks to the stabilisation of the Ukrainian operating environment in the near future. The continued support from the International Monetary Fund (“IMF”) and other international lenders, which would allow for more opportunities of macroeconomic stability and external debt management, is contingent upon the mentioned above structural reforms sustaining momentum.

The known and estimable effects of the above events on the financial position and performance of the Group in the reporting period have been taken into account in preparing the consolidated financial statements. Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimise any negative effect to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group’s financial position and performance in a manner not currently determinable.

Following the temporary occupation of the Autonomous Republic of Crimea by the Russian Federation in April 2014, the Group ceased its operations in the region. As a result of the Reorganisation, the assets and liabilities related to the temporarily occupied Autonomous Republic of Crimea were transferred to the Company at the carrying values as at 31 March 2014. As at 31 December 2016 the carrying value of the Group’s assets and liabilities located in or otherwise associated with the temporarily occupied territory of the Autonomous Republic of Crimea (including customers, borrowers, etc.) was UAH 1,182,515 thousand and 185,104 thousand, respectively. There were no income and/or expenses related to the Autonomous Republic of Crimea recorded in the Group’s financial statements for 2017 and 2016.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine (continued)

In the second half of 2014 as a result of the armed confrontations the Ukrainian authorities temporarily lost control over certain territory of Donetsk and Lugansk regions where some structural units of State Enterprise “Donetsk Railway” (SE “Donetsk Railway”) operated. As a result of the Reorganisation the assets and liabilities of structural units of SE “Donetsk Railway” located on the uncontrolled territory of Donetsk and Luhansk regions were transferred to the Company at the carrying values as per related separate financial statements as at 30 June 2014 and are recorded on the balance sheet of Regional branch “Donetsk Railway” (RB “Donetsk Railway”).

Upon cessation of the temporary occupation of Autonomous Republic of Crimea and after regaining control over the uncontrolled territory of Donetsk and Luhansk regions the assets and liabilities relating to the above regions will be revalued and contributed to the Company’s Charter capital, except for a portion of property, plant and equipment, that will be transferred under the title of operating control.

Despite the loss of control over the assets and the absence of legally enforceable obligations related to temporarily occupied and uncontrolled territories, the Group continues to record them in the consolidated statement of financial position as described above, as this complies with the regulatory requirements pertaining to the Reorganisation, and this corresponds to the official position of the Ukrainian authorities that the non-government controlled areas will be reintegrated to Ukraine. The Group had only adjusted interest-bearing loans and borrowings, as well as finance lease liabilities of the uncontrolled territory as at 1 January 2016 for which the Group acted as a party of contractual arrangements or for which historical accounting records were available. No subsequent adjustments to the above financial liabilities were made after this date (Note 17). As disclosed in Note 10, assets, liabilities and financial results of associated company PJSC “Ukrtransleasing” together with its three subsidiaries also relate to uncontrolled territories.

Despite the anti-terrorist operation the Group was able to assure railway transportation involving the non-government controlled areas during 2016. Cargo transportation with the non-government controlled areas was halted on 15 March 2017. By the Decree of the President of Ukraine No. 62/2017 of 15 March 2017, the decision of the National Security and Defense Council of Ukraine On Urgent Additional Measures to Counter Hybrid Threats to the National Security of Ukraine was enacted, which provides for the implementation of measures to stop the movement of goods through the collision line within Donetsk and Luhansk regions, with a few exceptions. As a result of the measures taken, the railroad cargo transportation with the temporarily occupied territory of Donetsk and Luhansk region was completely suspended.

As at 31 December 2017, management completed the segregation of assets and liabilities of RB “Donetsk Railway” to a controlled and uncontrolled parts. Assets and liabilities of the uncontrolled territory were included in the following lines of the consolidated statement of financial position: assets of uncontrolled territories and liabilities of uncontrolled territories within non-current assets and long-term liabilities, respectively. Assets and liabilities associated with Autonomous Republic of Crimea were also included in the above lines. This approach provides more transparent presentation of the Group’s assets and liabilities. The Group considers it impractical to reclassify comparative information, as in previous periods, business operations were carried out with the involvement of uncontrolled territory, as well as the collision line of the armed confrontations was moving.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***2. Operating environment, risks and economic conditions in Ukraine (continued)***Assets and liabilities of uncontrolled territories*

	<i>Uncontrolled territory of Donetsk and Luhansk regions</i>	<i>Autonomous Republic of Crimea</i>	<i>Total</i>
Assets			
Non-current assets			
Property, plant and equipment	6,799,881	1,948,787	8,748,668
Financial assets	34,951	1,559	36,510
Prepaid income tax	27,605	–	27,605
	<u>6,862,437</u>	<u>1,950,346</u>	<u>8,812,783</u>
Current assets			
Inventories	191,817	69,089	260,906
Trade and other receivables	1,527,954	8,879	1,536,833
Prepayments	30,705	8,691	39,396
Prepaid income tax	11	1,220	1,231
Taxes receivable, other than income tax	37,983	2,423	40,406
Cash and cash equivalents	99,841	3,753	103,594
	<u>1,888,311</u>	<u>94,055</u>	<u>1,982,366</u>
Total assets of uncontrolled territories	<u>8,750,748</u>	<u>2,044,401</u>	<u>10,795,149</u>
Current liabilities			
Interest-bearing loans and borrowings	3,724,995	–	3,724,995
Finance lease liability	553,467	–	553,467
Trade and other payables	402,917	–	402,917
Advances from customers	223,758	–	223,758
Taxes payable, other than income tax	67,767	–	67,767
	<u>4,972,904</u>	<u>–</u>	<u>4,972,904</u>
Total liabilities of uncontrolled territories	<u>4,972,904</u>	<u>–</u>	<u>4,972,904</u>

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***2. Operating environment, risks and economic conditions in Ukraine (continued)**

The summarised financial information of the Regional branch “Donetsk Railway” included into the consolidated financial statements of the Group as at and for the year ended 31 December is presented below (information for 2017 presented after reclassification of the uncontrolled territories):

Assets and liabilities of RB “Donetsk Railway”

	<i>2017</i>	<i>2016</i>
Assets		
Non-current assets		
Property, plant and equipment	4,647,805	12,147,415
Financial assets	8,424	34,302
Prepaid income tax	–	29,519
Assets of uncontrolled territories	8,750,748	–
	<u>13,406,977</u>	<u>12,211,236</u>
Current assets		
Inventories	596,411	696,190
Trade and other receivables	11,205	1,542,722
Trade and other receivables from Group entities	–	5,614
Prepayments	4,059	28,260
Taxes receivable, other than income tax	16,220	12,824
Cash and cash equivalents	1,807	108,686
	<u>629,702</u>	<u>2,394,296</u>
Total assets	<u>14,036,679</u>	<u>14,605,532</u>
Non-current liabilities		
Interest-bearing loans and borrowings	–	6,014
Employee benefit liability	174,456	310,930
Liabilities of uncontrolled territories	4,972,904	–
	<u>5,147,360</u>	<u>316,944</u>
Current liabilities		
Interest-bearing loans and borrowings	–	3,909,603
Finance lease liability	74,793	622,444
Trade and other payables	434,859	978,231
Trade and other payables to Group entities	1,986,656	1,175,369
Advances from customers	6,026	171,507
Taxes payable, other than income tax	56,231	119,818
	<u>2,558,565</u>	<u>6,976,972</u>
Total liabilities	<u>7,705,925</u>	<u>7,293,916</u>
Net assets	<u>6,330,754</u>	<u>7,311,616</u>

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***2. Operating environment, risks and economic conditions in Ukraine (continued)*****Comprehensive income of RB “Donetsk Railway”***

	<u>2017</u>	<u>2016</u>
Revenues		
Cargo revenues	4,062,706	4,219,395
Passenger revenues	84,800	91,418
Other revenues	206,516	193,106
Revenue from Group entities	92,643	190,986
Total revenues	<u>4,446,665</u>	<u>4,694,905</u>
Operating expenses		
Staff costs	(2,869,077)	(2,629,582)
Depreciation	(366,736)	(392,934)
Electricity	(361,184)	(412,890)
Fuel	(804,632)	(586,356)
Maintenance	(355,271)	(474,788)
Taxes, other than income tax	(86,788)	(67,773)
Social expenses	(31,779)	(16,204)
Other income	170,463	34,383
Other expenses	(22,278)	(138,073)
Total operating expenses	<u>(4,727,282)</u>	<u>(4,684,217)</u>
Operating (loss)/profit	<u>(280,617)</u>	<u>10,688</u>
Finance income	18,794	1,950
Finance costs	(27,277)	(55,819)
Foreign exchange loss, net	(1,044)	(110,568)
Loss before income tax	<u>(290,144)</u>	<u>(153,749)</u>
Income tax expense	—	—
Loss for the year	<u>(290,144)</u>	<u>(153,749)</u>
Total comprehensive loss for the year, net of tax	<u>(290,144)</u>	<u>(153,749)</u>

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***2. Operating environment, risks and economic conditions in Ukraine (continued)*****Cash flows of RB “Donetsk Railway”***

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities		
Loss before income tax	(290,144)	(153,749)
<i>Adjustments to reconcile loss before income tax to net cash provided by operations</i>		
Depreciation	366,921	392,934
Finance costs, net	27,277	53,869
Result of disposal of property, plant and equipment	–	(124)
Unrealised foreign exchange loss, net	–	110,568
Operating profit before working capital changes	<u>104,054</u>	<u>403,498</u>
<i>Changes in working capital</i>		
Trade and other receivables	(13,312)	443,010
Prepayments	(6,630)	13,610
Inventories	(131,459)	(125,549)
Taxes receivable and prepaid	(41,061)	(4,166)
Trade and other payables	388,786	178,881
Advances from customers	58,346	(89,913)
Taxes payable, other than income tax	4,180	26,121
Cash generated from operating activity	<u>362,904</u>	<u>845,492</u>
Interest paid	(16,420)	(33,901)
Net cash flows from operating activities	<u>346,484</u>	<u>811,591</u>
Cash flows from investing activities		
Acquisition of property, plant and equipment	(163,261)	(201,679)
Proceeds from disposal of property, plant and equipment	–	1,602
Net cash flows used in from investing activities	<u>(163,261)</u>	<u>(200,077)</u>
Cash flows from financing activities		
Repayment of Interest-bearing loans	(190,261)	(615,511)
Net cash flows used in financing activities	<u>(190,261)</u>	<u>(615,511)</u>
Net decrease in cash and cash equivalents	(7,038)	(3,997)
Reclassified to assets of uncontrolled territories	(99,841)	–
Cash and cash equivalents at 1 January	<u>108,686</u>	<u>112,683</u>
Cash and cash equivalents at 31 December	<u><u>1,807</u></u>	<u><u>108,686</u></u>

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

2. Operating environment, risks and economic conditions in Ukraine (continued)

Going concern

The Group's net profit for the year ended 31 December 2017 amounted to UAH 114,424 thousand (2016: net loss of UAH 7,322,101 thousand). As at 31 December 2017, the Group's current liabilities exceeded its current assets by UAH 8,334,686 thousand (2016: UAH 13,445,162 thousand).

As discussed in Note 17, as at 31 December 2017 and 2016, the breach of certain obligations under long-term loan agreements was continuing. This violation caused a cross-default under certain other borrowings. During 2017 and 2016, the Group has rectified certain violations and intends to rectify the remaining violations by 31 December 2018.

As at the end of the reporting period, the undrawn loan facilities available to the Group was UAH 6,548,251 thousand. Management prepares to issue domestic bonds for the total amount of UAH 2,000,000 in 2018. Management is also considering new issue of Eurobonds in the near future in case of favourable market conditions. Those funds will be used to refinance certain portion of loans and borrowings included in the current liabilities and to finance capital expenditures. Management will continue the efforts to attract long-term financing and improve the liquidity position of the Group.

If necessary, the Group will be able to re-direct the cash flows between capital investments and repayment of financial liabilities without creating short-term adverse effect on the operating activities.

In 2017 the government approved the increase in the cargo transportation tariffs by 15% effective from 31 October 2017. These circumstances together with the ongoing cost reduction measures is expected to contribute to further improvement of operating results and financial position of the Group.

Despite the existence of significant uncertainty about future events, management believes that the above expectations and related responses are realistic and feasible. The Group will be able to repay its obligations and continue its activities on a going concern basis.

3. Basis of preparation

These consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The consolidated financial statements have been prepared on historical cost basis, except for property, plant and equipment carried at revalued amounts, post-employment benefits measured in accordance with the requirements of IAS 19 *Employee Benefits*, certain financial instruments measured in accordance with the requirements of IAS 39 *Financial Instruments: Recognition and Measurement*. These consolidated financial statements are presented in Ukrainian hryvnia (“UAH”) and all values are rounded to the nearest thousand, unless otherwise indicated.

Basis of preparation of consolidated financial statements

Financial statements of subsidiaries of the Group were prepared on the same reporting period using consistent accounting policies. Adjustments are made to align any dissimilar accounting policies that may exist.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee
- Rights arising from other contractual arrangements
- The Group's voting rights and potential voting rights

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***3. Basis of preparation (continued)**

The Group re-assesses 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. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of OCI are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group’s accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

4. Changes in accounting policy

The accounting policies adopted are consistent with those of the previous financial year, except for the new and amended IFRS adopted with effect from 1 January 2017.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2017, they do not have a material impact on the annual consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below:

Amendments to IAS 7 Statement of Cash Flows: Disclosure Initiative

The amendments require entities to provide disclosures about changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses). These amendments did not impact significantly the Group’s financial statements or accounting policy.

Amendments to IAS 12 Income Taxes: Recognition of Deferred Tax Assets for Unrecognised Losses

The amendments clarify that an entity needs to consider whether tax law restricts the sources of taxable profits against which it may make deductions on the reversal of that deductible temporary difference. Furthermore, the amendments provide guidance on how an entity should determine future taxable profits and explain the circumstances in which taxable profit may include the recovery of some assets for more than their carrying amount.

Entities are required to apply the amendments retrospectively. However, their application did not significantly impact the Group’s financial statements.

