

**Joint stock company
“Ukrainian Railways”**

Consolidated financial statements

*As at 31 December 2018
with independent auditor's report*

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Independent auditor's report

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

Report on the audit of the consolidated financial statements

Qualified opinion

We have audited the consolidated financial statements of joint stock company "Ukrainian railways" (the Company) and its subsidiaries (the Group), which comprise the consolidated statement of financial position as at 31 December 2018, 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 2018 and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards (IFRSs), and comply with the requirements for the preparation of financial statements established by Law of Ukraine "On accounting and financial statements in Ukraine" No. 996-XIV.

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.

For the year ended 31 December 2018, we were unable to obtain sufficient appropriate audit evidence in respect of assets of uncontrolled territories of UAH 13,562,117 thousand and liabilities of uncontrolled territories of UAH 5,207,709 thousand as at 31 December 2018, share of profit of an associate of UAH 74,596 thousand and revenues and expenses of Regional Branch "Donetsk Railway" disclosed in Note 2 to the consolidated financial statements.

For the year ended 31 December 2017, we were unable to obtain sufficient appropriate audit evidence in respect of assets of UAH 16,611,478 thousand



(which included assets of uncontrolled territories, assets of Regional Branch "Donetsk Railway" located on the controlled territory and investment in an associate) , and liabilities of UAH 7,705,925 thousand (which included liabilities of uncontrolled territories and liabilities of Regional Branch "Donetsk Railway") as at 31 December 2017, share of loss of an associate of UAH 166,794 thousand and revenues and expenses of Regional Branch "Donetsk Railway" disclosed in Note 2 to the consolidated financial statements.

- (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 2018 and 2017, depreciation and impairment charges and deferred tax charges for 2018 and 2017 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 these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key audit matters incorporating the most significant risks of material misstatements, including assessed risk of material misstatements due to fraud

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 matter described below to be the key audit matter to be communicated in our report. This matter was 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 the matter. For the 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 this matter. 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 matter 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
<i>Debt repayment and liquidity</i>	
As disclosed in Note 2 to the consolidated financial statements, as at 31 December 2018, the Group experienced liquidity misbalance due to upcoming maturity of long-term loans and borrowings. In addition, the Group is subject to financial and non-financial covenants provided in the loan agreements. Non-compliance with such covenants could impact the terms of debt repayment.	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.
Management is undertaking measures to manage Group's liquidity for timely repayment of the Group's obligations including the refinancing of the current debt and additional cash contributions to the statutory capital of the Company.	We assessed the disclosures in the notes to the financial statements about the liquidity risks and measures taken by management to address them.
We considered debt repayment and liquidity to be a key audit matter because the Group had significant amounts of debt due for repayment, either with its own cash balance or by refinancing with new debt. Inability of the Group to timely repay or refinance the current debt would further negatively impact the Group's liquidity position.	

Other information included in the Integrated Report of JSC "Ukrainian railways" and Annual Information of the Issuer of Securities for 2018

Other information comprises the Integrated Report of JSC "Ukrainian railways" (including consolidated management report) and the Annual Information of the Issuer of Securities (including the corporate governance report) for 2018. The Integrated Report of JSC "Ukrainian railways" and the Annual Information of the Issuer of Securities are expected to be made available to us after the date of this auditor's report. Management is responsible for the other information.

Our opinion on the consolidated financial statements does not cover the other information and we do not and 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 and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.



When we read the Integrated Report of JSC “Ukrainian railways” and the Annual Information of the Issuer of Securities, if we conclude that there is a material misstatement therein, we will communicate the matter to the Supervisory Board.

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 them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with 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.

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.

Report on other legal and regulatory requirements

Pursuant to the requirements of Article 14 paragraph 4 of Law of Ukraine "On audit of financial statements and auditing activity" No. 2258-VIII (the "Law No. 2258-VIII") we provide the following information in our Independent Auditor's Report, which is required in addition to the requirements of International Standards on Auditing.

Appointment of the auditor and period of engagement

We were first appointed as independent auditors to perform a statutory audit of the Group's consolidated financial statements according to the agreement dated 13 May 2015. Our appointment has been renewed by the Supervisory Board. The period of total uninterrupted engagement for performing the statutory audit of the Group is 4 years.

Consistency of the independent auditor's report with the additional report to the audit committee

We confirm that our independent auditor's report is consistent with the additional report to the Audit Committee of the Group, which we issued on 15 April 2019 in accordance with Article 35 of Law No. 2258-VIII.

Provision of non-audit services

We declare that no prohibited non-audit services referred to in Article 6 paragraph 4 of Law No. 2258-VIII were provided. In addition, there are no non-audit services which were provided by us to the Company or its controlled entities and which have not been disclosed in the consolidated financial statements or the consolidated management report.

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



Oleksiy Kredisov
Partner
for and on behalf of Ernst & Young Audit Services LLC

Kyiv, Ukraine

15 April 2019

Ernst & Young Audit Services LLC is included in
the Register of auditors and audit firms,
registration number: 3516.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION**as at 31 December 2018***(in thousands of Ukrainian hryvnia)*

	Notes	2018	2017
Assets			
Non-current assets			
Property, plant and equipment	9	237,701,229	235,741,862
Investment in associates	10	691,759	632,366
Financial assets	11	91,247	93,247
Taxes receivable, other than income tax	15	845,648	849,024
Prepaid income tax		539,721	590,618
Deferred tax asset	20	58,745	376,484
Assets of uncontrolled territories	2	13,562,117	10,795,149
		<u>253,490,466</u>	<u>249,078,750</u>
Current assets			
Inventories	12	8,881,531	8,417,920
Trade and other receivables	13	1,002,401	879,122
Prepayments	14	136,842	203,999
Prepaid income tax		12,280	215,752
Taxes receivable, other than income tax	15	733,121	460,132
Cash and cash equivalents		1,251,826	5,188,988
		<u>12,018,001</u>	<u>15,365,913</u>
Total assets		<u>265,508,467</u>	<u>264,444,663</u>
Equity and liabilities			
Equity			
Contributed capital	16	229,879,115	229,879,115
Additional capital		18,894,521	18,899,383
Accumulated deficit		(38,660,688)	(38,006,503)
		<u>210,112,948</u>	<u>210,771,995</u>
Non-controlling interests		<u>4,978</u>	<u>4,983</u>
		<u>210,117,926</u>	<u>210,776,978</u>
Non-current liabilities			
Interest-bearing loans and borrowings	17	14,918,287	22,620,904
Finance lease liability	18	1,158,530	116,087
Defined benefit liability	19	2,654,105	2,232,420
Deferred tax liability	20	34,105	24,772
Liabilities of uncontrolled territories	2	5,207,709	4,972,904
		<u>23,972,736</u>	<u>29,967,087</u>
Current liabilities			
Interest-bearing loans and borrowings	17	17,086,982	10,890,635
Finance lease liability	18	286,775	605,292
Trade and other payables	21	9,358,892	7,791,010
Contract liabilities		2,324,462	—
Advances from customers		—	2,467,817
Income tax payable		68,773	630
Taxes payable, other than income tax	22	559,651	656,425
Provisions	23	1,732,270	1,288,789
		<u>31,417,805</u>	<u>23,700,598</u>
Total liabilities		<u>55,390,541</u>	<u>53,667,685</u>
Total equity and liabilities		<u>265,508,467</u>	<u>264,444,663</u>

Signed and authorised for release on behalf of joint stock company "Ukrainian Railways" on 15 April 2019 by:

Chief Executive Officer

Y. Kravtsov

Member of the board

R. Paszkiewicz

Chief accountant

T. Ryabchun

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

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia)

	Notes	2018	2017
Revenues			
Cargo revenues	25	67,519,803	60,112,590
Passenger revenues	25	8,468,724	7,318,542
Other revenues	25	7,413,880	6,507,019
Total revenues		83,402,407	73,938,151
Operating expenses			
Staff costs		(40,585,068)	(31,973,995)
Depreciation		(12,547,478)	(14,662,305)
Electricity		(9,155,746)	(7,865,933)
Fuel		(9,405,550)	(7,307,862)
Maintenance		(7,091,476)	(5,809,691)
Taxes, other than income tax	24	(1,262,153)	(1,803,000)
Social expenses		(677,887)	(470,130)
Change in provisions	23	(134,241)	(100,243)
Other income	26	1,352,746	2,451,001
Other expenses		(292,283)	(1,061,392)
Total operating expenses		(79,799,136)	(68,603,550)
Operating profit		3,603,271	5,334,601
Finance income	27	202,624	554,799
Finance costs	27	(3,463,631)	(3,810,903)
Foreign exchange gain/(loss), net	28	538,820	(1,139,624)
Share of profit/(loss) of associates	10	59,393	(166,780)
Profit before income tax		940,477	772,093
Income tax expense	20	(736,623)	(657,544)
Profit for the year		203,854	114,549
Attributable to:			
Equity holder of the parent		203,766	114,424
Non-controlling interests		88	125
		203,854	114,549
Other comprehensive loss			
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Remeasurement losses on defined benefit plans	19, 20	(704,779)	(136,378)
Share of other comprehensive losses of associates	10	–	(55,411)
Other comprehensive loss for the year, net of tax		(704,779)	(191,789)
Attributable to:			
Equity holder of the parent		(501,013)	(77,365)
Non-controlling interests		88	125
Total comprehensive loss for the year, net of tax		(500,925)	(77,240)

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia)

	Notes	Contributed capital	Additional capital	Accumulated deficit	Total	Non-controlling interests	Total equity
At 1 January 2017		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 loss		–	–	(136,378)	(136,378)	–	(136,378)
Share of other comprehensive loss of associates (net of income tax)		–	–	(55,411)	(55,411)	–	(55,411)
Total comprehensive loss		–	–	(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 January 2017		229,879,115	18,899,383	(38,006,503)	210,771,995	4,983	210,776,978
Profit for the period		–	–	203,766	203,766	88	203,854
Other comprehensive loss		–	–	(704,779)	(704,779)	–	(704,779)
Total comprehensive income/(loss)		–	–	(501,013)	(501,013)	88	(500,925)
Dividends	16	–	–	(153,417)	(153,417)	–	(153,417)
Dividends paid to non-controlling interests		–	–	–	–	(93)	(93)
Other changes		–	(4,862)	245	(4,617)	–	(4,617)
At 31 December 2018		229,879,115	18,894,521	(38,660,688)	210,112,948	4,978	210,117,926

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

CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia)

	Notes	2018	2017
Cash flows from operating activities			
Profit before income tax		940,477	772,093
<i>Adjustments to reconcile profit before income tax to net cash provided by operations</i>			
Depreciation		12,547,478	14,662,305
Finance costs, net	27	3,261,007	3,256,104
Result of disposal of property, plant and equipment		12,889	–
Movements in defined benefit liability and provisions		(352,933)	(291,814)
Allowance for estimated irrecoverable amounts		230,355	100,486
Foreign exchange (gain)/loss, net		(536,922)	896,694
Share of (profit)/loss of associates	10	(59,393)	166,780
Operating profit before working capital changes		16,042,958	19,562,648
<i>Changes in working capital</i>			
Trade and other receivables		(356,761)	(369,827)
Prepayments		62,627	78,371
Inventories		(469,438)	(2,538,250)
Taxes receivable and prepaid, other than income tax		(156,831)	57,087
Trade and other payables		836,555	841,154
Contract liabilities / Advances from customers		(141,719)	(18,423)
Taxes payable, other than income tax		(69,997)	244,021
Cash generated from operating activity		15,747,394	17,856,781
Income tax paid		(199,813)	(360,359)
Interest paid		(2,815,173)	(3,437,303)
Dividends paid	16	(45,044)	(6,513)
Repayment of provisions	23	(66,728)	(60,328)
Net cash flows from operating activities		12,620,636	13,992,278
Cash flows from investing activities			
Acquisition of property, plant and equipment		(15,033,937)	(10,872,454)
Interest received		197,109	548,968
Dividends received from an associates	10	–	7,988
Net cash flows used in investing activities		(14,836,828)	(10,315,498)
Cash flows from financing activities			
Proceeds from interest-bearing loans and borrowings		18,070,474	–
Repayment of interest-bearing loans and borrowings		(19,450,443)	(2,718,312)
Repayment of domestic bonds		–	(1,720,000)
Repayment of finance lease liability		(338,712)	(381,786)
Dividends paid to non-controlling interests		(93)	(31)
Net cash flows used in financing activities		(1,718,774)	(4,820,129)
Net decrease in cash and cash equivalents		(3,934,966)	(1,143,349)
Reclassified to assets of uncontrolled territories	2	(298)	(103,594)
Net foreign exchange difference		(1,898)	16,185
Cash and cash equivalents at 1 January		5,188,988	6,419,746
Cash and cash equivalents at 31 December		1,251,826	5,188,988

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(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

Joint stock company “Ukrainian railways” (JSC “Ukrainian Railways” or “the Company”) is a private joint stock company organised under the laws of Ukraine. Prior to 31 October 2018, the Company’s name was Public joint stock company “Ukrainian Railways”, which was registered on 21 October 2015. The Company was created as a result of reorganisation through merger of public service railway enterprises and institutions (“the Reorganisation”) and started economic activities since 1 December 2015. 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 “Ukrainian Railways” 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 “Ukrainian Railways” 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 “Ukrainian Railways” is 5, Jerzy Giedroyc 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 2018</i>	<i>Share as at 31 December 2017</i>
1 Joint stock company “Ukrainian Railways”	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%	100%
9 LLC “UZ Cargo Wagon”	100%	–
10 LLC “Enerho Zbut Trans”	100%	–
11 Private joint-stock company “Insurance Company “Tast Garantiya” (Note 16)	65.62%	65.62%

JSC “Ukrainian Railways” 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Pricing policy

Cargo and passenger railway transportation in Ukraine is a regulated by government prices and some services that connected with transportation is provided with free market prices. At the same time JSC “Ukrzaliznitsa” in the course of its business activity provides a wide range of auxiliary services and works, manufactures and sells products at unregulated prices. Cargo and passenger transportation 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 (except for wagon component of tariff for fleet carriages that belong to the carrier JSC “Ukrainian Railways” starting from 19 February 2018). In accordance with Order No. 425 of the Ministry of Infrastructure of Ukraine dated 12 December 2017, the deregulation of wagon component of tariff for fleet carriages that belong to JSC “Ukrainian Railways” was completed and the Company started setting tariffs for usage the own fleet carriages of the carrier JSC “Ukrainian Railways” since 19 February 2018. The tariffs are denominated in UAH and are generally subject to changes in cost of transportations and producer price index, which flatten out the level of change in exchange rates of UAH against US dollar and euro, in which the Group’s loan portfolio is denominated. There was no increase in tariffs for cargo transportation that are regulated by government in 2018. There was increased in the tariffs for domestic cargo transportation during 2017 by 15% from 31 October.

Since 28 July 2018 in accordance with resolution of Management Board of JSC “Ukrainian Railways”, tariffs for usage of company’s carriage has been updated.

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 (except suburban transportation and transportation with high-speed trains Intercity+ in the first class cars). The tariffs are denominated in Ukrainian Hryvnia. During 2018 there was an increase in tariffs for domestic transportation of passengers and baggage by 12% from 1 June 2018, and by 12% from 1 October 2018, in accordance with Order No. 184 dated 20 April 2018. During 2017, there was no increase in tariffs, except for a minor adjustment on tariffs for some suburban destinations.

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, US Dollars or Euro. There were no adjustments to the above tariffs during 2018 and 2017.

Tariffs for international transportation of passengers and baggage – approved by the Ministry of Infrastructure of Ukraine, denominated in Swiss Francs or in Euro. There were no adjustments to the above tariffs during 2018 and 2017.

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 characteristics consistent with that of an economy in transition. These characteristics include, but are not limited to, certain structural imbalances, low capital market liquidity, relatively high inflation and a significant level of domestic and foreign state debt.

Following the significant decline in 2014 – 2016, the Ukrainian economy started to demonstrate certain signs of recovery and growth. Main risks affecting the sustainability of the emerging economic trends are represented by the continuing tensions in geopolitical relations with the Russian Federation; lack of the clear consensus as to the directions of the institutional reforms, including public administration, judiciary system and reforms in core sectors of the economy; acceleration of labor emigration and low level of capital inflow.

Following the temporary occupation of the Autonomous Republic of Crimea by the Russian Federation as a result of military aggression 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 and continued to be carried at these values as at 31 December 2018 and 2017. There were no income and/or expenses related to the assets and liabilities related to Autonomous Republic of Crimea recorded in the Group’s financial statements for 2018 and 2017.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(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 military aggression of Russian Federation the Ukrainian authorities temporarily lost control over certain territory of Donetsk and Luhansk 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 temporary occupied territory of Donetsk and Luhansk regions were transferred to the Company at the carrying values as at 30 June 2014 and, for the most part, continued to be carried at these values as at 31 December 2018 and 2017 on the balance sheet of Regional branch “Donetsk Railway” (RB “Donetsk Railway”). 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. No subsequent adjustments to the above financial liabilities were made after this date (Note 17).

Despite the loss of control over the assets and liabilities of the temporarily occupied territories related to temporarily occupied territories introduced by the Law, the Group continues to record them in the consolidated statement of financial position, as this complies with the regulatory requirements pertaining to the Reorganisation, and this corresponds to the official position of the Ukrainian authorities will regain control over the occupied territories. Upon cessation of the temporary occupation of Autonomous Republic of Crimea and a portion of territory of Donetsk and Luhansk regions (together – “the uncontrolled territories”) the assets and liabilities relating to the above regions will be revalued and contributed to the Company’s Charter capital, within a legal succession procedure, apart from a portion of property, plant and equipment, that will be transferred under the title of operating control (Note 16).

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 military aggression the Group was able to assure railway transportation involving the temporarily occupied territories of Donetsk and Luhansk by 15 March 2017. According to 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 performed 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. There were changes in the composition of assets and liabilities of uncontrolled territories during 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Assets and liabilities of uncontrolled territories

As at 31 December 2018:

	<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 (Note 9)	9,430,462	2,068,284	11,498,745
Financial assets	35,362	1,559	36,921
	<u>9,465,824</u>	<u>2,069,843</u>	<u>11,535,666</u>
Current assets			
Inventories	193,574	69,343	262,917
Trade and other receivables	1,535,308	9,086	1,544,395
Prepayments	34,616	8,691	43,307
Prepaid income tax	27,681	1,220	28,901
Taxes receivable, other than income tax	40,616	2,423	43,039
Cash and cash equivalents	100,139	3,753	103,892
	<u>1,931,934</u>	<u>94,516</u>	<u>2,026,451</u>
Total assets of uncontrolled territories	<u>11,397,758</u>	<u>2,164,359</u>	<u>13,562,117</u>
Current liabilities			
Interest-bearing loans and borrowings	3,663,995	–	3,663,995
Finance lease liability (Note 18)	802,158	–	802,158
Trade and other payables	431,260	36	431,296
Advances from customers	225,394	–	225,394
Taxes payable, other than income tax	84,866	–	84,866
	<u>5,207,673</u>	<u>36</u>	<u>5,207,709</u>
Total liabilities of uncontrolled territories	<u>5,207,673</u>	<u>36</u>	<u>5,207,709</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

As at 31 December 2017:

	<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 (Note 9)	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 (Note 18)	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>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(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:

Assets and liabilities of RB “Donetsk Railway”

	2018	2017
Assets		
Non-current assets		
Property, plant and equipment	5,046,626	4,647,805
Financial assets	5,635	6,964
Prepaid income tax	1,402	1,460
Assets of uncontrolled territories	8,624,333	8,750,748
	<u>13,677,996</u>	<u>13,406,977</u>
Current assets		
Inventories	523,387	596,411
Trade and other receivables	27,839	11,205
Trade and other receivables from Group entities	1,584	–
Prepayments	5,299	4,059
Taxes receivable, other than income tax	14,734	16,220
Cash and cash equivalents	909	1,807
	<u>573,752</u>	<u>629,702</u>
Total assets	<u>14,251,748</u>	<u>14,036,679</u>
Non-current liabilities		
Defined benefit liability	189,295	174,456
Liabilities of uncontrolled territories	5,017,908	4,972,904
	<u>5,207,203</u>	<u>5,147,360</u>
Current liabilities		
Finance lease liability	–	74,793
Trade and other payables	541,956	434,859
Trade and other payables to Group entities	3,465,314	1,986,656
Advances from customers	–	6,026
Contract liabilities	9,873	–
Taxes payable, other than income tax	35,163	56,231
	<u>4,052,306</u>	<u>2,558,565</u>
Total liabilities	<u>9,259,509</u>	<u>7,705,925</u>
Net assets	<u>4,992,239</u>	<u>6,330,754</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Comprehensive income of RB "Donetsk Railway"

	2018	2017
Revenues		
Cargo revenues	4,493,085	4,062,706
Passenger revenues	62,839	84,800
Other revenues	198,403	299,159
Total revenues	4,754,327	4,446,665
Operating expenses		
Staff costs	(3,184,552)	(2,869,077)
Depreciation	(351,063)	(366,736)
Electricity	(430,542)	(361,184)
Fuel	(1,066,958)	(804,632)
Maintenance	(446,457)	(355,271)
Taxes, other than income tax	(47,313)	(86,788)
Social expenses	(30,580)	(31,779)
Other income	56,651	170,463
Other expenses	(37,294)	(22,278)
Total operating expenses	(5,538,108)	(4,727,282)
Operating loss	(783,781)	(280,617)
Finance income	337	18,794
Finance costs	(20,841)	(27,277)
Foreign exchange loss, net	(384)	(1,044)
Loss before income tax	(804,669)	(290,144)
Income tax expense	—	—
Loss for the year	(804,669)	(290,144)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