Annual Improvements Cycle - 2014-2016*Amendments to IFRS 12 Disclosure of Interests in Other Entities: Clarification of the scope of disclosure requirements in IFRS 12*

The amendments clarify that the disclosure requirements in IFRS 12, other than those in paragraphs B10–B16, apply to an entity’s interest in a subsidiary, a joint venture or an associate (or a portion of its interest in a joint venture or an associate) that is classified (or included in a disposal group that is classified) as held for sale. As the Group has not interest in other entities that is classified as held for sale, these amendments did not impact the Group’s financial statements or accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

5. Significant accounting judgments, estimates and assumptions

According to IAS 1 *Presentation of Financial Statements*, the Group accounts for and presents transactions and other events in accordance with their substance and economic reality and not merely their legal form.

The preparation of consolidated financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts. These estimates are based on information available as at the end of the reporting period. Actual results could differ from these estimates. The key judgments, estimates and assumptions concerning the future and other key sources of estimation uncertainty at the end of the reporting period that represents a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next financial year are discussed below.

Judgments

Assets assigned under the title of operating control

Certain items of property, plant and equipment were assigned to the Company under the title of operating control (Note 9). The title of operating control allows to possess and use the assets, except for actions that may lead to disposal of the assets. The Company maintains a separate accounting for these assets, uses them in its economic activity and suffers risks of the accidental destruction or damage to the assets. There are no specific restrictions on the use of revenue proceeds from those assets and the Company maintains their proper functionality at its own cost.

The items of the property, plant and equipment assigned to the Company under the title of operating control meet the definition of property, plant and equipment as they are used in the economic activities for more than one period. These items are included in the relevant groups of property, plant and equipment.

Accounting for assets and liabilities that are not controlled by Group

Consolidated financial statements include the assets and liabilities located or otherwise associated with the temporarily occupied territory of the Autonomous Republic of Crimea, as well as with non-government controlled areas of Donetsk and Luhansk regions. The details on the accounting approach for these items are provided in Note 2.

The above approach is based on the regulatory framework related to these assets and liabilities, issued by relevant State authorities. Therefore, it was considered during the preparation of the consolidated financial statements.

Impairment of property, plant and equipment

At the end of each reporting period the Group assesses whether there is any indication that an asset may be impaired. This assessment implies significant judgments. Management has not identified indicators of impairment of property, plant and equipment and has not performed an impairment test as at 31 December 2017.

Estimates

Allowance for doubtful debts

The allowance for doubtful debts is estimated by management using the best information available as to the creditworthiness of its customers as at the end of the reporting period. However, the actual recoverability of receivables may differ from those estimations made by management.

Estimates of the useful lives of property, plant and equipment

Significant management judgment is required to determine the estimated useful lives of items of property, plant and equipment. The actual useful lives may vary from the management estimates.

Defined benefit liability

The cost of defined benefit pension plans and other post employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates, future salary increases, staff turnover, mortality rates and future pension increases. All assumptions are reviewed at each reporting date. In determining the appropriate discount rate management considers the yield of government bonds because there is no deep market in corporate bonds in Ukraine. Due to the long term nature of these plans, the estimates are subject to significant uncertainty. Further details are given in Note 19.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

5. Significant accounting judgments, estimates and assumptions (continued)

Provisions

The Group has recognised provisions for obligations related to legal claims. The amount of the provision represents the management's best estimates of expected future cash outflows discounted at a current pre-tax rate, where appropriate. Further details are given in Note 23.

Deferred tax asset recoverability

Deferred tax assets are recognised to the extent that it is probable that they will be recovered, which is dependent on the generation of sufficient future taxable profit. Assumptions about the generation of future taxable profits depend on management's estimates of future cash flows. These depend on estimates of future level of tariffs and sales volumes, prices for consumables and operating costs. Judgments are also required about the application of income tax legislation. These judgments and estimates are subject to risks and uncertainty, hence there is a possibility that changes in circumstances will alter expectations, which may impact the amount of deferred tax assets and deferred tax liabilities recognised at the reporting date. In such circumstances, some, or all, of the carrying amount of recognised deferred tax assets and liabilities may require adjustment, resulting in corresponding credit or charge to the income statement.

6. Summary of significant accounting policies

Foreign currency translation

The functional and presentation currency of the Group is the Ukrainian hryvnia. This is the currency of the primary economic environment in which the Group operates. Transactions denominated in currencies other than the functional currency (foreign currencies) are initially recorded in the functional currency at the rate at the date of the transaction as established by the National Bank of Ukraine (“NBU”), which is deemed to approximate the prevailing market rate. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rate of exchange in effect at the end of the reporting period. Non-monetary items that were measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair values were determined. The resulting gains and losses are recognised in the profit or loss within the statement of comprehensive income.

Financial assets

Financial assets in the scope of IAS 39 are classified as either financial assets at fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs.

The Group determines the classification of its financial assets upon initial recognition and, where allowed and appropriate, re-assess this designation at each financial year-end. The Group has not designated any financial instruments at fair value through profit or loss, neither as held-to-maturity investments.

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 amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the statement of comprehensive income when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

Estimation and reflection of financial investments

Investments in associates and joint ventures are measured at cost at the date of initial recognition of such investments. In the case of investments in subsidiaries, the assets acquired and liabilities incurred by such enterprises are stated at fair value at the date of acquisition of the investment (obtaining control of the investment entity). The Group estimates an uncontrolled share in a subsidiary in proportion to the share of current property instruments in recognised amounts of identified net assets.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***6. Summary of significant accounting policies (continued)*****Property, plant and equipment***

When state enterprise is reorganised into a joint stock company its assets, including property, plant and equipment, and liabilities have to be valued at fair value. Since the Reorganisation is considered to be a continuation of the Group as a single economic entity Management decided to show the effect of the revaluation of the property, plant and equipment by the change of accounting policy from cost model to revaluation model. During the year ended 31 December 2015, the Company adopted the revaluation model of accounting for property, plant and equipment.

Property, plant and equipment is carried in the consolidated financial statements at revalued amounts, which is their fair value at the date of revaluation 31 July 2014, performed by professional appraisers, less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

When no market values are available, fair value of specialised property, plant and equipment is determined by using depreciated replacement cost approach. Fair values of other items of property, plant and equipment are determined by reference to market-based evidence, which are the amounts for which the assets could be exchanged between a knowledgeable and willing buyer and seller in an arm's length transaction as at the valuation date. Prior to revaluation, property, plant and equipment were stated at cost or deemed cost at the date of transition to IFRS (further referred as “cost”), excluding the costs of day-to-day servicing, less accumulated depreciation and accumulated impairment in value. Such cost included the cost of replacing part of such plant and equipment when that cost is incurred if the recognition criteria were met.

Revaluations of property, plant and equipment are to be performed with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the reporting date. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset, and the net amount is restated to the revalued amount of the asset.

Increase in carrying amount of property, plant and equipment arising on revaluation is recorded as the increase in revaluation reserve in equity, except for reversal of previous revaluation decrease that relate to this particular item and that was previously recognised as an expense. In this case, the increase in value is recognised as income in the consolidated statement of profit and loss and other comprehensive income within the previous decrease. Decrease in carrying amount of property, plant and equipment as a result of revaluation is recognised as an expense except to the extent it offsets an existing revaluation reserve (if any) on the same asset recognised as a result of previous revaluations. The decrease is reflected directly in equity within revaluation reserve to the extent of existing revaluation surplus on the same asset.

On the subsequent sale or retirement of revalued property, plant and equipment, the attributable revaluation reserve included in equity is transferred directly to retained earnings.

Upon recognition, items of property, plant and equipment are divided into components, which represent items with a significant value that can be allocated to a separate depreciation period. Overhaul costs also represent a component of an asset. Major spare parts and stand-by equipment qualify as property, plant and equipment when they are expected to be used during more than one period.

Repair and maintenance expenditure is expensed as incurred. Major renewals and improvements are capitalised, and the assets replaced are retired. Gains and losses arising from the retirement of property, plant and equipment are included in the profit or loss within the statement of comprehensive income as incurred.

Estimates of remaining useful lives are made on a regular basis with annual reassessments for major items. Changes in estimates are accounted for prospectively. Depreciation commences when an item is available for use. Freehold land is not depreciated.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

<i>Group</i>	<i>Useful lives</i>
Buildings, constructions and infrastructure	9-80 years
Subgrade and superstructure	6-83 years
Locomotives	5-32 years
Railway cars	5-45 years
Plant, equipment, tools and other	3-30 years
Vehicles	3-18 years

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the profit or loss within the statement of comprehensive income in the year the item is derecognised.

Social assets

Included in property, plant and equipment are social infrastructure and other non-production assets (hereinafter referred to as the “social assets”). Management believes that expenditures incurred in respect of acquisition or construction of such assets qualify for the recognition as an asset on the premises that such expenditures are capable of contributing indirectly to the flow of cash and cash equivalents to the Group through a reduction of cash outflows related primarily to wages and salaries expenses. As such non-production assets are employed by the Group to provide in-kind benefits to its employees in addition to wages and salaries paid in cash.

Construction in progress

Assets in the course of construction are capitalised as a separate component of property, plant and equipment. On completion, the cost of construction is transferred to the appropriate category. Construction in progress is not depreciated.

Impairment of non-financial assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset’s recoverable amount. An asset’s recoverable amount is the higher of an asset’s or cash-generating unit’s fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

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. Impairment losses of continuing operations on a non-revalued asset are recognised in the profit or loss within the consolidated statement of comprehensive income. However, an impairment loss on a revalued asset is recognised directly against any revaluation surplus for the asset to the extent that the impairment loss does not exceed the amount in the revaluation surplus for that same asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognised impairment loss is reversed only if there has been a change in the estimates used to determine the asset’s recoverable amount since the last impairment loss was recognised. If that is the case the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in profit or loss. After such a reversal the depreciation charge is adjusted in future periods to allocate the asset’s revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Inventories

Inventories primarily consist of spare parts, materials, tools and fuel. Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the FIFO (first-in, first-out) method.

Borrowing costs

Borrowing costs are capitalised if they are directly attributable to the acquisition, construction or production of a qualifying asset, otherwise they are recognised as an expense when incurred. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale.

Cash and cash equivalents

Cash and cash equivalents are defined as cash on hand, demand deposits and short term, highly liquid investments with an original maturity of three months or less that are readily convertible to known amounts of cash and subject to insignificant risks of changes in value. For the purposes of the consolidated statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

Trade and other payables

Trade and other payables are recognised and initially measured at fair values less directly attributable transaction costs. Subsequently, trade and other payables are carried at amortised cost using the effective interest method.

Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

Derecognition of financial assets and liabilities

Financial assets

A financial asset (or, where applicable a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a ‘pass-through’ arrangement; or
- The Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Group’s continuing involvement in the asset.

In that case Group also recognises an associated liability. The transferred asset and the associated liability are measured on the basis that reflects the rights and obligations that the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

Financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in the profit or loss within the statement of comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

Impairment of financial assets

The Group assesses at the end of each reporting period whether a financial asset or group of financial assets is impaired.

Assets carried at amortised cost

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced either directly or through use of an allowance account. The amount of the loss is recognised in consolidated statement of comprehensive income.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed. Any subsequent reversal of an impairment loss is recognised in the statement of comprehensive income, to the extent that the carrying value of the asset does not exceed its amortised cost that would have been at the reversal date, had the impairment not been recognised.

Available-for-sale financial assets

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would include a significant or prolonged decline in the fair value of the investment below its cost. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss – is removed from other comprehensive income and recognised in the profit or loss. Impairment losses on equity investments are not reversed through the profit or loss; increases in their fair value after impairment are recognised directly in other comprehensive income. In the case of debt instruments classified as available-for-sale, impairment is assessed based on the same criteria as financial assets carried at amortised cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortised cost and the current fair value, less any impairment loss on that investment previously recognised in the profit or loss.

Future interest income continues to be accrued based on the reduced carrying amount of the asset, using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded as part of finance income. If, in a subsequent year, the fair value of a debt instrument increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in the profit or loss, the impairment loss is reversed through the profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

Provisions

Provisions are recognised when the Group has a present legal or constructive obligation (either based on legal regulations or implied) as a result of past events, and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the obligation can be made. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Contingent liabilities and assets

Contingent liabilities are not recognised in the consolidated financial statements. They are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote.

Contingent assets are not recognised in the consolidated financial statements but disclosed when an inflow of economic benefits is probable.

Employee benefits

The Group participates in a statutory defined-benefit pension plan, which is compulsory for entities, who has jobs with extra harmful and difficult working conditions (named “List 1” and “List 2” categories). The obligations of the Group under this defined-benefit pension plan are formed gradually during the whole period of employment of an employee on the workplace certified in the prescribed manner, which gives the right to receive a privileged pension.

In addition, the Group has other defined benefit plans that are executed in more than 12 months after the end of the reporting period and are subject to an actuarial valuation. These programs of the Group include post-employment benefits, such as one-time retirement bonuses, as well as other long-term employee benefits, such as payments to anniversary dates, as defined by the Industry Agreement in Railway Transportation sector and Collective Agreement.

The Group makes defined contributions to the Ukrainian state pension funds at the relevant statutory rates in force during the year, based on gross salary payments. The Group has no legal or constructive obligations to pay further contributions in respect of those benefits. Its only obligation is to pay contributions as they fall due. Such contributions are expensed in the period when the related salaries are earned.

Government grants

Government grants contributed towards the acquisition of property, plant and equipment are deducted from the cost of those assets where there is reasonable assurance that the grants will be received and all attached conditions will be complied with.

Leases

The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement at inception date, and involves assessment 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.

Group as a lessee

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the commencement of the lease term at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are reflected in profit or loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term. In other case capitalised leased assets are depreciated over the useful life of the asset. Operating lease payments are recognised as an expense in profit or loss on a straight line basis over the lease term.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

Group as a lessor

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the asset are classified as operating leases. Initial direct costs incurred in negotiating an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same bases as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

Revenue recognition

Revenues are recognised when it is probable that the economic benefits associated with the transaction will flow to the enterprise and the amount of revenues can be measured reliably.

Revenues and expenses are accounted for at the time the actual flow of related goods and services occurs and transfer of risks and rewards has been completed, regardless of when cash or its equivalent is received or paid, and are reported in the statement of comprehensive income in the period to which they relate.

Transportation services

In respect of services related to cargo and passenger transportation, revenue is recognised by reference to the stage of completion of the transportation at the end of the reporting period provided that the stage of completion of the transportation and the amount of revenue can be measured reliably. The stage of completion is determined based on a duration or transportation completed to date to total duration of transportation.