Cash flows of RB "Donetsk Railway"

	2018	2017
Cash flows from operating activities		
Loss before income tax	(804,669)	(290,144)
<i>Adjustments to reconcile loss before income tax to net cash provided by operations</i>		
Depreciation	351,063	366,921
Finance costs, net	20,504	27,277
Movements in defined benefit liability and provisions	5,557	–
Foreign exchange loss, net	384	–
Operating profit/(loss) before working capital changes	(427,161)	104,054
<i>Changes in working capital</i>		
Trade and other receivables	(22,043)	(13,312)
Prepayments	(4,692)	(6,630)
Inventories	74,028	(131,459)
Taxes receivable and prepaid	1,486	(41,061)
Trade and other payables	427,801	388,786
Advances from customers	5,013	58,346
Taxes payable, other than income tax	(3,979)	4,180
Cash generated from operating activity	50,453	362,904
Interest paid	–	(16,420)
Net cash flows from operating activities	50,453	346,484
Cash flows from investing activities		
Acquisition of property, plant and equipment	(51,053)	(163,261)
Net cash flows used in from investing activities	(51,053)	(163,261)
Cash flows from financing activities		
Repayment of interest-bearing loans	–	(190,261)
Net cash flows used in financing activities	–	(190,261)
Net decrease in cash and cash equivalents	(600)	(7,038)
Reclassified to assets of uncontrolled territories	(298)	(99,841)
Cash and cash equivalents at 1 January	1,807	108,686
Cash and cash equivalents at 31 December	909	1,807

Ensuring sustainable operating activities of the Group in the foreseeable future

Management believes that the Group will continue its regular operating activities on a going concern basis being a key component of Ukraine's transport infrastructure and systemically important company for the whole economy of the country. In 2018, rail cargo transportation turnover amounted to about 80.1% of the total cargo traffic in Ukraine (excluding pipelines), in 2017 – about 80.8%; railway passenger transportation turnover amounted to 27.5% and 28.2% of the total passenger turnover, respectively. The Group counts on the Government support, if required, which may include, but not limited to, additional increase in tariffs, facilitation of granting the state guarantees for new loans, obtaining of loans from state-owned banks, additional cash contributions to the statutory capital of the Company, etc.

Management is committed to improving financial performance and the adequacy of cash flows from the core services provided by the Group to ensure timely and complete servicing of its financial obligations that is a key factor in ensuring its sustainable operating activities in the foreseeable future.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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

In view of this, management points out that as at 31 December 2018 the Group's current liabilities exceeded current assets by UAH 19,399,804 thousand (31 December 2017: UAH 8 334 685 thousand). The main reason for the increase in current liabilities at the end of 2018 was the upcoming maturity of long-term loans. Thus, in 2019, the Group should pay a portion of the principal amount of Eurobonds of USD 300 million, as well as repay other loans and borrowings. As at 31 December 2018, the carrying amount of interest-bearing loans and borrowings amounted to UAH 17,086,982 thousand.

At that, in March 2019, the Group repaid timely and in full the first portion in the amount of USD 150 million of outstanding principal amount of Eurobonds together with the related coupon payment. Loan resources for refinancing of liabilities were attracted, with the support of the Government, in the domestic market from a state-owned bank and the State Agency for Infrastructure Projects of Ukraine (Ukrinfraproekt).

In 2019, at the initiative of management, the Government of Ukraine approved the increase in tariffs for rail cargo transportation by 14.2% starting from 30 March 2019 that corresponds to the producer price index for 2018. Previous indexation of tariffs by 15% was made starting from 31 October 2017. The regulated infrastructure portion of cargo transportation tariffs is subject to approval by the Ministry of Infrastructure of Ukraine upon agreement with the authorized state authorities (Note 1). The wagon component of tariff for its own fleet carriages was recently deregulated. This allowed the Group starting from February 2018 to quarterly adjust the wagon component of the tariff with regard to changes in freight costs and producer price index. The tariffs for certain fleet of own cars are established at market quotation based on the results of auctions at public e-trading platforms.

Management has also initiated the introduction of automatic indexation of tariffs for rail cargo transportation for a producer price index. Respective changes in the tariff setting system are expected to be approved by respective state authorities in the second half of 2019.

Operating cost optimisation measures are carried out by procurement of goods and services through a system of transparent and competitive online auctions. Moreover, additional cash flows are expected from the sale of scrap metal and excessive property.

It is worth noting that the effect of these measures to improve operating performance may not be sufficient to repay the above-mentioned liabilities in 2019. Management continues pursuing options to refinance the current portion of such liabilities. The priority option is to obtain the necessary approvals for the placement of a new issue of Eurobonds in the second or third quarter of 2019. In addition, management is working on attracting borrowings from alternative commercial sources. Management is also considering attracting finances from state-owned banks and government support mechanisms in case it is not possible to attract funds in time in the international capital markets.

However, there is a risk that the Group will not be able to receive the necessary refinancing in a timely manner due to possible difficulties with obtaining appropriate approvals from a number of state bodies. In this case, as option of last resort, management will be ready to initiate debt restructuring negotiations with the creditors in advance. Management believes that the Group will be able to agree acceptable debt restructuring terms.

Restructuring of current debt may be considered an event of default under other loan agreements. As a result, certain creditors may have the right to claim early repayment of most of the long-term loans. Management believes that it has the necessary experience and means to settle the possible event of default and high degree of confidence in such settlement.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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 IFRS 9 *Financial Instruments*. These consolidated financial statements are presented in thousands of Ukrainian hryvnia (“thousand 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

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 2018. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2018, 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:

IFRS 15 Revenue from Contracts with Customers

IFRS 15 *Revenue from Contracts with Customers* supersedes IAS 18 *Revenue*, IAS 11 *Construction Contracts* and related interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. The fundamental principle of the new standard provides for recognition of the revenues in the financial statements in such a way as to show the transfer of goods or services to customers in the amount that reflects the amount of the remuneration (i.e. payment) which the Group expects to receive in return for such goods or services.

The standard requires entities to exercise judgment taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly relating to fulfilling a contract.

Clarifications to IFRS 15 *Revenue from Contracts with Customers* are applicable to annual periods beginning on 1 January 2018 or afterwards. The improvement has provided additional clarifications concerning certain requirements and has introduced an additional exemption for entities introducing IFRS 15 *Revenue from Contracts with Customers*.

New terms and definitions introduced by IFRS 15 and applied by the Group during the preparation of these consolidated financial statements preparation are as follows:

Contract asset represents a right to consideration in exchange for goods or services that the Group has transferred to a customer when that right is conditioned on something other than the passage of time. As at 31 December 2018 and 2017, amount of such assets are insignificant and presented within Trade and other receivables of the consolidated statement of financial position.

Contract liability represents an obligation to transfer goods or services to a customer for which the Group has received consideration (or the amount of consideration is due) from the customer. As at 31 December 2017, such liabilities presented within Advances from customers of the consolidated statement of financial position.

As required for the consolidated financial statements, the Group disaggregated revenue recognized from contracts with customers into categories that depict how the amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment. (Notes 8 and 25)

The standard is applied retrospectively with the cumulative effect of initially applying this Standard recognized at the date of initial application. The Group has carried out an analysis of the impact of the standard, interpretations and clarification to the standard on the accounting policy applied by the Group and in the opinion of the Management of the Group, they do not have any material impact on the currently applied accounting policy.

IFRS 9 Financial Instruments

IFRS 9 *Financial Instruments* replaces IAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has applied IFRS 9 retrospectively, with the initial application date of 1 January 2018.

(a) *Classification and measurement*

Under IFRS 9, debt financial instruments are subsequently measured at fair value through profit or loss, amortised cost, or fair value through other comprehensive income. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

4. Changes in accounting policy (continued)

The new classification and measurement of the Group’s debt financial assets are, as follows:

- 1) Debt instruments at amortised cost for financial assets that are held within a business model with the objective to hold the financial assets in order to collect contractual cash flows and the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. This category includes the Group’s Trade and other receivables, and Loans due from employees included under Financial assets.
- 2) Financial assets measured at FVPL comprise financial assets which do not meet the criteria to be measured at amortized costs or at FVOCI. These financial assets comprise equity instruments which the Group had not irrevocably elected to classify as FVOCI. These categories include the Group’s equity instruments of another entities included in financial assets.

The assessment of the Group’s business models was made as of the date of initial application, 1 January 2018, and then applied retrospectively to those financial assets that were not derecognised before 1 January 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

The accounting for the Group’s financial liabilities remains largely the same as it was under IAS 39.

(b) Impairment

The adoption of IFRS 9 has changed the Group’s accounting for impairment losses for financial assets by replacing IAS 39 incurred loss approach with a forward-looking expected credit loss approach. IFRS 9 requires the Group to record an allowance for ECLs for all loans and other debt financial assets not held at fair value through profit or loss.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the asset’s original effective interest rate.

The Group disaggregated financial assets based on common credit risk characteristics, such as financial instrument type, credit risk rating, debtor or issuer type, date of financial asset initial recognition, and established a provision based on the Group’s historic default percentage adjusted for forward looking factors specific to the debtors and the economic environment.

For the trade receivables and contract assets, the Group has applied the standard’s simplified approach and has calculated expected credit losses based on lifetime expected credit losses.

(c) Hedge accounting

Under IAS 39, all gains and losses arising from the Group’s cash flow hedging relationships were eligible to be subsequently reclassified to profit or loss. However, under IFRS 9, gains and losses arising on cash flow hedges of forecast purchases of non-financial assets need to be incorporated into the initial carrying amounts of the non-financial assets. This change only applies prospectively from the date of initial application of IFRS 9 and has no impact on the statement of financial position as at 1 January 2018.

The adoption of the standard did not have material impact on the Group’s consolidated financial statements.

IFRIC Interpretation 22 Foreign Currency Transactions and Advance Considerations

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 Group had always applied the abovementioned approach, thus this amendment didn’t have impact on the Group’s financial statements or accounting policies.

Amendments to IAS 40 Transfers of Investment Property

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. These amendments didn’t have any impact on the Group’s consolidated financial statements.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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4. Changes in accounting policy (continued)

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

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 Group has no share-based payment transaction. Therefore, these amendments didn't have any impact on the Group's consolidated financial statements.

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

The amendments address concerns arising from implementing the new financial instruments standard, IFRS 9, before implementing IFRS 17 *Insurance Contracts*, which replaces IFRS 4. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying IFRS 9 and an overlay approach. These amendments are not relevant to the Group.

Amendments to IAS 28 Investments in Associates and Joint Ventures

The amendments clarify that 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. These amendments do not have any impact on the Group's consolidated financial statements.