Any amounts, which have been collected from the clients in advance to deliveries, initiated and not completed as at the date of these consolidated financial statements are reported in the consolidated statement of financial position as advances received for transportation. The amount of these liabilities is reduced for the amount of revenues recognised by reference to the stage of completion of the delivery.

Interest and similar income and expense

Interest income and expense is recorded at the effective interest rate, which is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to the net carrying amount of such an instrument, taking into consideration all contractual terms of the instrument.

Exchange of services of similar nature and value

The Group's transportation and other services provided to foreign railways are settled through mutual offset arrangements with its counterparties. Generally, the settlement is made in exchange for services of similar nature and value which is not regarded as a transaction which generates revenue. Such transactions are accounted on a net basis.

Taxes

Current income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted by the end of the reporting period.

Deferred income tax

Deferred income tax is provided using the liability method on temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- Where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax credits and unused tax losses can be utilised except:

- Where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted at the end of the reporting period.

Income tax relating to items recognised in other comprehensive income or directly in equity is recognised in other comprehensive income or directly in equity and not in the profit or loss.

Deferred tax assets and deferred tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Value-added tax

Revenues, expenses and assets are recognised net of the amount of Value-added tax (“VAT”) except:

- Where VAT incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case VAT is recognised as part of the cost of acquisition of the asset or as part of expense item as applicable; and
- Receivables, payables and finance lease liability are stated with the amount of VAT included.

The net amount of VAT receivable from, or payable to, the taxation authority is included into the *Taxes receivable, other than income tax / Taxes payable, other than income tax* line items disclosed on the face of the consolidated statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

7. Standards issued but not yet effective

Standards issued but not yet effective up to the date of issuance of the Group’s consolidated financial statements are listed below. This listing of standards and interpretations issued are those that the Group reasonably expects to have an impact on disclosures, financial position or performance when applied at a future date. The Group intends to adopt these standards and interpretations, if applicable, when they become effective.

IFRS 9 Financial Instruments

In July 2014, the IASB issued the final version of IFRS 9 Financial Instruments that replaces IAS 39 Financial Instruments: Recognition and Measurement and all previous versions of IFRS 9. IFRS 9 brings together all three aspects of the accounting for the financial instruments project: classification and measurement; impairment; and hedge accounting. IFRS 9 is effective for annual periods beginning on or after 1 January 2018, with early application permitted. Except for hedge accounting, retrospective application is required, but providing comparative information is not compulsory. For hedge accounting, the requirements are generally applied prospectively, with some limited exceptions. The Group plans to adopt the new standard on the required effective date. The Group does not expect a significant impact on its balance sheet or equity as result of classification and measurement requirements of IFRS 9.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 was issued in May 2014 and establishes a five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The new revenue standard will supersede all current revenue recognition requirements under IFRS. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after 1 January 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the full retrospective method.

Furthermore, the Group is considering the clarifications issued by the IASB in April 2016 and will monitor any further developments. Contracts with customers in which the sale of equipment is generally expected to be the only performance obligation are not expected to have any impact on the Group’s profit or loss. The Group expects the revenue recognition to occur at a point in time when control of the asset is transferred to the customer, generally on delivery of the goods. The Group is currently assessing the impact of IFRS (IFRS) 15 and plans to adopt the standard when it becomes effective.

Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between IFRS 10 and IAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that the gain or loss resulting from the sale or contribution of assets that constitute a business, as defined in IFRS 3, between an investor and its associate or joint venture, is recognised in full. Any gain or loss resulting from the sale or contribution of assets that do not constitute a business, however, is recognised only to the extent of unrelated investors’ interests in the associate or joint venture.

The IASB has deferred the effective date of these amendments indefinitely, but an entity that early adopts the amendments must apply them prospectively. It is expected that these amendments will not influence the Group’s financial statements.

IFRS 2 Classification and Measurement of Share-based Payment Transactions — Amendments to IFRS 2

The IASB issued amendments to IFRS 2 Share-based Payment that address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled. On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and other criteria are met. The amendments are effective for annual periods beginning on or after 1 January 2018, with early application permitted. The amendments are not applicable for the Group as it has not share-based payments.

IFRS 16 Leases

IFRS 16 was issued in January 2016 and it replaces IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. IFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under IAS 17.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

7. Standards issued but not yet effective (continued)

The standard includes two recognition exemptions for lessees – leases of ‘low-value’ assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under IFRS 16 is substantially unchanged from today’s accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between two types of leases: operating and finance leases. IFRS 16 also requires lessees and lessors to make more extensive disclosures than under IAS 17.

IFRS 16 is effective for annual periods beginning on or after 1 January 2019. Early application is permitted, but not before an entity applies IFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard’s transition provisions permit certain reliefs. The Group is assessing the potential effect of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

IFRS 17 was issued in May 2017 and is effective for reporting periods starting on or after 1 January 2021, it establishes a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of IFRS 17 is the general model, supplemented by: a specific adaptation for contracts with direct participation features (the variable fee approach); a simplified approach (the premium allocation approach) mainly for short-duration contracts. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4). IFRS 17 will result in a profound change to the accounting in IFRS financial statements for insurance companies. This will have a significant impact on data, systems and processes used to produce information for financial reporting purposes. The new model is likely to have a significant impact on the profit and total equity of some insurance entities, resulting in increased volatility compared to today’s models. Key performance indicators will also likely be affected. The Group is assessing the potential effect of IFRS 17 on its financial statements.

Transfers of Investment Property - Amendments to IAS 40

The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management’s intentions for the use of a property does not provide evidence of a change in use.

The amendment is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The Group has no significant investment property, thus, these amendments did not impact the Group’s financial statements or accounting policies.

Annual Improvements 2014-2016 Cycle (issued in December 2016)

IFRS 1 First-time Adoption of International Financial Reporting Standards

The amendment introduces the deletion of short-term exemptions for first-time adopters in paragraphs E3–E7 of IFRS 1. The amendment is effective from 1 January 2018. The Group is not a first-time adopter, thus this amendment will have no impact on the Group’s financial statements or accounting policies.

IAS 28 Investments in Associates and Joint Ventures

An entity that is a venture capital organisation, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss.

If an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate’s or joint venture’s interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which (a) the investment entity associate or joint venture is initially recognised; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

The amendments should be applied retrospectively and are effective from 1 January 2018, with earlier application permitted. If an entity applies those amendments for an earlier period, it must disclose that fact. The amendment will not have impact on the Group.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2017

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

7. Standards issued but not yet effective (continued)

Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts - Amendments to IFRS 4

The amendments address concerns arising from implementing the new financial instruments Standard, IFRS 9, before implementing the new insurance contracts standard that the Board is developing to replace IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach.

The optional temporary exemption from IFRS 9 is available to entities whose activities are predominantly connected with insurance. The temporary exemption permits such entities to continue to apply IAS 39 Financial Instruments: Recognition and Measurement while they defer the application of IFRS 9 until 1 January 2021 at the latest. The overlay approach requires an entity to remove from profit or loss additional volatility that may arise if IFRS 9 is applied with IFRS 4. When applying the temporary exemption, entities must still provide extensive disclosure that require the application of some aspects of IFRS 9.

The amendment is effective for annual periods beginning on or after 1 January 2018. The Group is assessing the potential effect of amendments on the financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Consideration

The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration.

The amendment is effective for annual periods beginning on or after 1 January 2018 with early application permitted. The Group had always applied the abovementioned approach, thus this amendment will have no impact on the Group's financial statements or accounting policies.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

In June 2017, the IASB issued IFRIC Interpretation 23 Uncertainty over Income Tax Treatments which clarifies application of the recognition and measurement requirements in IAS 12 Income Taxes when there is uncertainty over income tax treatments. The interpretation is effective for annual reporting periods beginning on or after 1 January 2019, but certain transition reliefs are available. Applying the interpretation could be challenging for entities, particularly those that operate in more complex multinational tax environments. Entities may also need to evaluate whether they have established appropriate processes and procedures to obtain information on a timely basis that is necessary to apply the requirements in the interpretation and make the required disclosures. The interpretation will not have impact on the Group's financial statements or accounting policies.

Prepayment Features with Negative Compensation - Amendments to IFRS 9

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The IASB also clarified that the gain or loss arising on modification of a financial liability that does not result in derecognition, calculated by discounting the change in contractual cash flows at the original effective interest rate, is immediately recognised in profit or loss. Amendments are effective for annual periods beginning on or after 1 January 2019. The amendments must be applied retrospectively; earlier application is permitted. The Group is assessing the potential effect of the amendments on the financial statements.

Long-term interests in associates and joint ventures - Amendments to IAS 28

The amendments clarify that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests. The amendments are effective for annual periods beginning on or after 1 January 2019. Entities must apply the amendments retrospectively, with certain exceptions. Early application of the amendments is permitted and must be disclosed. The amendments will not have impact on the Group's financial statements or accounting policies.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

7. Standards issued but not yet effective (continued)

IFRS Practice Statement 2: Making Materiality Judgements

Companies are permitted to apply the guidance in the Practice Statement (PS) to financial statements prepared any time after 14 September 2017. The PS contains non-mandatory guidance to help entities making materiality judgements when preparing general purpose IFRS financial statements. The PS may also help users of financial statements to understand how an entity makes materiality judgements in preparing such financial statements. Since the PS is a non-mandatory document, it does not change or introduce any requirements in IFRS.

Annual Improvements 2015-2017 Cycle (issued in December 2017)

IFRS 3 Business Combinations:

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation. An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on the Group's financial statements or accounting policies.

IFRS 11 Joint Arrangements:

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured. An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on the Group's financial statements or accounting policies.

IAS 12 Income Taxes:

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognised those past transactions or events. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on the Group's financial statements or accounting policies.

IAS 23 Borrowing Costs:

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted. It is expected that the amendments will not have impact on the Group's financial statements or accounting policies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***8. Segment reporting**

For management purposes, the Group is organised into business units based on their services, and has five reportable operating segments:

- *Cargo segment* includes cargo transportation services provided by the Group.
- *Long-distance passenger transportation segment* comprises all cross-regional passenger transportation services provided by the Group.
- *Suburban passenger transportation segment* includes intraregional rail passenger transportation services.
- *Auxiliary operations segment* include activities of the branches of the Company related to cargo, suburban passenger transportation, construction, reconstruction and modernisation of railways and railway transport infrastructure, repair and maintenance of different railway-related equipment and other companies within the Group. None of these operations are of sufficient size to be reported separately. None of these operations can be aggregated with reportable operating segments described above due to dissimilar economical characteristics.
- *All other segments* include repair and maintenance of rolling stock and other services provided by the Group's entities.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment and does not monitor assets and liabilities of the operating segments and this information is not provided to the management on a regular basis. Segment performance is evaluated on the basis of segment operating profit or loss determined based on management accounts that differ from the IFRS consolidated financial statements for the reason that the management accounts are based on Ukrainian GAAP figures. The operating segments results do not include the effects of some adjustments that may be considered necessary to reconcile the management accounts to IFRS consolidated financial statements.

Substantially all of the Group's operating assets are located and most of the services are provided in Ukraine.

Segment revenue is revenue that is directly attributable to a segment, whether from sales to external customers or from transactions with other segments. Segment revenue does not include:

- Interest income;
- Foreign exchange gains;
- Gain on disposal, change in fair value and reversal of impairment of financial assets;
- Gain on disposal of property, plant and equipment;
- Other income.

Segment expenses are expenses resulting from the operating activities of a segment that is directly attributable to the segment and the relevant portion of an expense that can be allocated on a reasonable basis to the segment, including expenses relating to sales to external customers and expenses relating to transactions with other segments. In 2017, maintenance were included in segment expenses, which resulted in comparative information for 2016.

The segment result is calculated as the difference between segment revenue and segment expenses. Transfer prices between operating segments are on an arm's length basis in a manner similar to transactions with third parties, except for operations of electricity transfer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***8. Segment reporting (continued)**

<i>Year ended</i> <i>31 December 2017</i>	<i>Cargo</i>	<i>Long- distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Unallocated</i>	<i>Eliminations (A)</i>	<i>Adjustments (B)</i>	<i>Total</i>
Sales to third parties	60,990,787	6,745,313	588,844	6,498,480	8,539	–	–	(893,812)	73,938,151
Inter-segment sales	–	–	–	7,409,197	1,776,779	–	(9,185,976)	–	–
Total revenue	60,990,787	6,745,313	588,844	13,907,677	1,785,318	–	(9,185,976)	(893,812)	73,938,151
Staff costs	(17,408,628)	(5,317,605)	(2,584,647)	(4,052,452)	(617,177)	(1,993,486)	–	–	(31,973,995)
Depreciation	(10,714,216)	(1,633,342)	(870,424)	(1,376,009)	(35,867)	(32,447)	–	–	(14,662,305)
Electricity	(5,306,396)	(1,253,580)	(722,395)	(7,888,936)	(56,356)	(5,094)	7,366,824	–	(7,865,933)
Fuel	(4,970,812)	(955,452)	(604,993)	(716,464)	(47,462)	(12,679)	–	–	(7,307,862)
Maintenance	(3,757,517)	(837,248)	(527,679)	(637,027)	(1,106,424)	(762,948)	1,819,152	–	(5,809,691)
Segment result	18,833,218	(3,251,914)	(4,721,294)	(763,211)	(77,968)	(2,806,654)	–	(893,812)	6,318,365

<i>Year ended</i> <i>31 December 2016</i>	<i>Cargo</i>	<i>Long- distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Unallocated</i>	<i>Eliminations (A)</i>	<i>Adjustments (B)</i>	<i>Total</i>
Sales to third parties	55,424,486	6,190,346	527,212	5,388,189	48,777	–	–	(1,008,846)	66,570,164
Inter-segment sales	–	–	–	6,601,915	1,495,249	–	(8,097,164)	–	–
Total revenue	55,424,486	6,190,346	527,212	11,990,104	1,544,026	–	(8,097,164)	(1,008,846)	66,570,164
Staff costs	(13,479,790)	(4,063,526)	(2,017,104)	(4,858,323)	(436,994)	(339,714)	–	(470,399)	(25,665,850)
Depreciation	(12,806,538)	(2,154,356)	(957,760)	(1,432,393)	(39,405)	(39,100)	–	(480,575)	(17,910,127)
Electricity	(5,158,070)	(1,224,776)	(720,510)	(7,259,902)	(47,727)	(4,840)	6,601,915	–	(7,813,910)
Fuel	(3,946,970)	(734,282)	(506,638)	(643,879)	(38,595)	(6,999)	–	–	(5,877,363)
Maintenance	(3,869,277)	(750,134)	(464,808)	(117,075)	(1,222,687)	(387,503)	1,495,249	–	(5,316,235)
Segment result	16,163,841	(2,736,728)	(4,139,608)	(2,321,468)	(241,382)	(778,156)	–	(1,959,820)	3,986,679

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***8. Segment reporting (continued)**

(A) Inter-segment revenue and margins are eliminated on consolidation.