Amendments to IFRS 1 First-time Adoption of International Financial Reporting Standards – Deletion of short-term exemptions for first-time adopters

Short-term exemptions in paragraphs E3-E7 of IFRS 1 were deleted because they have now served their intended purpose. These amendments do not have any impact on the Group's consolidated financial statements.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018
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5. Significant accounting judgments, estimates and assumptions (continued)

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 2018.

Estimates

Provision for expected credit losses of trade and other receivables

The Group uses a provision matrix to calculate ECLs for trade and other receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information. For instance, if forecast economic conditions (i.e., gross domestic product) are expected to deteriorate over the next year which can lead to an increased number of defaults in the manufacturing sector, the historical default rates are adjusted. At every reporting date, the historical observed default rates are updated and changes in the forward-looking estimates are analysed.

The assessment of the correlation between historical observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future. The information about the ECLs on the Group's trade receivables and contract assets is disclosed in Note 13.

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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies

Foreign currency translation

Ukrainian Hryvnia (“UAH”) is the Group’s presentation currency and the functional currency of the Company and the subsidiaries. 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 accordance with IFRS 9, 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.

Measurement and accounting 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.

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.

Even when there is no observable market to provide pricing information about the sale of an asset at the measurement date, a fair value measurement shall assume that a transaction takes place at that date, considered from the perspective of a market participant that holds the asset. That assumed transaction establishes a basis for estimating the price to sell the asset. 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

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 recorded in other comprehensive income and 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

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

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-related 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 in the other comprehensive income and in the 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.

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 their fair value 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

6. Summary of significant accounting policies (continued)

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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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6. Summary of significant accounting policies (continued)

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.

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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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 from contracts with customers

Revenue from contracts with customers is recognised when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

Revenue is presented net of value-added tax and discounts and after eliminating intercompany sales within the Group.

The Group has generally concluded that it is the principal in its revenue arrangements, because it typically controls the goods or services before transferring them to the customer.

The Group recognises revenue from cargo transportation and passenger transportation over time, using an output method by measuring the progress towards complete satisfaction of that performance obligation proportionally to the services provision period.

Revenue from sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods.

The Group considers whether there are other promises in the contract that are separate performance obligations to which a portion of the transaction price needs to be allocated (e.g., warranties, customer loyalty points). In determining the transaction price for the sale of goods, the Group considers the effects of variable consideration, the existence of significant financing components, noncash consideration, and consideration payable to the customer (if any).

Generally, the Group receives short-term advances from its customers. Using the practical expedient in IFRS 15, the Group does not adjust the promised amount of consideration for the effects of a significant financing component if it expects, at contract inception, that the period between the transfer of the promised good or service to the customer and when the customer pays for that good or service will be one year or less.

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.

Contract balances

Contract assets

A contract asset is the right to consideration in exchange for goods or services transferred to the customer. If the Group performs by transferring goods or services to a customer before the customer pays consideration or before payment is due, a contract asset is recognised for the earned consideration that is conditional.

Trade receivables

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Refer to accounting policies of financial assets in section Financial assets.

Contract liabilities

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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6. Summary of significant accounting policies (continued)

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.

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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

7. Standards issued but not yet effective

The new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Group’s financial statements are disclosed below. The Group intends to adopt these new and amended standards and interpretations, if applicable, when they become effective.

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 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, which is effective for annual periods beginning on or after 1 January 2019, requires lessees and lessors to make more extensive disclosures than under IAS 17. The Group is assessing the potential effect of IFRS 16 on its financial statements.

IFRS 17 Insurance Contracts

In May 2017, the IASB issued IFRS 17 Insurance Contracts (IFRS 17), a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, IFRS 17 will replace IFRS 4 Insurance Contracts (IFRS 4) that was issued in 2005. IFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply. The overall objective of IFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in IFRS 4, which are largely based on grandfathering previous local accounting policies, IFRS 17 provides 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

IFRS 17 is effective for reporting periods beginning on or after 1 January 2021, with comparative figures required. Early application is permitted, provided the entity also applies IFRS 9 and IFRS 15 on or before the date it first applies IFRS 17. The Group is assessing the potential effect of IFRS 17 on its financial statements.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of IAS 12 and does not apply to taxes or levies outside the scope of IAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

7. Standards issued but not yet effective (continued)

An entity has to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed. 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.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

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 amendments should be applied retrospectively and are effective from 1 January 2019, with earlier application permitted. It is expected that these amendments will not influence the Group's financial statements.

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.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event;
- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognised in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognised in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after 1 January 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

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

The amendments clarify that an entity applies IFRS 9 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 accompanying notes form an integral part of the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018
(in thousands of Ukrainian hryvnia, unless otherwise indicated)

7. Standards issued but not yet effective (continued)

The amendments also clarified that, in applying IFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognised as adjustments to the net investment in the associate or joint venture that arise from applying IAS 28 Investments in Associates and Joint Ventures.

The amendments should be applied retrospectively and are effective from 1 January 2019, with early application permitted. The Group is assessing the potential effect of Amendments to IAS 28 on its financial statements.

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

These improvements include:

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, with early application 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, with early application 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, with early 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, with early application 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 2018

(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 cross-regional passenger transportation services provided by the Group.
- *Suburban passenger transportation segment* includes intraregional rail passenger transportation services.
- *Auxiliary operations segment* mainly includes activities of certain structural units of Regional branches and branches of the Company that produce industrial products and provide services for internal consumption within the Company and for sale to third parties outside of the Group. Auxiliary operations segment produces industrial products and provides services related to cargo transportation and suburban passenger transportation, construction, reconstruction and modernisation of railway tracks and railway infrastructure, repair and maintenance of various railway-related equipment etc. The transfer of products (works, services) between the structural units of one branch and between branches within the Company is considered as internal turnover and is reflected as a reallocation of expenses ("Inter-segment expenses" line) with no revenues recognised (except for certain types of transactions). A segment that receives reallocated expenses includes them in the "Other Costs" category.
None of Auxiliary segment operations are individually of sufficient size to be reported as separate segment. 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 Company's subsidiaries.

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.

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.

The Group changed the presentation of segment information in 2018. "Other expenses" line was added to segment expenses as well as the information on the internal reallocation of expenses from the Auxiliary operations segment to other segments. The changes are due to the fact that management began to review in more details the results of segments, taking into account the reallocation of expenses from the Auxiliary operations segment. The presentation of information by segment for 2017 has been changed to ensure compliance with the disclosure for 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***8. Segment reporting (continued)**

<i>Year ended 31 December 2018</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	70,571,336	7,841,586	650,131	7,292,309	121,571	–	(3,074,526)	–	83,402,407
Inter-segment sales	–	–	–	8,443,525	2,386,132	–	(10,829,657)	–	–
Total revenue	70,571,336	7,841,586	650,131	15,735,834	2,507,703	–	(13,904,183)	–	83,402,407
Staff costs	(21,994,645)	(7,099,678)	(3,295,323)	(5,637,140)	(825,977)	(1,191,535)	729,220	(1,269,990)	(40,585,068)
Depreciation	(9,068,479)	(1,469,916)	(734,913)	(1,081,131)	(35,786)	(187,198)	29,945	–	(12,547,478)
Electricity	(5,847,201)	(1,537,399)	(844,407)	(9,221,647)	(64,158)	(11,419)	8,405,761	(35,276)	(9,155,746)
Fuel	(6,338,744)	(1,326,993)	(764,168)	(967,505)	(59,693)	(3,976)	55,529	–	(9,405,550)
Maintenance	(4,479,767)	(968,211)	(690,936)	(428,404)	(1,453,870)	(45,366)	1,542,143	(567,065)	(7,091,476)
Other expenses	(6,227,415)	(1,490,733)	(621,710)	(1,743,830)	(131,672)	(681,888)	7,571,948	3,033,017	(292,283)
Inter-segment Expenses	–	–	–	4,430,363	–	–	(4,430,363)	–	–
Segment result	16,615,085	(6,051,344)	(6,301,326)	1,086,540	(63,453)	(2,121,382)	–	1,160,686	4,324,806
<i>Year ended 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	–	(10,079,788)	–	73,938,151
Staff costs	(17,408,628)	(5,317,605)	(2,584,647)	(4,635,870)	(617,177)	(607,129)	585,004	(1,387,943)	(31,973,995)
Depreciation	(10,714,216)	(1,633,342)	(870,424)	(1,274,147)	(35,867)	(168,306)	33,997	–	(14,662,305)
Electricity	(5,306,396)	(1,253,580)	(722,395)	(7,952,118)	(56,356)	–	7,428,242	(3,330)	(7,865,933)
Fuel	(4,970,812)	(955,452)	(604,993)	(768,600)	(47,462)	(5,531)	44,988	–	(7,307,862)
Maintenance	(3,757,517)	(837,248)	(527,679)	(366,776)	(1,106,424)	–	1,447,333	(661,380)	(5,809,691)
Other expenses	(4,755,767)	(1,423,272)	(555,621)	(1,363,423)	(11,210)	(1,717,709)	3,938,387	4,827,223	(1,061,392)
Inter-segment Expenses	–	–	–	3,398,163	–	–	(3,398,163)	–	–
Segment result	14,077,451	(4,675,186)	(5,276,915)	944,906	(89,178)	(2,498,675)	–	2,774,570	5,256,973

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(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:

	2018	2017
Reclassification of other expenses for IFRS presentation purpose	1,160,686	2,774,570
Total adjustments of differences between management accounts and IFRS	1,160,686	2,774,570
Reconciliation of profit:		
	2018	2017
Segment results	5,285,502	4,981,078
Total adjustments due to differences in accounting policies adopted for management accounts and IFRS	1,160,686	2,774,570
Total unallocated amounts	(2,121,382)	(2,498,675)
Items not included in segment expenses		
Taxes, other than income tax	(1,262,153)	(1,803,000)
Social expenses	(677,887)	(470,130)
Change in provisions	(134,241)	(100,243)
Other income	1,352,746	2,451,001
Finance income	202,624	554,799
Finance costs	(3,463,631)	(3,810,903)
Foreign exchange gain/(loss), net	538,820	(1,139,624)
Share of profit/(loss) of an associates	59,393	(166,780)
Group profit before income tax	940,477	772,093