(B) The operating results of each operating segment does not include the following adjustments representing differences between management accounts and financial statements prepared in accordance with IFRS for the year ended 31 December:

	<u>2017</u>	<u>2016</u>
Recognition of revenue in appropriate period	–	14,033
Settlements with foreign railways	(893,812)	(1,022,879)
	<u>(893,812)</u>	<u>(1,008,846)</u>
Correction of bonuses and unused vacation expenses accrual	–	(380,984)
Correction of defined benefits obligation	–	(89,415)
Correctio of depreciation expenses adjusted as the result of different carrying values of property, plant and equipment in IFRS and management information	–	(480,575)
Total corrections of differences between management accounts and IFRS	<u>(893,812)</u>	<u>(1,959,820)</u>
Reconciliation of profit:		
	<u>2017</u>	<u>2016</u>
Segment results	10,018,831	6,724,655
Total adjustments due to differences in accounting policies adopted for management accounts and IFRS	(893,812)	(1,959,820)
Total unallocated amounts	(2,806,654)	(778,156)
Items not included in segment expenses		
Taxes, other than income tax	(1,803,000)	(1,093,293)
Social expenses	(470,130)	(283,186)
Change in provisions	(100,243)	(318,615)
Other income	2,451,001	559,075
Other expenses	(1,061,392)	(1,008,650)
Finance income	554,799	364,872
Finance costs	(3,810,903)	(4,803,518)
Foreign exchange loss, net	(1,139,624)	(4,505,516)
Share of loss of an associate	(166,780)	(13,597)
Group profit/(loss) before income tax	<u>772,093</u>	<u>(7,115,749)</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***9. Property, plant and equipment**

	<i>Land</i>	<i>Buildings, constructions and infra- structure</i>	<i>Subgrade and superstructure</i>	<i>Locomotives</i>	<i>Railway cars</i>	<i>Plant, equipment, tools and other</i>	<i>Vehicles</i>	<i>Construction in progress and uninstalled equipment</i>	<i>Total</i>
Cost/revalued amount									
At 1 January 2017	45,647,046	74,822,084	82,563,874	19,796,853	35,933,527	19,279,284	3,053,184	8,017,402	289,113,254
Additions	–	–	–	–	–	–	–	11,312,881	11,312,881
Transfers	–	298,398	2,122,838	1,270,255	4,674,756	1,162,416	206,133	(9,734,796)	–
Disposals	–	(6)	–	–	–	(746)	(5)	–	(757)
Acquisitions through business combinations (Note 16)	–	11,622	1,307	–	–	23,010	456	1,086	37,481
Other (reclassification of uncontrolled territories)	(6,493)	(2,799,679)	(1,548,330)	(356,354)	(233,773)	(2,094,823)	(1,208,736)	(500,480)	(8,748,668)
At 31 December 2017	<u>45,640,553</u>	<u>72,332,419</u>	<u>83,139,689</u>	<u>20,710,754</u>	<u>40,374,510</u>	<u>18,369,141</u>	<u>2,051,032</u>	<u>9,096,093</u>	<u>291,714,191</u>
Accumulated depreciation									
At 1 January 2017	–	11,001,347	8,194,444	5,201,722	7,792,129	6,561,587	308,940	2,031,050	41,091,219
Depreciation charge	–	3,175,386	4,676,886	1,619,869	3,917,621	1,155,425	304,377	–	14,849,564
Disposals	–	(6)	–	–	–	(745)	(5)	–	(756)
Acquisitions through business combinations (Note 16)	–	9,307	991	–	–	21,548	456	–	32,302
At 31 December 2017	<u>–</u>	<u>14,186,034</u>	<u>12,872,321</u>	<u>6,821,591</u>	<u>11,709,750</u>	<u>7,737,815</u>	<u>613,768</u>	<u>2,031,050</u>	<u>55,972,329</u>
Net book value									
At 1 January 2017	<u>45,647,046</u>	<u>63,820,737</u>	<u>74,369,430</u>	<u>14,595,131</u>	<u>28,141,398</u>	<u>12,717,697</u>	<u>2,744,244</u>	<u>5,986,352</u>	<u>248,022,035</u>
At 31 December 2017	<u>45,640,553</u>	<u>58,146,385</u>	<u>70,267,368</u>	<u>13,889,163</u>	<u>28,664,760</u>	<u>10,631,326</u>	<u>1,437,264</u>	<u>7,065,043</u>	<u>235,741,862</u>

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***9. Property, plant and equipment (continued)**

	<i>Land</i>	<i>Buildings, constructions and infra- structure</i>	<i>Subgrade and superstructure</i>	<i>Locomotives</i>	<i>Railway cars</i>	<i>Plant, equipment, tools and other</i>	<i>Vehicles</i>	<i>Construction in progress and uninstalled equipment</i>	<i>Total</i>
Cost/revalued amount									
At 1 January 2016	45,647,046	74,520,805	80,608,479	18,435,987	33,727,854	18,287,171	3,769,420	7,318,790	282,315,552
Additions	–	–	–	–	–	–	–	6,795,322	6,795,322
Acquisitions through business combinations (Note 16)	–	–	–	–	–	12,099	–	–	12,099
Transfers	–	301,279	1,955,395	627,922	2,196,755	989,733	25,626	(6,096,710)	–
Disposals	–	–	–	–	–	(9,719)	–	–	(9,719)
Other (reclassification of PP&E)	–	–	–	732,944	8,918	–	(741,862)	–	–
At 31 December 2016	<u>45,647,046</u>	<u>74,822,084</u>	<u>82,563,874</u>	<u>19,796,853</u>	<u>35,933,527</u>	<u>19,279,284</u>	<u>3,053,184</u>	<u>8,017,402</u>	<u>289,113,254</u>
Accumulated depreciation									
At 1 January 2016	–	7,698,454	3,192,516	2,673,987	2,581,950	4,335,408	489,198	2,031,050	23,002,563
Depreciation charge	–	3,302,893	5,001,928	1,969,605	5,202,349	2,233,817	385,702	–	18,096,294
Disposals	–	–	–	–	–	(7,638)	–	–	(7,638)
Other (reclassification of PP&E)	–	–	–	558,130	7,830	–	(565,960)	–	–
At 31 December 2016	<u>–</u>	<u>11,001,347</u>	<u>8,194,444</u>	<u>5,201,722</u>	<u>7,792,129</u>	<u>6,561,587</u>	<u>308,940</u>	<u>2,031,050</u>	<u>41,091,219</u>
Net book value									
At 1 January 2016	<u>45,647,046</u>	<u>66,822,351</u>	<u>77,415,963</u>	<u>15,762,000</u>	<u>31,145,904</u>	<u>13,951,763</u>	<u>3,280,222</u>	<u>5,287,740</u>	<u>259,312,989</u>
At 31 December 2016	<u>45,647,046</u>	<u>63,820,737</u>	<u>74,369,430</u>	<u>14,595,131</u>	<u>28,141,398</u>	<u>12,717,697</u>	<u>2,744,244</u>	<u>5,986,352</u>	<u>248,022,035</u>

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***9. Property, plant and equipment (continued)*****Revaluation***

When state enterprise in reorganised into a joint stock company its assets, including property, plant and equipment, and liabilities have to be valued at fair value. Property, plant and equipment were revalued by an independent appraiser as at 31 July 2014 in accordance with statutory requirements for the formation of the charter capital. The effect of the revaluation was recognised as at 30 November 2015, the date of the completion of the Reorganisation for the purposes of preparation of the consolidated financial statements, as adjusted by taking into account the effect of the depreciation of property, plant and equipment before revaluation for the period from 31 July 2014 to 1 December 2015, and movements of property, plant and equipment for the above period.

Land plots

Land plots include the cost of the rights of permanent use of land plots in the amount of UAH 45,640,553 thousand which was determined on the basis of the revaluation for the purpose of forming the charter capital (Note 16) separately from the items of property, plant and equipment, which can be located on these plots. The results of such revaluation may differ from the estimates made for the purposes of preparation of the IFRS financial statements.

Management believes that the presentation of the rights of permanent use of land separately from the respective fixed assets in the consolidated financial statements may not be avoided as this is regulated by the legislation on the Reorganisation.

Assets assigned under the title of operating control

Certain items of property, plant and equipment, specifically – public service line-haul railroads and engineering constructions, transmission equipment attached thereto, which are directly supporting the transportation process were assigned to the Group under the title of operating control (Note 16). The title of operating control allows to possess and use the assets, except for actions that may lead to disposal of the assets.

Carrying value of the assets assigned under the title of operating control was UAH 98,640,070 thousand as at 31 December 2017 (2016: 102,211,984 thousand).

Social assets

Included in property, plant and equipment are social infrastructure and other social assets carried at UAH 3,360,681 thousand as at 31 December 2017 (2016: UAH 3,438,546 thousand), primarily comprising residential buildings, hospitals, canteens and other similar assets.

Prepayments for property, plant and equipment

As at 31 December 2017 construction in progress and uninstalled equipment contained prepayments for property, plant and equipment in the amount of UAH 278,159 thousand (2016: UAH 20,568 thousand).

Capitalised depreciation charge

The Group capitalised UAH 219,561 thousand of depreciation charge into construction in progress for the year ended 31 December 2017 (2016: UAH 115,641 thousand).

Capitalised borrowing costs

In 2017, borrowing costs of UAH 16,339 thousand relating to qualifying assets were capitalised (2016: UAH 16,097 thousand). The rate used to determine the amount of borrowing costs eligible for capitalisation was LIBOR 6m +1-6% and EURIBOR 6m +0,3%, which is the effective interest rate of the specific borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

9. Property, plant and equipment (continued)

Fully depreciated assets

As at 31 December 2017 the cost of fully depreciated property, plant and equipment which remain in use amounted to UAH 14,488,757 thousand (2016: UAH 10,661,518 thousand).

Finance lease

As at 31 December 2017 the carrying value of property and equipment held under finance leases amounted to UAH 1,077,265 thousand (2016: UAH 1,302,650 thousand).

During the year ended 31 December 2017 and 2016 the Group did not acquire property and equipment of under finance lease agreements.

Pledged property, plant and equipment

As at 31 December 2017 certain rolling stock with the carrying value of UAH 239,726 thousand was pledged as collateral for the Group's interest-bearing loans and borrowings (2016: UAH 249,424 thousand) (Note 17).

10. Investment in associates

On 29 January 2016 the State Property Fund of Ukraine transferred 47.67% interest in the share capital of PJSC “Ukrtransleasing” to JSC “Ukrzaliznytsia” as a contribution to the charter capital within the Reorganisation process (Note 16). Starting from this date the Group's interest in PJSC “Ukrtransleasing” is accounted for using the equity method in the consolidated financial statements.

PJSC “Ukrtransleasing” with its three subsidiaries form Ukrtransleasing group. The group is engaged in provision of finance lease services, operating lease of railway rolling stock, logistics and forwarding services, production of railway nodes and arrows. Neither PJSC “Ukrtransleasing” nor its subsidiaries are listed on any public exchange. A portion of Ukrtransleasing group assets is located in the Autonomous Republic of Crimea and certain parts of the Donetsk and Lugansk regions temporarily not controlled by the Ukrainian authorities, respective operations enter the determination of the results of operations of Ukrtransleasing group (Note 2).

The summarised information on Ukrtransleasing group adjusted to arrive at uniform accounting policies is presented below:

	<i>31 December 2017</i> <i>(adjusted)</i>	<i>31 December 2016</i> <i>(adjusted)</i>
Current assets	1,010,570	1,258,587
Non-current assets	851,289	1,329,056
Current liabilities	(701,015)	(737,064)
Non-current liabilities	(46,859)	(253,704)
Equity	<u>1,113,985</u>	<u>1,596,875</u>
Group's carrying amount of the investment	<u>530,398</u>	<u>760,591</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***10. Investment in associate (continued)**

	<i>For the period ended 31 December 2017 (adjusted)</i>	<i>For the period from transfer of shares till 31 December 2016 (adjusted)</i>
Revenues	287,112	230,367
Loss before tax	(420,423)	(51,575)
Income tax benefit	70,529	26,253
Loss for the period (continuing operations)	(349,894)	(25,322)
Revaluation increase/(decrease) of property, plant and equipment	(134,867)	299,146
Income tax effect of revaluation increase/(decrease) of property, plant and equipment	23,738	(53,846)
Other comprehensive loss for the period	(5,109)	(225)
Total comprehensive (loss)/income for the period (continuing operations)	(466,132)	219,753
Adjustment to comply with the Group's uniform accounting policy by the investee	—	(3,201)
Total comprehensive (loss)/income for the period (continuing operations) after the adjustment to comply with the Group's uniform accounting policies by investee	(466,132)	216,552
Group's share of loss for the period	(166,794)	(13,597)

During 2017 the Group received UAH 7,988 thousand of dividends from the associate company (2016: UAH 639 thousand).