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(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 super- structure</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 2018	45,640,553	72,332,419	83,139,689	20,710,754	40,374,510	18,369,141	2,051,032	9,096,093	291,714,191
Additions	–	–	–	–	–	–	–	17,424,174	17,424,174
Transfers	17,537	2,999,869	3,311,551	3,379,039	5,819,106	1,677,402	146,492	(17,350,996)	–
Disposals	–	(34,002)	(10,330)	–	(103)	(1,925)	(1)	–	(46,361)
Reclassification between groups	23,781	(10,249,323)	14,057,465	1,468,983	(4,015,232)	(1,592,537)	306,863	–	–
Reclassification of assets of uncontrolled territories (Note 2)	–	30,251	13,959	595,380	(2,645,028)	21,197	(696)	(16,978)	(2,001,915)
At 31 December 2018	<u>45,681,871</u>	<u>65,079,214</u>	<u>100,512,334</u>	<u>26,154,156</u>	<u>39,533,253</u>	<u>18,473,278</u>	<u>2,503,690</u>	<u>9,152,293</u>	<u>307,090,089</u>
Accumulated depreciation									
At 1 January 2018	–	14,186,034	12,872,321	6,821,591	11,709,750	7,737,815	613,768	2,031,050	55,972,329
Depreciation charge	–	2,873,965	3,899,595	1,110,473	2,871,278	1,703,788	224,025	–	12,683,124
Disposals	–	(10,239)	(2,783)	–	(66)	(1,667)	–	–	(14,755)
Reclassification between groups	–	(3,488,556)	4,784,731	499,299	(1,356,138)	(543,435)	104,099	–	–
Reclassification of assets of uncontrolled territories (Note 2)	–	23,608	19,384	576,916	119,433	9,476	(655)	–	748,162
At 31 December 2018	<u>–</u>	<u>13,584,812</u>	<u>21,573,248</u>	<u>9,008,279</u>	<u>13,344,257</u>	<u>8,905,977</u>	<u>941,237</u>	<u>2,031,050</u>	<u>69,388,860</u>
Net book value									
At 1 January 2018	<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>
At 31 December 2018	<u>45,681,871</u>	<u>51,494,402</u>	<u>78,939,086</u>	<u>17,145,877</u>	<u>26,188,996</u>	<u>9,567,301</u>	<u>1,562,453</u>	<u>7,121,243</u>	<u>237,701,229</u>

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(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 super- structure</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 financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(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 45,681,871 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.

The Group obtained a land plot in the amount of UAH 154 thousand and received the right to permanent use of land plots in the amount of UAH 17,383 thousand in 2018.

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 96,035,916 thousand as at 31 December 2018 (2017: 98,640,070 thousand).

Social assets

Included in property, plant and equipment are social infrastructure and other social assets carried at UAH 2,333,687 thousand as at 31 December 2018 (2017: UAH 3,360,681 thousand), primarily comprising residential buildings, hospitals, canteens and other similar assets.

Prepayments for property, plant and equipment

As at 31 December 2018 construction in progress and uninstalled equipment contained prepayments for property, plant and equipment in the amount of UAH 733,806 thousand (2017: UAH 278,159 thousand).

Capitalised depreciation charge

The Group capitalised UAH 174,611 thousand of depreciation charge into construction in progress for the year ended 31 December 2018 (2017: UAH 219,561 thousand).

Capitalised borrowing costs

In 2018, borrowing costs of UAH 35,954 thousand relating to qualifying assets were capitalised (2017: UAH 16,339 thousand). The rate used to determine the amount of borrowing costs eligible for capitalisation was LIBOR 6m +1-6% and EURIBOR 6m +0.4%, which is the effective interest rate of the specific borrowings.

Fully depreciated assets

As at 31 December 2018 the cost of fully depreciated property, plant and equipment which remain in use amounted to UAH 19,515,029 thousand (2017: UAH 14,488,757 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

9. Property, plant and equipment (continued)

Finance lease

As at 31 December 2018 the carrying value of property and equipment held under finance leases amounted to UAH 2,804,597 thousand (2017: UAH 1,077,265 thousand).

During the year ended 31 December 2018 the Group acquire property and equipment of under finance lease agreements amounted to UAH 1,612,814 thousand (2017: none).

Pledged property, plant and equipment

As at 31 December 2018 certain rolling stock with the carrying value of UAH 221,149 thousand was pledged as collateral for the Group's interest-bearing loans and borrowings (2017: UAH 239,726 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 “Ukrainian Railways” 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 Luhansk regions temporarily not controlled by the Ukrainian authorities (Note 2).

The summarised information on Ukrtransleasing group is presented below:

	<u>2018</u>	<u>2017</u>
Current assets	295,012	1,010,570
Non-current assets	1,563,830	851,289
Current liabilities	(569,899)	(701,015)
Non-current liabilities	(18,474)	(46,859)
Equity	<u>1,270,469</u>	<u>1,113,985</u>
Group's carrying amount of the investment	<u>604,994</u>	<u>530,398</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

10. Investment in associate (continued)

	For the period ended 31 December 2018	For the period ended 31 December 2017
Revenues	342,855	287,112
Profit/(loss) before tax	195,085	(420,423)
Income tax benefit/(loss)	(38,600)	70,529
Profit/(loss) for the period (continuing operations)	156,485	(349,894)
Revaluation decrease of property, plant and equipment	–	(134,867)
Income tax effect of revaluation increase of property, plant and equipment	–	23,738
Other comprehensive loss for the period	–	(5,109)
Total comprehensive income/(loss) for the period (continuing operations)	156,485	(466,132)
Group's share of profit/(loss) for the period	74,596	(166,794)

During 2018 the Group hadn't received dividends from the associate company (2017: UAH 7,988 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. 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 2018 is presented below:

	2018	2017
Current assets	195,941	205,130
Non-current assets	177,852	222,134
Current liabilities	(19,440)	(22,170)
Non-current liabilities	(13,166)	(7,033)
Equity	341,187	398,061
Group's carrying amount of the investments	86,765	101,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

10. Investment in associate (continued)

	<i>For the period ended 31 December 2018</i>	<i>For the period from transfer of shares till 31 December 2017</i>
Revenues	61,612	68,323
Profit / (Loss) before tax	(54,755)	2,130
Income tax expense	(2,083)	(2,085)
Profit / (Loss) for the period (continuing operations)	(56,838)	45
Total comprehensive income/(loss) for the period (continuing operations)	(56,838)	45
Group's share of profit/(loss) for the period	(15,203)	14

During 2018 the associate companies distributed to the Group dividends of UAH 13 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 2018 and 2017.

11. Financial assets

	<i>2018</i>	<i>2017</i>
Equity instruments of another entities	73,546	73,546
Loans due from employees	15,900	19,701
Other financial assets	1,801	–
	<u>91,247</u>	<u>93,247</u>

Equity instruments of another entities mainly consist of minority interests in the share capital of certain entities. 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 6,954 thousand (2017: UAH 8,518 thousand) is included in trade and other receivables (Note 13).

12. Inventories

	<i>2018</i>	<i>2017</i>
Spare parts, materials and tools (at lower of cost and net realisable value)	5,816,824	6,003,150
Fuel and lubricants (at cost)	727,881	706,715
Other (at lower of cost and net realisable value)	2,336,826	1,708,055
	<u>8,881,531</u>	<u>8,417,920</u>

During 2018, spare parts, materials and tools, fuel and lubricants and other inventories in the amount of UAH 14,867,237 thousand were recognised as an operating expenses (2017: UAH 12,678,353 thousand).

As at 31 December 2018 inventories with carrying value of UAH 111,251 thousand (2017: UAH 111,251 thousand) were pledged as collateral for the Group's interest-bearing loans and borrowings (Note 17).

The amount of write-down of inventories in 2018 constituted UAH 8,064 thousand (2017: none).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

13. Trade and other receivables

	2018	2017
Trade receivables	662,901	913,941
Current portion of long-term financial assets (Note 11)	6,954	8,518
Other receivables	901,430	700,516
	<u>1,571,285</u>	<u>1,622,975</u>
Less: the allowance for expected credit losses of trade and other receivables	(568,884)	(743,853)
	<u>1,002,401</u>	<u>879,122</u>

As at 31 December 2018 and 2017 current portion of long-term financial assets included short-term portion of loans due from employees (Note 11).

Set out below is the movement in the allowance for expected credit losses of trade and other receivables:

	2018	2017
At 1 January	743,853	729,636
Provision for expected credit losses	184,079	43,597
Utilised	(332,213)	(23,165)
Reversed	(26,835)	(6,215)
At 31 December	<u>568,884</u>	<u>743,853</u>

Set out below is the information about the credit risk exposure on the Group's trade and other receivables using a provision matrix as at 31 December 2018 based on historical payment discipline:

	Expected credit loss rate	Estimated total gross carrying amount	Expected credit loss	Carrying value
Neither past due nor impaired	0.50%	674,554	(3,373)	671,181
Less than 2 months	5%	21,696	(1,085)	20,611
2-3 months	25%	78,388	(19,597)	58,791
3-12 months days	50%	185,643	(92,822)	92,821
Impaired	50%-100%	611,004	(452,007)	158,997
Total		<u>1,571,285</u>	<u>(568,884)</u>	<u>1,002,401</u>

The ageing of the Group's trade and other receivables was as follows as at 31 December 2017:

	Neither past due nor impaired	Less than 3 months	3-6 months	6-12 months	More than 12 months	Total
31-Dec-17	741,012	69,559	47,630	20,921	–	879,122

14. Prepayments

	2018	2017
Prepayments for materials and services, net of impairment	136,842	203,999
	<u>136,842</u>	<u>203,999</u>

As at 31 December 2018 prepayments are impaired by UAH 6,351 thousand (2017: UAH 9,510 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***15. Taxes receivable, other than income tax**

	2018	2017
Value added tax receivable	673,606	443,687
Other taxes prepaid	59,515	16,445
	<u>733,121</u>	<u>460,132</u>

A portion of value added tax receivable and insignificant portion of other taxes amounting to UAH 845,648 thousand was classified as non-current asset as at 31 December 2018 as its expected period of recoverability exceeds 12 months (2017: UAH 849,024 thousand).

16. Equity***Charter capital***

During 2018 and 2017 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. 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

Joint stock company “Ukrainian Railways” 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 Railways”*.

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 Railways”*.

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 “Ukrainian Railways” 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 asset related to the temporarily occupied territory of the Autonomous Republic of Crimea and temporarily occupied territory of Donetsk and Luhansk 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 temporarily occupied territories of Donetsk and Luhansk 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.

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.

Distribution of portion of net profit to the State

During the year ended 31 December 2018 the subsidiaries of the Company paid a portion of their net profit in the amount of UAH 45,044 thousand directly to the state budget (2017: UAH 6,513 thousand).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)
for the year ended 31 December 2018
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17. Interest-bearing loans and borrowings

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

	<u>2018</u>	<u>2017</u>
Interest-bearing bank loans	17,185,655	18,446,029
Eurobonds issued	14,319,614	14,583,106
Other borrowings	500,000	482,404
	<u>32,005,269</u>	<u>33,511,539</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.

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 “Ukrainian Railways” 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 2018, 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% - 12% per annum, and interest-bearing loans and borrowings denominated in Hryvnia in the amount of UAH 871,725 thousand with a fixed interest rate of 11%-18%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(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>2018</i>	<i>Interest rate</i>	<i>2017</i>
USD				
Floating rate	LIBOR 6 m + 1%-6%	2,694,048	LIBOR 6 m + 1%-6%	4,132,705
Fixed rate	9.9%-12%	26,549,292	9.9%-12%	27,507,731
		<u>29,243,340</u>		<u>31,640,436</u>
EUR				
Floating rate	EURIBOR 6m + 0.4%	1,554,639	EURIBOR 6m + 0.3%	1,172,340
		<u>1,554,639</u>		<u>1,172,340</u>
UAH				
Fixed rate	18.9%-20.75%	1,207,290	18.9%-20.75%	698,763
		<u>1,207,290</u>		<u>698,763</u>
Total interest-bearing loans and borrowings		32,005,269		33,511,539
Less: current portion		<u>(17,086,982)</u>		<u>(10,890,635)</u>
Interest-bearing loans and borrowings, non-current		<u>14,918,287</u>		<u>22,620,904</u>

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.

As at 31 December 2018 and 2017, a breach of undertakings was continuing under long-term loan agreements that the Group was not able to timely restructure for an outstanding amount of UAH 4,895,629 thousand and UAH 4,493,811 thousand, respectively. In 2017 the breach caused a cross-default under certain other borrowings. Therefore, the lenders became entitled to request accelerated repayment of interest-bearing loans and borrowings with carrying value of UAH 3,926,119 thousand as at 31 December 2017. In 2018, the cross-default was rectified as before the end of the year the lenders provided written letters waiving the right for accelerated repayment of debt and accrual of fines related to the breach. Management undertakes measures to rectify the breach and expects to rectify the breach by 31 December 2019.

As at 31 December 2018 undrawn loan facilities available to the Group were of UAH 5,361,694 thousand (2017: 6,548,251 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 under loan agreement, the undrawn loan facilities available to the Group would comprise UAH 7,218,160. As at 31 December 2018 there were no restrictions over undrawn facilities.

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

<i>Type of collateral</i>	<i>2018</i>	<i>2017</i>
Property, plant and equipment (Note 9)	221,149	239,726
Inventories (Note 12)	111,251	111,251
Proceeds from future revenue	19,692,411	18,042,411
Guarantees issued by the State of Ukraine (Note 30)	3,900,859	4,813,240

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***18. Finance lease liability**

Finance lease liability is represented by amounts due under the purchase of diesel locomotives, electric multiple unit train, equipment and car. Some of lease payments are pegged to USD; the average lease term is 7 years. As at 31 December 2018 the interest rates implicit in the lease were within the range of 12% - 21% per annum.

In February 2018, the Company signed a finance lease agreement with the Ukrainian state bank JSC "Ukreximbank" for the supply of 30 diesel locomotives manufactured General Electric Company (USA) with a maturity date until February 2026. By the end of 2018, the Group has received 15 locomotives, another 15 locomotives have been received after the reporting period (Note 33).

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.

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>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
Amounts payable under finance leases				
Within one year	493,461	654,892	286,775	605,292
After one year but not more than five years	1,302,926	129,197	782,181	116,087
More than five years	442,708	—	376,349	—
	<u>2,239,095</u>	<u>784,089</u>	<u>1,445,305</u>	<u>721,379</u>
Less amounts representing finance charges				
Present value of minimum lease payments	<u>(793,790)</u>	<u>(62,710)</u>	<u>—</u>	<u>—</u>
	<u>1,445,305</u>	<u>721,379</u>	<u>1,445,305</u>	<u>721,379</u>
Classified as:				
Current	286,775	605,292	286,775	605,292
Non-current	1,158,530	116,087	1,158,530	116,087

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 unfunded defined benefit plan.

Unfunded defined benefit plan

The Group's defined benefit obligation relates to:

	<i>2018</i>	<i>2017</i>
Post retirement and post-employment benefits under collective agreement	1,876,070	1,545,503
State plan for additional pensions for working in hazardous and unhealthy working conditions	424,852	341,522
Other long-term benefits under collective agreement	353,183	345,395
	<u>2,654,105</u>	<u>2,232,420</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

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19. Employee benefits (continued)

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

	2018	2017
At 1 January	2,232,420	2,532,957
Interest cost on benefit obligation	251,426	340,497
Current service cost	102,945	108,592
Past service cost	(25,533)	(30,175)
Benefits paid	(592,049)	(415,293)
Remeasurement gains/(losses) in other comprehensive income from:		
- changes in financial assumptions	97,145	152,148
- changes in demographic assumptions	130,758	(21,453)
- experience adjustments	429,530	35,621
Remeasurement of other long-term employee benefits obligation	27,463	(470,474)
At 31 December	2,654,105	2,232,420

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

	2018	2017
Current service cost	102,945	108,592
Interest cost on benefit obligation (Note 27)	251,426	340,497
Past service cost	(25,533)	(30,175)
Remeasurement of other long-term employee benefits obligation (Note 26)	27,463	(470,474)
	356,301	(51,560)

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:

	2018	2017
Discount rate	16.10%	15.30%
Staff turnover	7-19%	10.56%
Future benefit increase	6-11%	7.00%
Future pension increase	5-12%	5.50%

The sensitivity analysis is given in the table below:

2018	Increase/(decrease) in rate	Increase/(decrease) of defined benefit obligation
Discount rate	+1%	(125,100)
Discount rate	-1%	137,500
Future benefit increase	+1%	126,700
Future benefit increase	-1%	(116,800)
2017	Increase/(decrease) in rate	Increase/(decrease) of defined benefit obligation
Discount rate	+1%	(110,434)
Discount rate	-1%	99,871
Future benefit increase	+1%	102,358
Future benefit increase	-1%	(112,186)

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

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19. Employee benefits (continued)

For the year ending 31 December 2019, the Group expects to pay benefits related to defined benefit plans in the amount of UAH 494,314 thousand.

During the year ended 31 December 2018 the expenses from the participation in obligatory state pension program amounted to UAH 7,443,563 thousand (2017: UAH 5,524,867 thousand). The Group expects to deduct a mandatory state pension insurance in the amount of UAH 6,513,430 thousand for the year 2019.

20. Income tax

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

	2018	2017
Current income tax charge	460,664	440,475
Adjustments in respect of current income tax charges	(3,767)	8,069
Deferred income tax expense	279,726	209,000
Income tax expense	736,623	657,544

During 2018 and 2017, 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:

	2018	2017
Profit before income tax	940,477	772,093
At statutory tax rate (18%)	169,286	138,977
Tax effect of:		
Effect of reassessment of temporary differences	459,588	840,566
Change in unrecognised deferred tax assets	(80,842)	(585,240)
Other differences	188,591	263,241
Income tax expense	736,623	657,544

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(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>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
Property, plant and equipment (i)	(134,143)	(124,683)	9,460	91,379
Inventories (ii)	11,667	12,543	876	76,940
Advances from customers (iii)	–	–	–	(30,832)
Trade and other receivables (iv)	109,535	142,858	33,323	(146,092)
Trade and other payables (v)	–	–	–	6,593
Finance lease liability (vi)	–	–	–	199,310
Defined benefit liability (vii)	19,526	336,435	316,909	84,034
Interest-bearing loans and borrowings (viii)	–	–	–	512,908
	<u>6,585</u>	<u>367,153</u>	<u>360,568</u>	<u>794,240</u>
Less: unrecognised deferred tax assets	–	(80,842)	(80,842)	(585,240)
Deferred income tax expense			<u>279,726</u>	<u>209,000</u>
Deferred tax effect of actuarial gain recognised in OCI	18,055	65,401	47,346	(29,938)
Net deferred tax assets	<u>24,640</u>	<u>351,712</u>		
Reflected in the statements of financial position as follows:				
Deferred tax assets	58,745	376,484		
Deferred tax liabilities	(34,105)	(24,772)		
Deferred tax assets net	<u>24,640</u>	<u>351,712</u>		

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

20. Income tax (continued)

Reconciliation of net deferred tax assets:

	2018	2017
Opening balance as at 1 January	351,712	530,774
Tax expense recognised in profit or loss	(279,726)	(209,000)
Tax benefit/(expense) recognised in other comprehensive income	(47,346)	29,938
Closing balance 31 December	24,640	351,712

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 2018 and 2017 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

	2018	2017
Trade payables	3,850,150	3,666,007
Due to employees	2,660,467	2,396,794
Unused vacation accrual	1,176,992	1,021,695
Payables for property, plant and equipment	1,092,703	437,331
Dividends payable (Note 30)	108,195	39
Other payables	470,385	269,144
	9,358,892	7,791,010

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

22. Taxes payable, other than income tax

	2018	2017
Personal income tax payable	330,383	314,847
Land tax payable	114,532	168,454
VAT payable	50,097	107,839
Other taxes payable	64,639	65,285
	559,651	656,425

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

23. Provisions

Movement in the provisions for the year was as follows:

	2018	2017
At 1 January	1,288,789	1,220,425
Arisen during the year	521,352	100,243
Foreign exchange difference	(11,143)	28,449
Utilised	(66,728)	(60,328)
At 31 December	1,732,270	1,288,789

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 2018 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 770,174 thousand (2017: UAH 781,317 thousand).

24. Taxes, other than income tax

	2018	2017
Land tax	1,112,737	1,692,440
Other taxes	125,845	83,649
Non-recoverable VAT attributable to transit transportation	12,389	24,809
Impairment of VAT receivable	11,182	2,102
	1,262,153	1,803,000

25. Revenues

Revenue from contracts with customers for the six months ended 31 December 2018 comprised the following:

Segments	Cargo	Long-distance passenger	Suburban passenger	Auxiliary activity	All other segments	Total
Cargo revenues	67,519,803	–	–	–	–	67,519,803
Passenger revenues	–	7,818,593	650,131	–	–	8,468,724
Other revenues	–	–	–	7,292,309	121,571	7,413,880
Total revenue from contracts with customers	67,519,803	7,818,593	650,131	7,292,309	121,571	83,402,407
Timing of revenue recognition						
At a point in time	–	–	–	2,478,781	110,533	2,589,314
Over time	67,519,803	7,818,593	650,131	4,813,528	11,038	80,813,093
Total revenue from contracts with customers	67,519,803	7,818,593	650,131	7,292,309	121,571	83,402,407

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***25. Revenues (continued)**

Revenue from contracts with customers for the six months ended 31 December 2017 comprised the following:

<i>Segments</i>	<i>Cargo</i>	<i>Long-distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Total</i>
Cargo revenues	60,112,590	–	–	–	–	60,112,590
Passenger revenues	–	6,728,375	590,167	–	–	7,318,542
Other revenues	–	–	–	6,498,480	8,539	6,507,019
Total revenue from contracts with customers	60,112,590	6,728,375	590,167	6,498,480	8,539	73,938,151
Timing of revenue recognition						
At a point in time	–	–	–	2,124,095	8,539	2,132,634
Over time	60,112,590	6,728,375	590,167	4,374,385	–	71,805,517
Total revenue from contracts with customers	60,112,590	6,728,375	590,167	6,498,480	8,539	73,938,151

26. Other income

Other income included income from reversal of accrual for bonuses in the amount of UAH 59,777 thousand and UAH 663,393 thousand for 2018 and 2017, respectively. The reversal related to the portion of accrual for bonuses created as at the end of the previous reporting period that was not realised in the current reporting period due to change in estimates regarding the actual amount of the bonuses.