The Group has investments in other associate companies, that are not individually material for separate disclosure. One of the associates is PJSC “Insurance Company “Inter-Policy” engaged in insurance and reinsurance activities in Ukraine, in which the Group owns 30.965% starting from 1 February 2017. The other associate is Breitspur Planungsgesellschaft mbH, created under the Austrian legislation, engaged in the feasibility study on the construction of the broad-gauge railway corridor from the Ukrainian border to Vienna, which will facilitate the transportation of freights between the China and Western Europe markets. It is expected that the feasibility study will continue until the end of 2018, the start of the construction of the rail track system is scheduled for 2022. As of 21 July 2017, the Group concentrated 25% in the share capital of Breitspur Planungsgesellschaft mbH, when the State Property Fund of Ukraine transferred 12.6% of corporate rights of the company amounted to UAH 47,643 thousand within the Reorganisation process. Aggregated information about other associates for the period since the date of transfer of shares till 31 December 2017 is presented below:

	<i>31 December 2017 (adjusted)</i>	<i>On the date of transfer of shares (adjusted)</i>
Current assets	205,130	194,914
Non-current assets	222,134	232,694
Current liabilities	(22,170)	(20,072)
Non-current liabilities	(7,033)	(8,874)
Equity	398,061	398,662
Group's carrying amount of the investments	101,968	102,154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***10. Investment in associate (continued)**

	<i>For the period from transfer of shares till 31 December 2017 (adjusted)</i>
Revenues	68,323
Profit before tax	2,130
Income tax expense	(2,085)
Profit for the period (continuing operations)	45
Total comprehensive income for the period (continuing operations)	45
Total comprehensive income for the period (continuing operations) after the adjustment to comply with the Group's uniform accounting policies by investee	45
Group's share of profit for the period	14

During 2017 the associate companies distributed to the Group dividends of UAH 200 thousand.

The associate requires the Group's consent to distribute its profits. The Group does not foresee giving such consent at the reporting date. Associates had no contingent liabilities or capital commitments as at 31 December 2017 and 2016.

11. Financial assets

	<i>2017</i>	<i>2016</i>
Equity instruments of another entities	73,546	127,840
Loans due from employees	19,701	50,131
Other financial assets	–	911
	<u>93,247</u>	<u>178,882</u>

Equity instruments of another entities mainly consist of payments to acquire minority interests in the share capital of certain entities, for which property rights were not formally registered as at the end of reporting period. The carrying value of these financial assets does not differ materially from their fair value.

The Group provides long-term interest-free loans to its employees with contractual maturity from 3 to 8 years. Loans are carried at amortised cost using the effective interest rate of 13%-23% per annum. The current portion of the loans of UAH 8,518 thousand (2016: UAH 7,061 thousand) is included in trade and other receivables (Note 13).

12. Inventories

	<i>2017</i>	<i>2016</i>
Spare parts, materials and tools (at lower of cost and net realisable value)	6,003,150	3,861,293
Fuel and lubricants (at cost)	706,715	785,875
Other (at lower of cost and net realisable value)	1,708,055	1,478,686
	<u>8,417,920</u>	<u>6,125,854</u>

During 2017, spare parts, materials and tools, fuel and lubricants and other inventories in the amount of UAH 12,678,353 thousand were recognised as an operating expenses (2016: UAH 10,930,837 thousand).

As at 31 December 2017 inventories with carrying value of UAH 111,251 thousand (2016: UAH 111,251 thousand) were pledged as collateral for the Group's interest-bearing loans and borrowings (Note 17).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***13. Trade and other receivables**

	<u>2017</u>	<u>2016</u>
Trade receivables	913,941	945,193
Receivables for outstanding contributions	–	103,481
Current portion of long-term financial assets (Note 11)	8,518	7,061
Other receivables	<u>700,516</u>	<u>1,717,800</u>
	1,622,975	2,773,535
Less: allowance for impairment of trade and other receivables	<u>(743,853)</u>	<u>(729,636)</u>
	<u>879,122</u>	<u>2,043,899</u>

Receivables for outstanding contributions as at 31 December 2016 are for shares of certain entities not contributed to the charter capital of the Company (Note 16).

As at 31 December 2017 and 2016 current portion of long-term financial assets included short-term portion of loans due from employees (Note 11).

As at 31 December 2017, trade and other receivables of UAH 743,853 thousand (2016: UAH 729,636 thousand) were impaired and fully provided for. Loss on impairment was included to other expenses in consolidated statement of comprehensive income. The reconciliation of changes in allowance account was as follows:

	<u>2017</u>	<u>2016</u>
At 1 January	729,636	566,570
Arising during the year	43,597	172,955
Utilised	(23,165)	(9,889)
Reversed	<u>(6,215)</u>	<u>–</u>
At 31 December	<u>743,853</u>	<u>729,636</u>

The ageing of the Group's trade and other receivables was as follows:

	<i>Neither past due nor impaired</i>	<i>Past due, but not impaired</i>				
		<i>Less than 3 months</i>	<i>3-6 months</i>	<i>6-12 months</i>	<i>More than 12 months</i>	<i>Total</i>
31 December 2017	741,012	69,559	47,630	20,921	–	879,122
31 December 2016	654,595	1,340,296	9,729	39,279	–	2,043,899

14. Prepayments

	<u>2017</u>	<u>2016</u>
Prepayments for materials and services, net of impairment	203,999	314,109
Dividends prepaid (Note 29)	<u>–</u>	<u>7,657</u>
	<u>203,999</u>	<u>321,766</u>

As at 31 December 2017 prepayments are impaired by UAH 9,510 thousand (2016: UAH 27,206 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***15. Taxes receivable, other than income tax**

	2017	2016
Value added tax receivable	443,687	538,744
Other taxes prepaid	16,445	18,881
	<u>460,132</u>	<u>557,625</u>

A portion of value added tax receivable amounting to UAH 849,024 thousand was classified as non-current asset as at 31 December 2017 as its expected period of recoverability exceeds 12 months (2016: UAH 888,602 thousand).

16. Equity***Charter capital***

During 2017 and 2016 the charter capital of the Group was of UAH 229,879,115,000 and was divided into 229,879,115 ordinary nominal shares with a nominal value of UAH 1,000 each.

In July 2017, the Company has registered its ownership for the corporate rights of PJSC “Transsignal Kyiv Electrical Engineering Plant” in the amount of UAH 103,481 thousand (Note 13). Thus, the charter capital became fully contributed and in accordance with the respective Ukrainian legislation the issuance of the Company’s shares was registered on 7 September 2017.

The Group Reorganisation, additional capital

Public joint stock company “Ukrainian Railway” was established on 21 October 2015, when the state registration of the Company was conducted according to the decree of the Cabinet of Ministers of Ukraine dated 2 September 2015 No. 735 *Matters Related to Public Joint Stock Company “Ukrainian Railway”*.

According to the Law of Ukraine dated 23 February 2012 No. 4442-VI *On Peculiarities of Creation of the Public Joint Stock Company for Public Service Railway Transport*, JSC “Ukrzaliznytsya” is a legal successor of the State Administration of Railway Transport of Ukraine as well as public service railway enterprises and institutions, which were reorganised through the merger according to the Decree of the Cabinet of Ministers of Ukraine dated 25 June 2014 No. 200 *On Establishment of Public Joint Stock Company “Ukrainian Railway”*.

The date of completion of the Reorganisation for the purposes of preparation of the consolidated financial statements is 30 November 2015. Before this date, the Company licenses, permits and other documents allowing JSC “Ukrzaliznytsia” to commence its economic activities starting from 1 December 2015.

Due to objective inability to conduct all necessary standard reorganisation proceedings (inventory of underlying assets and liabilities, their valuation and formal transfer and acceptance by the Company), it was not possible to contribute net assets related to the temporarily occupied territory of the Autonomous Republic of Crimea and uncontrolled territories of Donetsk and Lugansk regions to the charter capital of the Company. Instead, the additional capital was formed through the contribution of the above net assets in correspondence with the additional capital. Financial information on the temporarily occupied territory of the Autonomous Republic of Crimea and uncontrolled territories of Donetsk and Lugansk regions is provided in Note 2.

Additional capital was also formed through contribution of public residential buildings and civil defense facilities, which can’t be transferred to the Charter capital of the Company due to legal restrictions, but are included in the Company’s assets; also through contribution of finance lease items; as well as through additions and modernisation of property, plant and equipment over a period from the revaluation date of 31 July 2014 till the date of Reorganisation completion, as at 30 November 2015.

At the beginning of 2016 JSC “Ukrzaliznytsia” obtained legal title for 65.62% interest in the share capital of PJSC “Insurance Company “Tast Garantiya” within the Reorganisation process. The principal activity of PJSC “Insurance Company “Tast Garantiya” is providing insurance services except life insurance. The carrying values of assets of the subsidiary was UAH 14,854 thousand as at 31 December 2016. From the date of transfer of the shares to 31 December 2016 the subsidiary contributed UAH 147 thousand of net profit to the Group’s total comprehensive loss for the period.

In 2017, the Group performed a reclassification of UAH 745,690 from accumulated deficit to additional capital in order to ensure compliance with the statutory documents of the Reorganisation.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***16. Equity (continued)*****Distribution of portion of net profit to the State***

During the year ended 31 December 2017 the subsidiaries of the Company paid a portion of their net profit in the amount of UAH 6,513 thousand directly to the state budget (2016: UAH 794 thousand).

17. Interest-bearing loans and borrowings

As at 31 December interest-bearing loans and borrowings consisted of the following:

	<i>2017</i>	<i>2016</i>
Interest-bearing bank loans	18,446,029	23,804,004
Eurobonds issued	14,583,106	14,205,504
Bonds issued in domestic markets	–	2,093,421
Other borrowings	482,404	408,818
	<u>33,511,539</u>	<u>40,511,747</u>

Eurobonds pertain to the loan of USD 500,000 thousand received as a result of loan participation notes (Eurobonds) placed by Shortline plc on Irish Stock Exchange in May 2013. In March 2016 the Group has reprofiled the loan, the maturity was extended to 15 September 2021, annual interest rate increased from 9.5% to 9.875% starting from 21 November 2015 and the principal repayment schedule changed as follows: 60% to be paid in 2019, 20% – in 2020 and 20% in 2021.

Domestic bonds were issued and placed in Ukraine. They were denominated in UAH, bore interest of 18.0% - 23.5% and were settled in full in 2017.

As disclosed in Note 2 the Group recorded the liabilities of State Enterprise “Donetsk Railway” on its balance sheet with further division of the balances to controlled and uncontrolled parts. In 2016, majority of lenders of SE “Donetsk Railway” filed court suits with the purpose to recognise JSC “Ukrzaliznytsia” as a legal successor of the enterprise and recover the debt. In February 2017, some changes to the legislation on the Reorganisation were enacted providing moratorium on foreclosure of assets and enforcement of liabilities of SE “Donetsk Railway” until cessation of antiterrorist operation and completion of legal succession proceedings (inventory of underlying assets and liabilities, their valuation and formal transfer and acceptance by the Company). The court decisions subsequent to the changes in the legislation ruled for non-recognition of the Group as a legal successor for loans and borrowings of State Enterprise “Donetsk Railway” based on the above considerations.

Since 1 January 2016, the Group ceased to recognise finance costs and foreign exchange losses related to the above loans and borrowings and as at 31 December 2017, reclassified them into liabilities of uncontrolled territories (Note 2). As such, as at 31 December 2017, the liabilities of uncontrolled territories comprised interest-bearing loans and borrowings denominated in the United States dollars in the amount of USD 116,340 thousand with a fixed interest rate of 10.65% - 12.0% per annum, and interest-bearing loans and borrowings denominated in Hryvnia in the amount of UAH 932,725 thousand with a fixed interest rate of 17.4% - 18.0%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***17. Interest-bearing loans and borrowings (continued)**

As at 31 December effective interest rate and currency split for borrowings were as follows:

	<i>Interest rate</i>	<i>2017*</i>	<i>Interest rate</i>	<i>2016</i>
USD				
Floating rate	LIBOR 6m + 1% - 6%	4,132,705	LIBOR 6m + 1% - 6%	5,363,114
Fixed rate	9.9% - 12%	27,507,731	9.5% - 12%	30,652,598
		<u>31,640,436</u>		<u>36,015,712</u>
EUR				
Floating rate	EURIBOR 6m + 0.3%	1,172,340	EURIBOR 6m + 0.4%	994,791
		<u>1,172,340</u>		<u>994,791</u>
UAH				
Fixed rate	18.9% - 20.75%	698,763	17.4% - 23.5%	3,501,244
		<u>698,763</u>		<u>3,501,244</u>
Total interest-bearing loans and borrowings		33,511,539		40,511,747
Less: current portion		<u>(10,890,635)</u>		<u>(16,679,238)</u>
Interest-bearing loans and borrowings, non-current		22,620,904		23,832,509

* after reclassification to liabilities of uncontrolled territories (Note 2)

Some of the loan agreements provide for financial and non-financial covenants, which impose restrictions on certain transactions and financial ratios, including restrictions of the amount of outstanding debt and profitability of the Group.

In 2017 and 2016, the Group breached its undertakings under the amended and restated loan agreement between JSC “Ukrzaliznytsia” and Shortline plc dated 19 February 2016, as the Group was not able to timely restructure a portion of its debt. The Group has rectified the breaches before the end of the respective year through amendments made to the contract with Shortline plc.

As at 31 December 2017 and 2016 the breach of undertakings under long-term loan agreements that the Group was not able to timely restructure caused a cross-default under certain other borrowings. Therefore, the lenders became entitled to request accelerated repayment of interest-bearing borrowings with carrying value of UAH 3,926,119 thousand as at 31 December 2017 (2016: UAH 4,549,891 thousand). Pursuant to the requirements of IAS 1 Presentation of Financial Statements the non-current portion of the Group’s borrowings under the above mentioned agreements of UAH 3,003,375 thousand as at 31 December 2017 (2016: UAH 3,649,075 thousand), were reported within current liabilities. The Group has completed the restructuring negotiations with certain lenders during 2017 and 2016. Management expects that the restructuring negotiations will be completed, or the debt refinanced by 31 December 2018.

As at 31 December 2017 undrawn loan facilities available to the Group were of UAH 6,548,251 thousand (2016: 6,468,685 thousand). Following the breaches of undertakings as at 31 December 2017 the access to certain undrawn loan facilities was restricted. Assuming there were no breaches, the undrawn loan facilities available to the Group would comprise UAH 7,218,160 thousand as at 31 December 2017 (2016: UAH 7,037,137 thousand).