Other income also included income from remeasurement of other long-term employee benefits obligation of UAH 31,045 thousand and UAH 470,474 thousand (Note 19), as well as gain from the sale of scrap metal of UAH 31,607 thousand and UAH 177,810 thousand for 2018 and 2017, respectively.

27. Finance income and finance costs

	<i>2018</i>	<i>2017</i>
Interest expense on loans and borrowings	(3,160,564)	(3,361,127)
Finance lease charges	(51,641)	(106,990)
Interest cost on defined benefit obligation (Note 19)	(251,426)	(340,497)
Other finance costs	–	(2,289)
Total finance costs	(3,463,631)	(3,810,903)
Interest income	197,109	548,968
Other finance income	5,515	5,831
Total finance income	202,624	554,799
Net finance costs	(3,261,007)	(3,256,104)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***28. Foreign exchange gain/(loss), net**

Foreign exchange gains and losses arisen on the following items:

	<u>2018</u>	<u>2017</u>
Gains		
Cash and cash equivalents	–	35,630
Interest-bearing loans and borrowings	542,388	–
Finance lease liability	11,629	–
Provision	11,143	–
	<u>565,160</u>	<u>35,630</u>
Losses		
Interest-bearing loans and borrowings	–	(1,092,752)
Finance lease liability	–	(10,181)
Trade and other payables	(13,791)	(34,983)
Net loss on sale/purchase of foreign currencies	(6,322)	(8,889)
Cash and cash equivalents	(6,227)	–
Provision	–	(28,449)
	<u>(26,340)</u>	<u>(1,175,254)</u>
Foreign exchange gain/(loss), net	<u>538,820</u>	<u>(1,139,624)</u>

29. 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 2018, 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 1,705,099 thousand (2017: UAH 2,860,911 thousand). As at 31 December 2018 the Group's possible exposure to the ascertained third parties' claims was UAH 1,649,675 thousand (2017: UAH 752,968 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 2018 the Group's outstanding commitment in respect of purchase of property and equipment and inventories amounted to UAH 4,722,655 thousand (2017: UAH 3,701,998 thousand).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***30. Related party disclosure**

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

	2018	2017
Balances at 31 December		
Prepayments for property, plant and equipment	5	2,712
Trade and other receivables	196,335	24,977
Prepayments, other than dividends	20,522	140,119
Cash and cash equivalents	1,182,968	5,080,382
Trade and other payables, other than dividends	93,074	8,501
Advances received	15,579	31,166
Interest-bearing loans and borrowings and finance lease liability	2,362,019	574,780
Transactions during the year		
Cargo revenues	1,552,808	641,304
Electricity	8,895,330	7,662,452
Maintenance	110,890	192,679
Finance income	29,768	544,368
Finance costs	26,215	215,694
Other expenses	404,433	54,382

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.

Guarantees issued by the State of Ukraine

As at 31 December 2018 the Group's interest bearing loans with carrying value of UAH 3,900,859 thousand (2017: UAH 4,813,240 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 “Ukrainian Railways” comprising 7 members and the Supervisory Board comprising 7 members as at 31 December 2018.

For 2018 and 2017, total compensation to the Management Board mostly included payroll, payroll related taxes and bonuses amounted to UAH 39,654 thousand and UAH 36,608 thousand, respectively. For 2018 total compensation to the members of the Supervisory Board was UAH 19,141 thousand. The members of the Supervisory Board were not entitled to compensation in 2017.

Dividends

As at 31 December 2018 dividends payable to the State in the amount of UAH 108,195 thousand were included in trade and other payables (2017: UAH 39 thousand) (Note 21). Dividends for the year ended 31 December 2018 were accrued in amount of UAH 153,417 thousand (2017: UAH 6,315 thousand).

Compensation for transportation of preferential passengers

The state budget and local budgets should compensate the Group for transportation of certain categories of preferential passengers. The compensation in the amount of UAH 92,904 thousand and UAH 75,005 thousand for 2018 and 2017, respectively, were included in passenger revenues.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***31. 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>2018</i>	<i>2017</i>	<i>2018</i>	<i>2017</i>
Financial assets				
Trade and other receivables	1,002,401	879,122	1,002,401	879,122
Other financial assets	91,247	93,247	91,247	93,247
Cash and cash equivalents	1,251,826	5,188,988	1,251,826	5,188,988
Financial liabilities				
Interest-bearing loans and borrowings	31,271,041	33,884,246	32,005,269	33,511,539
Finance lease liability	1,427,632	721,379	1,445,305	721,379
Trade and other payables	9,351,190	7,791,010	9,358,892	7,791,010

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>2018</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	–	–	1,002,401	1,002,401
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	13,585,386	–	17,685,655	31,271,041
Finance lease liability	–	–	1,427,632	1,427,632
Trade and other payables	–	–	9,358,892	9,358,892
<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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

31. Fair value of financial instruments (continued)

Changes in liabilities arising from financing activities

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 2018 and 2017 years.

Changes in liabilities arising from financing activities as at 31 December 2018 and 2017 as follows:

	<i>1 January 2018</i>	<i>Cash flows</i>	<i>Foreign exchange movements</i>	<i>New lease liabilities</i>	<i>Other</i>	<i>Segregation of liabilities of uncontrolled territories (Note 2)</i>	<i>31 December 2018</i>
Current interest-bearing bank loans	10,890,635	(1,830,443)	(17,049)	–	8,043,839	–	17,086,982
Current obligation under finance lease contracts	605,292	(338,712)	(406)	–	269,093	(248,492)	286,775
Non-current interest-bearing bank loans	22,620,904	450,474	(525,339)	–	(7,627,752)	–	14,918,287
Non-current obligation under finance lease contracts	116,087	–	(11,223)	1,317,952	(264,286)	–	1,158,530
Dividends	39	(45,044)	–	–	153,200	–	108,195
Total liabilities arising from financing activities	34,232,957	(1,763,725)	(554,017)	1,317,952	574,094	(248,492)	33,558,769

	<i>1 January 2017</i>	<i>Cash flows</i>	<i>Foreign exchange movements</i>	<i>Other</i>	<i>Segregation of 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
Total liabilities arising from financing activities	42,158,399	(4,820,129)	1,102,933	70,216	(4,278,462)	34,232,957

The “Other” column includes the effect of reclassification of non-current portion of interest-bearing loans and borrowings, including obligations under finance leases to current due to the passage of time 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 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

32. 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 2018 and 2017 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 2018						
Interest bearing loans and borrowings	6,741,605	12,311,026	14,538,375	1,563,734	(3,149,471)	32,005,269
Finance lease liability	81,492	411,969	1,302,926	442,708	(793,790)	1,445,305
Trade and other payables	9,036,539	322,353	—	—	—	9,358,892
	<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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the year ended 31 December 2018

(in thousands of Ukrainian hryvnia, unless otherwise indicated)

32. 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:

	USD	EUR	CHF	10 RUB
31-Dec-17	28.0672	33.4954	28.6188	4.8703
Average for 2017	26.6016	30.0283	27.0093	4.5608
31-Dec-18	27.6883	31.7141	28.2481	3.9827
Average for 2018	27.2016	32.1341	27.8222	4.3545
15-Apr-19	26.7139	30.2428	26.7021	4.1406

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).

	Weakening “+”/ strengthening “-” of the exchange rate	Increase/(decrease) of the profit before tax	Increase/(decrease) of the equity
31-Dec-18			
UAH/USD	+6.00%	(1,791,701)	(1,791,701)
UAH/USD	-6.00%	1,791,701	1,791,701
UAH/CHF	+6.00%	(7,316)	(7,316)
UAH/CHF	-6.00%	7,316	7,316
UAH/EUR	+8.00%	(116,308)	(116,308)
UAH/EUR	-8.00%	116,308	116,308
31 December 2017			
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)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the year ended 31 December 2018***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***32. 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 2018 and 2017 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 2018 and 2017, 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 2018</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	+0.50%	(13,386)	(13,386)
LIBOR	-0.15%	4,016	4,016
EURIBOR	+0.20%	(3,108)	(3,108)
EURIBOR	-0.01%	155	155
<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

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 2018***(in thousands of Ukrainian hryvnia, unless otherwise indicated)***32. Financial risk management policies and objectives (continued)**

The structure of capital managed is presented below:

	<u>2018</u>	<u>2017</u>
Interest-bearing loans and borrowings	32,005,269	33,511,539
Finance lease liability	<u>1,445,305</u>	<u>721,379</u>
	33,450,574	34,232,918
Cash and term deposits	<u>(1,251,826)</u>	<u>(5,188,988)</u>
Net debt	<u>32,198,748</u>	<u>29,043,930</u>
Total equity	<u>210,117,926</u>	<u>210,776,978</u>
Total capital	<u><u>242,316,674</u></u>	<u><u>239,820,908</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.

33. Events after the reporting period

In early 2019, the Group received 15 diesel locomotives manufactured by General Electric Company (USA) under a financial leasing agreement concluded with the Ukrainian state bank JSC “Ukreximbank” (Note 18). Thus, at the date of authorization for issue of these consolidated financial statements, the Group received all of 30 locomotives under the lease agreement.

In March 2019, the Group repaid timely and in full the first portion in the amount of USD 150 million of outstanding principal amount of Eurobonds together with the related coupon payment. Loan resources for refinancing of liabilities were attracted with the support of the Government, in the domestic market from a state-owned bank and the State Agency for Infrastructure Projects of Ukraine (Ukrinfraproekt).

In 2019, at the initiative of management, the Government of Ukraine approved the increase in the regulated tariffs for rail cargo transportation by 14.2% starting from 30 March 2019 that corresponds to the producer price index for 2018.