As at 31 December interest-bearing loans and borrowings were secured as follows:

<i>Type of collateral</i>	<i>2017</i>	<i>2016</i>
Property, plant and equipment (Note 9)	239,726	249,424
Inventories (Note 12)	111,251	111,251
Proceeds from future revenue	18,042,411	22,984,535
Guarantees issued by the State of Ukraine (Note 29)	4,813,240	6,357,905

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***18. Finance lease liability**

Finance lease liability is represented by amounts due under the purchase of railway cars, locomotives and equipment. The majority of lease payments are pegged to USD; the average lease term is 7 years. As at 31 December 2017 the interest rates implicit in the lease were within the range of 11% - 17% per annum.

During the years ended 31 December 2017 and 2016, the Group did not acquire assets under finance lease agreements. Principal repayments under finance lease to Ukrainian lessors (unlike foreign lessors) are subject to 20% VAT levied at the payment date. Finance charge is not VAT taxable.

In 2017 liabilities of uncontrolled territories (Note 2) included liability under financial lease agreements pegged to USD in the amount with equivalent to USD 19,719 thousand.

The following are the minimum lease payments and present value of finance lease liability under finance lease agreements:

	<i>Minimum payments</i>		<i>Present value of payments</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
Amounts payable under finance leases				
Within one year	654,892	1,307,690	605,292	1,186,598
After one year but not more than five years	129,197	521,645	116,087	459,853
Total minimum lease payments	784,089	1,829,335	721,379	1,646,451
Less amounts representing finance charges	(62,710)	(182,884)	—	—
Present value of minimum lease payments	721,379	1,646,451	721,379	1,646,451
Classified as:				
Current	605,292	1,186,599	605,292	1,186,599
Non-current	116,087	459,852	116,087	459,852

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***19. Employee benefits**

The Group has a legal obligation to compensate the Ukrainian State Pension Fund for additional pensions paid to certain categories of the current and former employees who are eligible for early retirement benefits due to working in hazardous and/or unhealthy working conditions. The Group has also contractual obligation to pay lump-sum payments to the retiring employees with the long service, certain post retirement and post employment benefits, as well as other long-term employee benefits such as jubilee and long service benefits, etc. according to collective agreements. These obligations fall under definitions of a defined benefit plan.

Defined benefit plan

The Group's defined benefit obligation relates to:

	<i>2017</i>	<i>2016</i>
Post retirement and post employment benefits under collective agreement	1,545,503	1,325,671
State plan for additional pensions for working in hazardous and unhealthy working conditions	341,522	445,649
Other long-term benefits under collective agreement	345,395	761,637
	<u>2,232,420</u>	<u>2,532,957</u>

Changes in the net present value of the defined benefit obligation were as follows:

	<i>2017</i>	<i>2016</i>
At 1 January	2,532,957	1,899,361
Interest cost on benefit obligation	340,497	270,033
Current service cost	108,592	93,477
Past service cost	(30,175)	–
Benefits paid	(415,293)	(307,409)
Remeasurement gains/(losses) in other comprehensive income from:		
- changes in financial assumptions	152,148	199,592
- changes in demographic assumptions	(21,453)	(8,786)
- experience adjustments	35,621	83,342
Remeasurement of other long-term employee benefits obligation	(470,474)	303,347
At 31 December	<u>2,232,420</u>	<u>2,532,957</u>

The amounts recognised in the consolidated income statement were as follows:

	<i>2017</i>	<i>2016</i>
Current service cost	108,592	93,477
Interest cost on benefit obligation (Note 26)	340,497	270,033
Past service cost	(30,175)	–
Remeasurement of other long-term employee benefits obligation (Note 25)	(470,474)	303,347
	<u>(51,560)</u>	<u>666,857</u>

Current service cost, past service cost, including their amortisation and recognised actuarial gains are included into the staff costs line item in the statement of comprehensive income. Interest cost on benefit obligation included into finance costs.

The principal assumptions used in determining defined benefit obligation are shown below:

	<i>2017</i>	<i>2016</i>
Discount rate	15.30%	16.00%
Staff turnover	10.56%	6.94%
Future benefit increase	7.00%	6.35%
Future pension increase	5.50%	6.35%

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***19. Employee benefits (continued)**

The sensitivity analysis is given in the table below:

<i>2017</i>	<i>Increase/ (decrease) in rate</i>	<i>Increase/ (decrease) of defined benefit obligation</i>
Discount rate	+1%	(110,434)
Discount rate	-1%	99,871
Future benefit increase	+1%	102,358
Future benefit increase	-1%	(112,186)
<i>2016</i>	<i>Increase/ (decrease) in rate</i>	<i>Increase/ (decrease) of defined benefit obligation</i>
Discount rate	+1%	(117,764)
Discount rate	-1%	129,526
Future benefit increase	+1%	82,730
Future benefit increase	-1%	(76,354)

For the year ending 31 December 2018, the Group expects to pay benefits related to defined benefit plans in the amount of UAH 450,898 thousand.

Defined contribution plan

During the year ended 31 December 2017 the expenses from the participation in obligatory state pension program amounted to UAH 5,524,867 thousand (2016: UAH 4,569,491 thousand). The Group's estimated employer contributions for the year ending 31 December 2018 amounts to UAH 6,513,430 thousand.

20. Income tax

The components of income tax expense in the consolidated statement of comprehensive Income were as follows:

	<i>2017</i>	<i>2016</i>
Current income tax charge	440,475	246,176
Adjustments in respect of current income tax charges	8,069	(80,625)
Deferred income tax expense	209,000	40,741
Income tax expense	657,544	206,292

During 2017 and 2016, the statutory income tax rate in Ukraine was 18%.

Adjustments in respect of current income tax charges was made as a result of the revision of tax declarations for the prior periods.

Reconciliation between loss before income tax multiplied by the statutory tax rate and income tax expense for the years ended 31 december consisted of the following:

	<i>2017</i>	<i>2016</i>
Profit/(loss) before income tax	772,093	(7,115,749)
At statutory tax rate (18%)	138,977	(1,280,835)
Tax effect of:		
Effect of reassessment of temporary differences	840,566	1,527,725
Change in unrecognised deferred tax assets	(585,240)	(1,614,254)
Other permanent differences	263,241	1,573,656
Income tax expense	657,544	206,292

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***20. Income tax (continued)**

Deferred tax assets and liabilities comprised:

	<i>Consolidated statement of financial position</i>		<i>Consolidated statement of comprehensive income</i>	
	<i>31 December 2017</i>	<i>31 December 2016</i>	<i>2017</i>	<i>2016</i>
Property, plant and equipment (i)	(124,683)	(33,304)	91,379	(60,670)
Inventories (ii)	12,543	89,483	76,940	(2,132)
Advances from customers (iii)	–	(30,832)	(30,832)	12,732
Trade and other receivables (iv)	142,858	(3,234)	(146,092)	33,347
Trade and other payables (v)	–	6,593	6,593	(145)
Finance lease liability (vi)	–	199,310	199,310	32,341
Defined benefit liability (vii)	336,435	420,469	84,034	(64,700)
Interest-bearing loans and borrowings (viii)	–	512,908	512,908	1,704,222
	<u>367,153</u>	<u>1,161,393</u>	<u>794,240</u>	<u>1,654,995</u>
Less: unrecognised deferred tax assets	(80,842)	(666,082)	(585,240)	(1,614,254)
Deferred income tax expense			<u>209,000</u>	<u>40,741</u>
Deferred tax effect of actuarial gain recognised in OCI	65,401	35,463	(29,938)	(49,347)
Net deferred tax assets	<u>351,712</u>	<u>530,774</u>		
Reflected in the statements of financial position as follows:				
Deferred tax assets	376,484	555,722		
Deferred tax liabilities	(24,772)	(24,948)		
Deferred tax assets net	<u>351,712</u>	<u>530,774</u>		

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***20. Income tax (continued)**

Reconciliation of net deferred tax assets:

	<u>2017</u>	<u>2016</u>
Opening balance as at 1 January	530,774	522,168
Tax expense recognised in profit or loss	(209,000)	(40,741)
Tax benefit recognised in other comprehensive income	29,938	49,347
Closing balance 31 December	<u>351,712</u>	<u>530,774</u>

The nature of the temporary differences is as follows:

- (i) Property, plant and equipment – differences in depreciation patterns and estimates of the remaining useful lives, differences in capitalisation principles, different cost basis;
- (ii) Inventories – differences in inventories valuation models and the periods of recognition;
- (iii) Prepayments and advances from customers – differences in period of recognition and valuation principles;
- (iv) Trade and other receivables – differences in valuation, including allowances for doubtful receivables, differences in the period of recognition;
- (v) Trade and other payables – differences in valuation and recognition principles;
- (vi) Financial lease liability – differences in recognition principles;
- (vii) Defined benefit liability – differences in recognition principles;
- (viii) Interest-bearing loans and borrowings – differences in recognition principles of unrealised foreign exchange loss.

As at 31 December 2017 and 2016 deferred tax assets arising on foreign currency component of interest-bearing loans and borrowings and finance lease liability (resulting from devaluation of Ukrainian hryvnia) and on allowance for impairment of financial assets were not recognised since their utilisation was not certain.

21. Trade and other payables

	<u>2017</u>	<u>2016</u>
Trade payables	3,666,007	2,740,065
Due to employees	2,396,794	2,482,097
Unused vacation accrual	1,021,695	886,258
Payables for property, plant and equipment	437,331	426,490
Dividends payable (Note 29)	39	201
Other payables	269,144	377,005
	<u>7,791,010</u>	<u>6,912,116</u>

Trade payables are non-interest bearing and are normally settled within 60 days.

22. Taxes payable, other than income tax

	<u>2017</u>	<u>2016</u>
Personal income tax payable	314,847	270,189
Land tax payable	168,454	94,708
VAT payable	107,839	80,520
Other taxes payable	65,285	34,754
	<u>656,425</u>	<u>480,171</u>

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***23. Provisions**

Movement in the provisions for the year was as follows:

	<i>2017</i>	<i>2016</i>
At 1 January	1,220,425	816,008
Arisen during the year	100,243	367,461
Foreign exchange difference	28,449	85,802
Utilised	(60,328)	–
Unused amounts reversed during the year	–	(48,846)
At 31 December	1,288,789	1,220,425

In the normal course of business, the Group is subject to various routine litigation and arbitration related matters. Provision for litigations represents management assessment of the probable outflow of the Group's resources arising from a negative (adverse) outcome of the court and arbitration procedures with foreign and domestic contractors and public authorities. The Group's provisions mostly consists of provision for litigations. As at 31 December 2017 the Group recognised a provision in foreign currency for the court decision in respect of a breach of the construction contract with a foreign contractor in the amount of UAH 781,317 thousand (31 December 2016: UAH 752,868 thousand).

24. Taxes, other than income tax

	<i>2017</i>	<i>2016</i>
Land tax	1,692,440	995,613
Other taxes	83,649	58,617
Non-recoverable VAT attributable to transit transportation	24,809	32,142
Impairment of VAT receivable	2,102	6,921
	1,803,000	1,093,293

25. Other income

Other income for 2017 includes income from reversal of accrual for bonuses in the amount of UAH 663,393 thousand, income from remeasurement of other long-term employee benefits obligation in the amount of UAH 470,474 thousand (Note 19) and net proceeds from the sale of scrap in the amount of UAH 177,810 thousand. The reversal of the accrual for bonuses related to the portion of accrual created as at 31 December 2016, which will not be realised in the future due to change in estimates regarding the actual amount of the bonuses.

26. Finance income and finance costs

	<i>2017</i>	<i>2016</i>
Interest expense on loans and borrowings	(3,361,127)	(4,328,779)
Finance lease charges	(106,990)	(196,064)
Interest cost on defined benefit obligation (Note 19)	(340,497)	(270,033)
Other finance costs	(2,289)	(8,642)
Total finance costs	(3,810,903)	(4,803,518)
Interest income on current account balances	548,968	357,765
Other finance income	5,831	7,107
Total finance income	554,799	364,872
Net finance costs	(3,256,104)	(4,438,646)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***27. Foreign exchange loss, net**

Foreign exchange gains and losses arisen on the following items:

	<u>2017</u>	<u>2016</u>
Gains		
Cash and cash equivalents	35,630	12,598
	<u>35,630</u>	<u>12,598</u>
Losses		
Interest-bearing loans and borrowings	(1,092,752)	(4,144,355)
Finance lease liability	(10,181)	(180,253)
Trade and other payables	(63,432)	(191,698)
Net loss on sale/purchase of foreign currencies	(8,889)	(1,808)
	<u>(1,175,254)</u>	<u>(4,518,114)</u>
Foreign exchange loss net	<u><u>(1,139,624)</u></u>	<u><u>(4,505,516)</u></u>

28. Contingencies and commitments***Tax matters***

The Group carries out most of its transactions in Ukraine and therefore has to comply with the requirements of Ukrainian tax law. Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises in Ukraine. When it is not considered probable that a material claim will arise, no provision has been established in these financial statements.

Litigations

In the normal course of business, the Group is subject to various routine litigation and arbitration related matters. As at 31 December 2017, the Group was involved in litigations with tax authorities with respect to additional accrual of liabilities for corporate income tax, VAT and other taxes in the total amount of UAH 2,860,911 thousand (2016: UAH 1,042,709 thousand). As at 31 December 2017 the Group's possible exposure to the ascertained third parties' claims was UAH 752,968 thousand (2015: UAH 388,796 thousand).

Management believes that the Group's position in the litigations stated above has sustainable legal merits, and therefore the ultimate resolution of these litigations will not have an adverse effect on the Group's financial position, or the results of its future operations, accordingly, no corresponding provisions were recognised in these consolidated financial statements. Provisions were recognised for obligations with probable outflow of resources embodying economic benefits (Note 23).

Capital commitments

As at 31 December 2017 the Group's outstanding commitment in respect of purchase of property and equipment amounted to UAH 3,701,998 thousand (2016: UAH 4,105,722 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***29. Related party disclosure**

The outstanding balances and transaction with entities under common control of the State, comprised:

	<u>2017</u>	<u>2016</u>
Balances at 31 December		
Prepayments for property, plant and equipment	2,712	2
Other financial assets	–	9,537
Trade and other receivables	24,977	73,195
Prepayments, other than dividends	140,119	101,202
Cash and cash equivalents	5,080,382	6,140,126
Trade and other payables, other than dividends	8,501	12,402
Advances received	31,166	26,916
Interest-bearing loans and borrowings and finance lease liability	574,780	969,371
Transactions during the year		
Cargo revenues	641,304	63,805
Electricity	7,662,452	7,424,154
Maintenance services purchased	192,679	101,594
Finance income	544,368	19,040
Finance costs	215,694	113,554
Other expenses	54,382	215,348

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at regular prices, broadly similar to those with other non-related customers and suppliers. Outstanding balances at the year-end are unsecured, interest free, except for interest bearing loans. Settlement occurs in cash, except for advances received and prepayments. There have been no guarantees provided or received for any related party receivables or payables. During 2017 the Group has recorded impairment of other financial assets related to the entity under common control. Loss on impairment of UAH 9,537 thousand was included to other expenses in interim condensed consolidated statement of comprehensive income.

Guarantees issued by the State of Ukraine

As at 31 December 2017 the Group's interest bearing loans with carrying value of UAH 4,813,240 thousand (2016: UAH 6,357,905 thousand) were guaranteed by the State of Ukraine.

Compensation of key management personnel

Key management personnel is considered to be the Management Board of JSC “Ukrzaliznytsia” comprising 7 members and the Supervisory Board, which was not formed and the selection of candidates was undergoing as at 31 December 2017. For 2017 and 2016, total compensation to key management personnel mostly included payroll and payroll related taxes and amounted to UAH 36,608 thousand and UAH 19,240 thousand, respectively. The members of the Supervisory Board are not entitled to compensation.

Dividends

There were no prepaid portion of net profit (dividends) to the State as at 31 December 2017 (2016: UAH 7,657 thousand were included in prepayments) (Note 14). As at 31 December 2017 dividends payable to the State in the amount of UAH 39 thousand were included in trade and other payables (2016: UAH 201 thousand) (Note 21). Dividends for the year ended 31 December 2017 were not accrued (2016: UAH 794 thousand).

Government compensations

The Group receives compensations from the State for transportation of certain categories of preferential passengers. In 2017 such compensations of UAH 75,005 thousand (2016: UAH 63,600 thousand) were included into passenger revenue.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***30. Fair value of financial instruments**

Set out below is the comparison by category of carrying amounts and fair values of all of the Group’s financial instruments, that are carried in the consolidated statement of financial position:

	<i>Fair value</i>		<i>Carrying value</i>	
	<i>2017</i>	<i>2016</i>	<i>2017</i>	<i>2016</i>
Financial assets				
Trade and other receivables	879,122	2,043,899	879,122	2,043,899
Other financial assets	93,247	178,882	93,247	178,882
Cash and cash equivalents	5,188,988	6,419,746	5,188,988	6,419,746
Financial liabilities				
Interest-bearing loans and borrowings	33,884,246	39,185,208	33,511,539	40,511,747
Finance lease liability	721,379	1,646,451	721,379	1,646,451
Trade and other payables	7,791,010	6,912,116	7,791,010	6,912,116

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the end of the reporting period. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for financial assets. The fair value of unquoted instruments, other financial assets, interest bearing loans and borrowings, finance lease liability is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value of financial assets and liabilities at 31 December as follows:

<i>2017</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets carried at amortised cost				
Trade and other receivables	–	–	879,122	879,122
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	14,953,936	–	18,930,310	33,884,246
Finance lease liability	–	–	721,379	721,379
Trade and other payables	–	–	7,791,010	7,791,010
<i>2016</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets carried at amortised cost				
Trade and other receivables	–	–	2,043,899	2,043,899
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	14,972,506	–	24,212,702	39,185,208
Finance lease liability	–	–	1,646,451	1,646,451
Trade and other payables	–	–	6,912,116	6,912,116

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the 2017 and 2016 years.

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***30. Fair value of financial instruments (continued)*****Changes in liabilities arising from financing activities***

Changes in liabilities arising from financing activities as at 31 December 2017 and 2016 as follows:

	<i>1 January 2017</i>	<i>Cash flows</i>	<i>Foreign exchange movements</i>	<i>Other</i>	<i>Segregation liabilities of uncontrolled territories (Note 2)</i>	<i>31 December 2017</i>
Current interest-bearing bank loans	16,679,238	(4,438,312)	481,171	1,893,533	(3,724,995)	10,890,635
Current obligation under finance lease contracts	1,186,599	(144,861)	10,167	106,854	(553,467)	605,292
Non-current interest-bearing bank loans	23,832,509	–	611,581	(1,823,186)	–	22,620,904
Non-current obligation under finance lease contracts	459,852	(236,925)	14	(106,854)	–	116,087
Dividends	201	(31)	–	(131)	–	39
Liabilities of uncontrolled territories	–	–	–	–	4,278,462	4,278,462
Total liabilities arising from financing activities	42,158,399	(4,820,129)	1,102,933	70,216	–	38,511,419

	<i>1 January 2016</i>	<i>Cash flows</i>	<i>Foreign exchange movements</i>	<i>Other</i>	<i>31 December 2016</i>
Current interest-bearing bank loans	20,810,905	(6,373,407)	1,241,899	999,841	16,679,238
Current obligation under finance lease contracts	1,077,380	(349,593)	133,787	325,025	1,186,599
Non-current interest-bearing bank loans	21,168,088	202,224	2,902,456	(440,259)	23,832,509
Non-current obligation under finance lease contracts	960,331	(399,783)	46,466	(147,162)	459,852
Dividends	167,621	(166,480)	–	(940)	201
Total liabilities arising from financing activities	44,184,325	(7,087,039)	4,324,608	736,505	42,158,399

The “Other” column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, including obligations under finance leases and hire purchase contracts to current due to the passage of time, the accrual of special dividends that were not yet paid at the year-end, and the effect of accrued but not yet paid interest on interest-bearing loans and borrowings. The Group classifies interest paid as cash flows from operating activities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***31. Financial risk management policies and objectives*****Financial risk management policies and objectives***

The Group's principal financial instruments comprise interest-bearing loans and borrowings, cash in bank, short-term deposits and other financial assets. The Group has various other financial instruments, such as trade and other receivables and payables, which arise directly from its operations.

The Group has not entered into any material derivative transactions. It is the Group's policy not to trade in financial instruments. The Group's overall risk management program focuses on the unpredictability and inefficiency of the Ukrainian financial markets and seeks to minimise potential adverse effects on the financial performance of the Group.

Risk management is carried out by the Group's financial departments. The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk, credit risk and interest rate risk. The policies for managing each of these risks are summarised below.

Liquidity risk

The Group's objective is to maintain continuity and flexibility of funding through the use of cash generated from Group's operations, credit terms provided by suppliers and interest-bearing loans and borrowings. Significant aspects of the liquidity risk management are disclosed in Note 2.

The Group analyses the aging of its assets and cash generation ability versus the maturity of its liabilities and plans its liquidity depending on the expected repayment of various instruments.

The table below summarises the maturity profile of the Group's financial liabilities at 31 December 2017 and 2016 based on contractual undiscounted payments, assuming no breaches occurred:

	<i>Less than 3 month</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Less: effect of amortisation</i>	<i>Carrying value</i>
Year ended						
31 December 2017						
Interest bearing loans and borrowings	10,206,582	2,907,581	24,860,982	–	(4,463,606)	33,511,539
Finance lease liability	339,762	315,130	129,197	–	(62,710)	721,379
Trade and other payables	7,371,151	419,859	–	–	–	7,791,010
	<i>Less than 3 month</i>	<i>3 to 12 months</i>	<i>1 to 5 years</i>	<i>More than 5 years</i>	<i>Less: effect of amortisation</i>	<i>Carrying value</i>
Year ended						
31 December 2016						
Interest bearing loans and borrowings	15,088,756	4,439,727	31,681,274	416,788	(11,114,798)	40,511,747
Finance lease liability	885,119	422,571	521,645	–	(182,884)	1,646,451
Trade and other payables	6,250,583	661,533	–	–	–	6,912,116

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***31. Financial risk management policies and objectives (continued)*****Foreign currency risk***

In common with many other businesses in Ukraine, foreign currencies, in particular the US dollar (“USD”), the euro (“EUR”), the Swiss franc (“CHF”), the Russian rouble (“RUB”) play a significant role in the underlying economics of the Group’s business transactions.

The exchange rates for foreign currencies, in which the Group’s financial assets and liabilities were denominated, against the Ukrainian hryvnia, as established by the NBU as at the dates stated, were as follows:

	<i>USD</i>	<i>EUR</i>	<i>CHF</i>	<i>10 RUB</i>
31 December 2016	27.1909	28.4226	26.5285	4.5113
Average for 2016	25.5513	28.2919	25.9546	3.8314
31 December 2017	28.0672	33.4954	28.6188	4.8703
Average for 2017	26.6016	30.0283	27.0093	4.5608
26 March 2018	26.2655	32.4274	27.7086	4.5993

The Group has transactional currency exposure that relates to monetary assets and liabilities denominated in foreign currencies and are attributable to general volatility in exchange markets. Such exposure arises from sales or purchases by the Group in currencies other than its functional currency. The Group has not entered into transactions designed to hedge against these foreign currency risks.

The following table demonstrates the sensitivity to a reasonably possible change in the corresponding exchange rates, with all other variables held constant, of the Group’s loss before tax (due to changes in the fair value of monetary assets and liabilities).

<i>31 December 2017</i>	<i>Weakening “+”/ strengthening “-” of the exchange rate</i>	<i>Increase/ (decrease) of the profit before tax</i>	<i>Increase/ (decrease) of the equity</i>
UAH/USD	+14.00%	(4,525,310)	(4,525,310)
UAH/USD	-10.00%	3,232,364	3,232,364
UAH/CHF	+14.00%	(16,295)	(16,295)
UAH/CHF	-10.00%	11,639	11,639
UAH/EUR	+53.00%	(530,778)	(530,778)
UAH/EUR	-15.00%	150,220	150,220
UAH/RUB	+25.00%	1,498	1,498
UAH/RUB	-16.50%	(989)	(989)
<i>31 December 2016</i>	<i>Weakening “+”/ strengthening “-” of the exchange rate</i>	<i>Increase/ (decrease) of the profit before tax</i>	<i>Increase/ (decrease) of the equity</i>
UAH/USD	+53.00%	(20,117,818)	(20,117,818)
UAH/USD	-13.00%	4,934,559	4,934,559
UAH/CHF	+53.00%	(21,305)	(21,305)
UAH/CHF	-13.00%	5,226	5,226
UAH/EUR	+53.00%	(289,269)	(289,269)
UAH/EUR	-15.00%	81,868	81,868
UAH/RUB	+58.00%	949	949
UAH/RUB	-22.00%	(360)	(360)

The accompanying notes form an integral part of the consolidated statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2017***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***31. Financial risk management policies and objectives (continued)*****Credit risk***

Financial instruments which potentially expose the Group to significant concentrations of credit risk consist principally of cash and cash equivalents, deposits, trade and other receivables. The Group's credit risk exposure is monitored and analysed on a case-by-case basis, and the Group's management believes that credit risk is appropriately reflected in impairment allowances recognised against assets. The Group's maximum credit risk exposure at 31 December 2017 and 2016 is represented by the carrying amounts of the financial assets.

The Group's cash is primarily held with major reputable Ukrainian banks.

The Group does not require collateral in respect of financial assets. Management has a credit policy in place and the exposure to credit risk is monitored on an ongoing basis. Credit evaluations are performed of all customers requiring credit over a certain amount.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates.

In 2017 and 2016, the Group primarily borrowed at both fixed and floating rate pegged to the London Inter Bank Offering Rate (“LIBOR”) and the Euro Interbank Offered Rate (“EURIBOR”).

The following table demonstrates the sensitivity to a reasonably possible change in interest rates, with all other variables held constant, of the Group's profit before tax (through the impact on floating rate borrowings).

<i>31 December 2017</i>	<i>Increase “+”/ decrease “-” in basis points</i>	<i>Increase/ (decrease) of the profit before tax</i>	<i>Increase/ (decrease) of the equity</i>
LIBOR	+0.70%	(28,747)	(28,747)
LIBOR	-0.08%	3,142	3,142
EURIBOR	+0.25%	(2,931)	(2,931)
EURIBOR	-0.01%	117	117
<i>31 December 2016</i>	<i>Increase “+”/ decrease “-” in basis points</i>	<i>Increase/ (decrease) of the profit before tax</i>	<i>Increase/ (decrease) of the equity</i>
LIBOR	+0.60%	(31,968)	(31,968)
LIBOR	-0.08%	4,262	4,262
EURIBOR	+0.12%	(1,194)	(1,194)
EURIBOR	-0.08%	796	796

The Group has not entered into transactions designed to hedge against the interest rate risk.

Capital management

The Group considers debt and equity as relevant components of funding, hence part of its capital management. The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for the State and benefits for other stakeholders as well as to provide financing of its operating requirements, capital expenditures and further the Group's development strategy. The Group's capital management policies aim to ensure and maintain an optimal capital structure to reduce the overall cost of capital and provide flexibility relating to the Group's access to capital markets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2017
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

31. Financial risk management policies and objectives (continued)

The structure of capital managed is presented below:

	<u>2017</u>	<u>2016</u>
Interest-bearing loans and borrowings	33,511,539	40,511,747
Finance lease liability	<u>721,379</u>	<u>1,646,451</u>
	34,232,918	42,158,198
Cash and term deposits	<u>(5,188,988)</u>	<u>(6,419,746)</u>
Net debt	<u>29,043,930</u>	<u>35,738,452</u>
Total equity	<u>210,776,978</u>	<u>210,813,119</u>
Total capital	<u><u>239,820,908</u></u>	<u><u>246,551,571</u></u>

Management monitors on a regular basis the Group’s capital structure and may adjust its capital management policies and targets following changes in its operating environment, market sentiment or its development strategy. Please, refer to Note 2 which discloses the important uncertainty aspects related to the capital management.

32. Events after the reporting period

In February 2018, the Group signed an agreement with General Electric Company (USA) for a long-term cooperation aimed at renewal and upgrading the rolling stock. As a part of the implementation of the first stage which includes the supply of 30 locomotives by February 2019 a financial lease agreement was concluded with JSC “Ukreximbank” for USD 140,400 thousand (including VAT) with maturity in February 2026.