Supplementary financial information

CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)
as at 31 December 2018

Entity: JSC "Ukrainian Railways"

Location: Ukraine

Ownership: Joint Stock Company

Type of activity: Freight railroad transport

Average quantity of employees: 266,345

Address, telephone: 03150, Kyiv, Jerzy Giedroyc St., phone 465-05-52

Date (year month date)

Per EDRPOU

Per KOATUU

Per KOPFG

Per KVED

2018 | 12 | 31

40075815

8038200000

230

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 2017	As at 31 December 2018
1	2	3	4
I. Non-current assets			
Intangible assets:	1000	45,809,551	45,837,219
historical cost	1001	45,966,150	46,036,803
accumulated amortization	1002	156,599	199,584
Capital investments in progress	1005	7,065,043	7,121,243
Property, plant and equipment:	1010	182,867,268	184,742,767
historical cost	1011	447,634,905	462,883,950
accumulated depreciation	1012	264,767,637	278,141,183
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	632,366	691,759
other financial investments	1035	73,546	73,546
Non-current receivables	1040	19,691	17,701
Deferred tax assets	1045	376,484	58,745
Other non-current assets	1090	12,234,801	14,947,486
Total section I	1095	249,078,750	253,490,466
II. Current assets			
Inventories:	1100	8,417,920	8,881,521
production inventories	1101	7,522,255	8,047,863
work in progress	1102	253,564	314,872
finished goods	1103	629,925	507,344
Commodities	1104	12,176	11,442
Current biological assets	1110	–	10
Accounts receivable for goods, works and services	1125	461,606	527,476
Accounts receivable on settlements:			
on prepayments made	1130	203,999	136,842
with budget	1135	230,980	164,482
including income tax	1136	215,737	12,280
Accounts receivable on intercompany settlements	1145	–	–
Other current accounts receivable	1155	398,082	453,269
Current financial investments	1160	–	–
Cash and cash equivalents:	1165	5,188,988	1,251,826
cash in hand	1166	812	721
cash at banks	1167	5,136,880	1,193,931
Deferred expenses	1170	18,985	21,156
Other current assets	1190	445,353	581,419
Total section II	1195	15,365,913	12,018,001
III. Assets classified as held for distribution	1200	–	–
Balance	1300	264,444,663	265,508,467

Supplementary financial information

Liabilities and equity 1	Line code 2	As at 31 December 2017 3	As at 31 December 2018 4
I. Equity			
Share capital	1400	229,879,115	229,879,115
Capital in revaluation	1405	–	–
Additional capital	1410	18,899,383	18,894,521
Reserve fund	1415	–	–
Retained earnings (accumulated deficit)	1420	(38,006,503)	(38,660,688)
Unpaid capital	1425	–	–
Treasury shares	1430	–	–
Non-controlling interests	1490	4,983	4,978
Total section I	1495	210,776,978	210,117,926
II. Non-current liabilities and provisions			
Deferred tax liabilities	1500	24,772	34,105
Non-current bank loans	1510	8,445,213	9,310,210
Other non-current liabilities	1515	19,270,500	11,978,749
Other non-current provisions	1520	2,232,420	2,654,105
Non-current provisions for staff expenses	1521	2,232,420	2,654,105
Special purpose financing	1525	11,409	12,392
Total section II	1595	29,984,314	23,989,561
III. Current liabilities and provisions			
Short-term bank loans	1600	–	–
Current liabilities for:			
current portion of non-current liabilities	1610	10,749,315	16,197,406
for goods, works and services	1615	4,103,338	4,942,853
with budget	1620	641,015	612,481
with Income tax	1621	630	68,773
social insurance	1625	364,457	411,108
wages	1630	1,361,350	1,538,144
Current liabilities on advances received	1635	2,433,130	2,324,462
Current payables to settlements with participants	1640	39	108,194
Current liabilities on intercompany settlements	1645	–	–
Other provisions	1660	2,982,525	3,641,450
Deferred income	1665	26,517	43,437
Other current liabilities	1690	1,021,685	1,581,445
Total section III	1695	23,683,371	31,400,980
IV. Liabilities directly associated with the assets classified as held for distribution	1700	–	–
Balance	1900	264,444,663	265,508,467

Supplementary financial information

Entity: JSC "Ukrainian Railways"

Date (year, month, date)
per EDRPOU

CODE		
2018	12	31
40075815		

**CONSOLIDATED STATEMENT OF FINANCIAL RESULTS
(STATEMENT OF COMPREHENSIVE INCOME)
FOR THE YEAR ENDED 31 DECEMBER 2018**

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	83,402,407	73,938,151
Cost of goods (merchandise, works, services) sold	2050	(77,104,073)	(67,346,681)
Gross:			
Profit	2090	6,298,334	6,591,470
Loss	2095	–	–
Other operating income	2120	1,763,151	2,350,232
Administrative expenses	2130	(780,854)	(1,238,058)
Selling expenses	2150	(135,351)	(170,467)
Other operating expenses	2180	(2,970,468)	(3,275,064)
Financial results from operating activities:			
Profit	2190	4,174,812	4,258,113
Loss	2195	–	–
Income from investments accounted for under the equity method	2200	74,596	14
Other finance income	2220	202,624	554,799
Other income	2240	134,737	100,221
Finance costs	2250	(3,463,631)	(3,810,903)
Losses from investments accounted for under the equity method	2255	(15,203)	(166,794)
Other expenses	2270	(167,458)	(163,357)
Financial results before taxation:			
Profit	2290	940,477	772,093
Loss	2295	–	–
Income tax expense	2300	(736,623)	(657,544)
Income (loss) from discontinued operations after tax	2305	–	–
Net financial result:			
Profit	2350	203,854	114,549
Loss	2355	–	–

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 loss of associates and joint ventures	2415	–	(55,411)
Other comprehensive loss	2445	(657,433)	(166,316)
Other comprehensive loss before tax	2450	(657,433)	(221,727)
Income tax related to other comprehensive income	2455	(47,346)	29,938
Other comprehensive loss after tax	2460	(704,779)	(191,789)
Comprehensive loss (sum lines 2350, 2355 and 2460)	2465	(500,925)	(77,240)
Net financial result attributable to:			
Equity holder of the parent	2470	203,766	114,424
Non-controlling interests	2475	88	125
Comprehensive (loss)/income attributable to:			
Equity holder of the parent	2480	(501,013)	(77,365)
Non-controlling interests	2485	88	125

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	23,320,934	20,544,286
Labour costs	2505	33,327,930	26,481,950
Social security charges	2510	7,145,861	5,492,045
Depreciation and amortization	2515	12,382,210	14,662,305
Other operating expenses	2520	3,322,661	3,730,329
Total	2550	79,499,596	70,910,915

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	229,879,115
Adjusted annual average number of ordinary shares	2605	229,879,115	229,879,115
Net income per ordinary share	2610	0,89	0,50
Adjusted net income per ordinary share	2615	0,89	0,50
Dividends per ordinary share	2650	–	–

Supplementary financial information

Entity: JSC "Ukrainian Railways"

Date (year, month, date)
per EDRPOU

CODE		
2018	12	31
40075815		

CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method) FOR THE YEAR ENDED 31 DECEMBER 2018

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	940,477	—	772,093	—
Corrections on:					
depreciation of fixed assets	3505	12,382,210	—	14,662,305	—
increase (decrease) in provisions	3510	—	138,774	166,316	—
loss (profit) on unrealized exchange differences	3515	—	536,922	1,123,439	—
loss (profit) from non-operating activities and other non-cash transactions	3520	44,135	—	—	105,175
Financial expenses	3540	3,261,007	—	3,256,104	—
Decrease (increase) in current assets	3550	—	812,012	—	2,886,781
increase (decrease) in inventories	3551	—	469,438	—	2,573,187
decrease (increase) in accounts receivable for products, goods, works, services	3553	—	68,969	—	16,267
decrease (increase) in other current receivables	3554	—	131,397	—	57,118
decrease (increase) in deferred expenses	3556	—	5,062	—	3,673
decrease (increase) in other current assets	3557	—	137,146	—	236,536
Increase (decrease) in current liabilities, including:	3560	539,434	—	704,605	—
increase (decrease) in current accounts payable for goods and services	3561	304,004	—	598,628	—
increase (decrease) in current budget settlements	3562	—	73,035	167,949	—
increase (decrease) in current insurance settlements	3563	47,395	—	119,186	—
increase (decrease) in current salary settlements	3564	176,432	—	—	18,351
increase (decrease) in deferred income	3566	16,920	—	—	2,141
Increase (decrease) in other current payables	3567	67,718	—	—	160,666
Cash from operating activities	3570	15,679,555	—	17,692,906	—
Income tax paid	3580	—	199,813	—	360,359
Borrowings interest paid	3585	—	—	—	—
Net cash flow from operating activities	3195	15,479,742	—	17,332,547	—
II. Cash flows from investing activities					
Proceeds from sale of:					
financial investments	3200	—	—	—	—
Fixed assets	3205	—	—	—	—
Proceeds from received:					
interests	3215	—	—	—	—
dividends	3220	—	—	7,988	—
proceeds from derivatives	3225	—	—	—	—
other proceeds	3250	197,109	—	548,968	—
Payments on acquisition:					
financial investments	3255	—	—	—	—
fixed assets	3260	—	5,067,556	—	5,295,424
payments for derivatives	3270	—	—	—	—
other payments	3290	—	9,966,381	—	5,577,030
Net cash flows from investing activities	3295	—	14,836,828	—	10,315,498
III. Cash flows from financing activities					
Proceeds from share capital	3300	—	—	—	—
Proceeds from borrowings	3305	18,070,474	—	—	—
Other proceeds	3340	—	—	—	—
Payments for:					
own securities	3345	—	—	—	—
repayment of borrowings	3350	—	19,450,443	—	4,438,312
dividends paid	3355	—	45,044	—	6,513
Borrowings interest paid	3360	—	2,567,302	—	3,141,113
Finance lease interests paid	3365	—	385,858	—	488,107
Other payments	3390	—	200,005	—	189,947
Net cash flows from financing activities	3395	—	4,578,178	—	8,263,992
Net (decrease)/increase in cash and cash equivalents	3400	—	3,935,264	—	1,246,943
Cash balance at the beginning of the year	3405	5,188,988	—	6,419,746	—
Net foreign exchange difference	3410	—	1,898	16,185	—
Cash balance at the end of the year	3415	1,251,826	—	5,188,988	—

Entity: JSC "Ukrainian Railways"

Date (year, month, date)
per EDRPOU

CODE		
2018	12	31
40075815		

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31 DECEMBER 2018**

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	–	18,899,383	–	(38,006,503)	–	–	210,771,995	4,983	210,776,978
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	–	18,899,383	–	(38,006,503)	–	–	210,771,995	4,983	210,776,978
Net profit (loss) for the reporting period	4100	–	–	–	–	203,766	–	–	203,766	88	203,854
Other comprehensive income for the current period including:	4110	–	–	–	–	(704,779)	–	–	(704,779)	–	(704,779)
Revaluation (disposal) of fixed assets	4111	–	–	–	–	–	–	–	–	–	–
Other comprehensive income	4116	–	–	–	–	(704,779)	–	–	(704,779)	–	(704,779)
Distribution of profit:											
Payments to shareholders (dividends)	4200	–	–	–	–	(153,417)	–	–	(153,417)	(93)	(153,510)
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	–	–	–	–	–	–	–	–	–	–
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	–	–	(4,862)	–	245	–	–	(4,617)	–	(4,617)
Total changes in equity	4295	–	–	(4,862)	–	(654,185)	–	–	(659,047)	(5)	(659,052)
Balance at the end of the period	4300	229,879,115	–	18,894,521	–	(38,660,688)	–	–	210,112,948	4,978	210,117,926