Supplementary financial information

CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)
as at 31 December 2017

Entity: JSC "Ukrzaliznytsia"
Location: Ukraine
Ownership: Public Joint Stock Company
Type of activity: Freight railroad transport
Average quantity of employees: 278,111
Address, telephone: 03150, Kyiv, Tverska Str., phone 465-05-52

Date (year month date)	2017 12 31
Per EDRPOU	40075815
Per KOATUU	8038200000
Per KOPFG	230
Per KVED	49.20

Units of measurement: UAH thousand
Prepared in accordance with (mark with "v" in relevant box):
Ukrainian Accounting Standards
International Financial Reporting Standards

V

Form # 1-c Per DKUD 1801007

Assets	Line code	As at 31 December 2016	As at 31 December 2017
1	2	3	4
I. Non-current assets			
Intangible assets:	1000	45,787,645	45,809,551
historical cost	1001	45,948,287	45,966,150
accumulated amortization	1002	(160,642)	(156,599)
Capital investments in progress	1005	5,986,579	7,065,043
Property, plant and equipment:	1010	196,247,811	182,867,268
historical cost	1011	643,539,578	447,634,905
accumulated depreciation	1012	(447,291,767)	(264,767,637)
Investment property	1015	–	–
Non-current biological assets:	1020	–	–
historical cost of non-current biological assets	1021	–	–
accumulated depreciation of non-current biological assets	1022	–	–
Non-current financial investments:			
accounted for under the equity method	1030	760,591	632,366
other financial investments	1035	128,383	73,546
Non-current receivables	1040	50,499	19,691
Deferred tax assets	1045	555,722	376,484
Other non-current assets	1090	1,591,317	12,234,801
Total section I	1095	251,108,547	249,078,750
II. Current assets			
Inventories:	1100	6,125,854	8,417,920
production inventories	1101	5,575,396	7,522,255
work in progress	1102	–	253,564
finished goods	1103	478,420	629,925
Commodities	1104	72,038	12,176
Current biological assets	1110	–	–
Accounts receivable for goods, works and services	1125	442,189	461,606
Accounts receivable on settlements:			
on prepayments made	1130	260,491	203,999
with budget	1135	832,204	230,980
including income tax	1136	274,579	215,737
Accounts receivable on intercompany settlements	1145	–	–
Other current accounts receivable	1155	1,430,559	398,082
Current financial investments	1160	–	–
Cash and cash equivalents:	1165	6,419,746	5,188,988
cash in hand	1166	734	812
cash at banks	1167	6,419,012	5,136,880
Deferred expenses	1170	61,275	18,985
Other current assets	1190	171,151	445,353
Total section II	1195	15,743,469	15,365,913
III. Assets classified as held for distribution	1200	–	–
Balance	1300	266,852,016	264,444,663

Supplementary financial information

Liabilities and equity 1	Line code 2	As at 31 December 2016 3	As at 31 December 2017 4
I. Equity			
Share capital	1400	229,879,115	229,879,115
Capital in revaluation	1405	–	–
Additional capital	1410	19,597,430	18,899,383
Reserve fund	1415	–	–
Retained earnings (accumulated deficit)	1420	(38,668,315)	(38,006,503)
Unpaid capital	1425	–	–
Treasury shares	1430	–	–
Non-controlling interests	1490	4,889	4,983
Total section I	1495	210,813,119	210,776,978
II. Non-current liabilities and provisions			
Deferred tax liabilities	1500	24,948	24,772
Non-current bank loans	1510	9,612,584	8,445,213
Other non-current liabilities	1515	14,679,777	19,270,500
Other non-current provisions	1520	2,532,957	2,232,420
Non-current provisions for staff expenses	1521	2,532,957	2,232,420
Special purpose financing	1525	–	11,409
Total section II	1595	26,850,266	29,984,314
III. Current liabilities and provisions			
Short-term bank loans	1600	–	–
Current liabilities for:			
current portion of non-current liabilities	1610	16,679,238	10,749,315
for goods, works and services	1615	3,539,654	4,103,338
with budget	1620	473,413	641,015
with Income tax	1621	84	630
social insurance	1625	273,204	364,457
wages	1630	1,013,936	1,361,350
Current liabilities on advances received	1635	2,675,316	2,433,130
Current liabilities on intercompany settlements	1645	–	–
Other provisions	1660	3,307,087	2,982,525
Deferred income	1665	40,184	26,517
Other current liabilities	1690	1,186,599	1,021,724
Total section III	1695	29,188,631	23,683,371
IV. Liabilities directly associated with the assets classified as held for distribution	1700	–	–
Balance	1900	266,852,016	264,444,663

Supplementary financial information

Entity: JSC "Ukrzaliznytsia"

Date (year, month, date)
per EDRPOU

CODE		
2017	12	31
40075815		

CONSOLIDATED STATEMENT OF FINANCIAL RESULTS
(STATEMENT OF COMPREHENSIVE INCOME)
FOR THE YEAR ENDED 31 DECEMBER 2017

Form # 2-c

Per DKUD

1801008

I. FINANCIAL RESULTS

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Net revenue from sales of goods (merchandise, works, services)	2000	73,938,151	66,570,164
Cost of goods (merchandise, works, services) sold	2050	(67,346,681)	(63,696,856)
Gross:			
Profit	2090	6,591,470	2,873,308
Loss	2095	–	–
Other operating income	2120	2,350,232	843,119
Administrative expenses	2130	(1,238,058)	(863,067)
Selling expenses	2150	(170,467)	(126,435)
Other operating expenses	2180	(3,275,064)	(5,472,693)
Financial results from operating activities:			
Profit	2190	4,258,113	–
Loss	2195	–	(2,745,768)
Income from investments accounted for under the equity method	2200	14	–
Other finance income	2220	554,799	364,282
Other income	2240	100,221	397,772
Finance costs	2250	(3,810,903)	(4,798,139)
Losses from investments accounted for under the equity method	2255	(166,794)	(13,597)
Other expenses	2270	(163,357)	(320,299)
Financial results before taxation:			
Profit	2290	772,093	–
Loss	2295	–	(7,115,749)
Income tax expense	2300	(657,544)	(206,292)
Income (loss) from discontinued operations after tax	2305	–	–
Net financial result:			
Profit	2350	114,549	–
Equity holder of the parent	2351	114,424	–
Non-controlling interests	2352	125	–
Loss	2355	–	(7,322,041)

II. COMPREHENSIVE INCOME

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Revaluation of non-current assets	2400	–	–
Revaluation of financial instruments	2405	–	–
Accumulated foreign exchange rate differences	2410	–	–
Share of other comprehensive income of associates and joint ventures	2415	(55,411)	116,827
Other comprehensive income	2445	(166,316)	(274,148)
Other comprehensive income before tax	2450	(221,727)	(157,321)
Income tax related to other comprehensive income	2455	29,938	49,347
Other comprehensive income after tax	2460	(191,789)	(107,974)
Comprehensive profit (sum lines 2350, 2355 and 2460)	2465	(77,240)	(7,430,015)

Supplementary financial information

III. ELEMENTS OF OPERATING EXPENSES

Description 1	Line code 2	For the reporting period 3	For the previous period 4
Cost of materials	2500	20,544,286	19,007,508
Labour costs	2505	26,481,950	21,037,582
Social security charges	2510	5,492,045	4,628,268
Depreciation and amortization	2515	14,662,305	17,910,127
Other operating expenses	2520	3,730,329	5,238,277
Total	2550	70,910,915	67,821,762

IV. CALCULATION OF EARNINGS PER SHARE

Description 1	Line code 2	For the reporting period 3	For the previous period 4
Annual average number of ordinary shares	2600	229,879,115	–
Adjusted annual average number of ordinary shares	2605	229,879,115	–
Net income per ordinary share	2610	0,5	–
Adjusted net income per ordinary share	2615	0,5	–
Dividends per ordinary share	2650	–	–

Supplementary financial information

Entity: JSC "Ukrzaliznytsia"

Date (year, month, date)
per EDRPOU

CODE		
2017	12	31
40075815		

CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method) FOR THE YEAR ENDED 31 DECEMBER 2017

Form # 3-ci

DKUD code

1801010

Description 1	Line code 2	For the reporting period		For the previous period	
		proceeds 3	expense 4	proceeds 3	expense 4
I. Cash flows from operating activities					
Profit (loss) from ordinary activities before tax	3500	772,093	–	–	7,115,749
Corrections on:					
depreciation of fixed assets	3505	14,662,305	–	17,910,127	–
increase (decrease) in provisions	3510	166,316	–	408,026	–
loss (profit) on unrealized exchange differences	3515	1,123,439	–	4,479,346	–
loss (profit) from non-operating activities and other non-cash transactions	3520	–	105,175	260,139	–
Financial expenses	3540	3,256,104	–	4,438,646	–
Decrease (increase) in current assets	3550	–	2,886,781	–	2,839,908
increase (decrease) in inventories	3551	–	2,573,187	–	1,077,279
decrease (increase) in accounts receivable for products, goods, works, services	3553	–	16,267	–	1,384,545
decrease (increase) in other current receivables	3554	–	57,118	–	68,116
decrease (increase) in deferred expenses	3556	–	3,673	–	–
decrease (increase) in other current assets	3557	–	236,536	–	309,968
Increase (decrease) in current liabilities, including:	3560	704,605	–	1,974,418	100,617
increase (decrease) in current accounts payable for goods and services	3561	598,628	–	1,129,592	–
increase (decrease) in current budget settlements	3562	167,949	–	–	100,617
increase (decrease) in current insurance settlements	3563	119,186	–	–	143,254
increase (decrease) in current salary settlements	3564	–	18,351	213,085	–
increase (decrease) in deferred income	3566	–	2,141	–	–
Increase (decrease) in other current payables	3567	–	160,666	844,826	–
Cash from operating activities	3570	17,692,906	–	19,414,428	–
Income tax paid	3580	–	360,359	–	557,501
Borrowings interest paid	3585	–	–	–	–
Net cash flow from operating activities	3195	17,332,547	–	18,856,927	–
II. Cash flows from investing activities					
Proceeds from sale of:					
financial investments	3200	–	–	–	–
Fixed assets	3205	–	–	5,282	–
Proceeds from received:					
interests	3215	–	–	–	–
dividends	3220	7,988	–	–	–
proceeds from derivatives	3225	–	–	–	–
other proceeds	3250	548,968	–	358,646	–
Payments on acquisition:					
financial investments	3255	–	–	–	53,095
fixed assets	3260	–	5,295,424	–	6,799,448
payments for derivatives	3270	–	–	–	–
other payments	3290	–	5,577,030	–	166,480
Net cash flows from investing activities	3295	–	10,315,498	–	6,655,095
III. Cash flows from financing activities					
Proceeds from share capital	3300	–	–	–	–
Proceeds from borrowings	3305	–	–	1,251,145	–
Other proceeds	3340	–	–	–	–
Payments for:					
own securities	3345	–	–	–	–
repayment of borrowings	3350	–	4,438,312	–	7,153,328
dividends paid	3355	–	6,513	–	–
Borrowings interest paid	3360	–	3,141,113	–	4,054,202
Finance lease interests paid	3365	–	488,107	–	749,376
Other payments	3390	–	189,947	–	–
Net cash flows from financing activities	3395	–	8,263,992	–	10,705,761
Net (decrease)/increase in cash and cash equivalents	3400	–	1,246,943	1,496,071	–
Cash balance at the beginning of the year	3405	6,419,746	–	4,884,908	–
Net foreign exchange difference	3410	16,185	–	38,767	–
Cash balance at the end of the year	3415	5,188,988	–	6,419,746	–

Entity: JSC "Ukrzaliznytsia"

Date (year, month, date)
per EDRPOU

CODE		
2017	12	31
40075815		

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2017**

Form # 4-c

DKUD code

1801011

Description	Line code	Share capital	Capital in revaluation	Additional capital	Reserve fund	Retained earnings (accumulated deficit)	Unpaid capital	Treasury capital	Total	Non-controlling interests	Total changes in equity
1	2	3	4	5	6	7	8	9	10	11	12
Balance at the beginning of the year	4000	229,879,115	–	19,597,430	–	(38,668,315)	–	–	210,808,230	4,889	210,813,119
Adjustments:											
Changes in accounting policies	4005	–	–	–	–	–	–	–	–	–	–
Correction of errors	4010	–	–	–	–	–	–	–	–	–	–
Other adjustments	4090	–	–	–	–	–	–	–	–	–	–
Adjusted balance at the beginning of the year	4095	229,879,115	–	19,597,430	–	(38,668,315)	–	–	210,808,230	4,889	210,813,119
Net profit (loss) for the reporting period	4100	–	–	–	–	114,424	–	–	114,424	125	114,549
Other comprehensive income for the current period including:	4110	–	–	–	–	–	–	–	–	–	–
Revaluation (disposal) of fixed assets	4111	–	–	–	–	–	–	–	–	–	–
Other comprehensive income	4116	–	–	–	–	(191,789)	–	–	(191,789)	–	(191,789)
Distribution of profit:											
Payments to shareholders (dividends)	4200	–	–	–	–	(6,513)	–	–	(6,513)	(31)	(6,544)
Distribution to share capital	4205	–	–	–	–	–	–	–	–	–	–
Distribution to the reserve fund	4210	–	–	–	–	–	–	–	–	–	–
Total net profit, due to the budget in accordance with the law	4215	–	–	–	–	–	–	–	–	–	–
Total net income for the establishment of special (earmarked) funds	4220	–	–	–	–	–	–	–	–	–	–
Total net profit on financial incentives	4225	–	–	–	–	–	–	–	–	–	–
Contributions made by shareholders:											
Contributions to capital	4240	–	–	47,643	–	–	–	–	47,643	–	47,643
Repayment of debts from equity	4245	–	–	–	–	–	–	–	–	–	–
Withdrawal of capital:											
Purchase of shares (contributions)	4260	–	–	–	–	–	–	–	–	–	–
Re-sale of purchased shares (contributions)	4265	–	–	–	–	–	–	–	–	–	–
Cancellation of purchased shares (contributions)	4270	–	–	–	–	–	–	–	–	–	–
Withdrawal of contribution in capital	4275	–	–	–	–	–	–	–	–	–	–
Other changes in equity	4290	–	–	(745,690)	–	745,690	–	–	–	–	–
Total changes in equity	4295	–	–	(698,047)	–	661,812	–	–	(36,236)	94	(36,141)
Balance at the end of the period	4300	229,879,115	–	18,899,383	–	(38,006,503)	–	–	210,771,995	4,983	210,776,978