BRUNSWICK RAIL LIMITED
FULL YEAR 2016 RESULTS
MANAGEMENT DISCUSSION AND ANALYSIS
April 28th, 2017

Management's discussion and analysis of financial conditions and results of operations is based on the audited consolidated financial statements of Brunswick Rail Limited ("the Company") and its subsidiaries (together "the Group") prepared in accordance with International Financial Reporting Standards ("IFRS").

Financial Highlights

- Gross revenue in 2016 declined by 10.8%, from US$ 133.5m in 2015 to US$ 119.0m in 2016
- Adjusted EBITDA increased by 1.9%, from US$ 80.4m in 2015 to US$ 82.0m in 2016
- Adjusted EBITDA margin increased to 68.9% in 2016 from 60.2% in 2015
- Reversal of impairment losses on tangible assets in the amount of US$ 44.7m was accounted for in 2016
- Net profit in 2016 amounted to US$ 124.3m compared to a net loss of US$ 299.2m in 2015
- Net cash from operating activities in 2016 was US$ 90.0m compared to US$ 81.6m in 2015
- Capital expenditures in 2016 amounted to US$ 5.4m, which related primarily to railcar maintenance
- In January 2016, the financing for RUB 3.9 bln (including VAT) was obtained through Alfa-Leasing LLC sale and leaseback facilities and the syndicated facility for ca. RUB 4.0 bln was repaid in full.

Operational Highlights

- The total fleet as of 31 December 2016 stood at 25,713 railcars, including 98 railcars subject to finance leases
- During the year the Group took delivery of 250 railcars as part of in-kind settlement of outstanding receivables from clients. At the same time, 20 railcars were sold, 2 damaged railcars were written off and 271 railcars were scrapped as they approached the end of their useful lives
- The share of gondolas in the Group's portfolio as of 31 December 2016 was 57%, almost unchanged from the position as of 31 December 2015
- The fleet utilization rate remained at 100%
- Average remaining lease tenor is around 1.6 years (31 December 2015: 2.0 years); average fleet age is 7.1 years (31 December 2015: 6.4 years), still one of the youngest fleets in the market.

Other Developments

Negotiations with an ad hoc committee of holders of the US$600,000,000 6.5% Guaranteed Notes due November 2017 (the "Notes"), which represent approximately 50% of the Notes, took place in 2016 but no agreement was reached on the terms of a restructuring of the Notes.

On 19 April 2017, the Company was informed that Amalgam Rail Investment Ltd. had acquired 100% of the Company's issued share capital. The Company believes that a change of control has occurred under the terms of the trust deed dated 1st November 2012.

The Company is continuing to pursue a restructuring of its Notes. If the Company is ultimately unable to reach agreement with the holders of the Notes for a restructuring, it will be required to consider alternatives to a voluntary restructuring, including the option of initiating a liquidation process.

About Brunswick Rail:

Brunswick Rail is a private railcar operating lessor providing freight railcars to large corporate clients in Russia. Established in 2004, Brunswick Rail currently owns a fleet of ca. 25.7 thousand railcars (as of 31 December 2016), which represents approximately 2% of the total Russian railcar fleet. For the year ended 31 December 2016, the Group generated gross revenue of US$ 119m and Adjusted EBITDA of US$ 82m.

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Forward-Looking Statements

The Management Discussion and Analysis may contain forward-looking statements regarding future events or the future financial performance of Brunswick Rail (the “Company”). You can identify forward looking statements by terms such as “expect”, “believe”, “estimate”, “anticipate”, “intend”, “will”, “could”, “may”, or “might”, the negative of such terms or other similar expressions. These forward-looking statements include matters that are not historical facts and statements regarding the Company’s intentions, beliefs or current expectations concerning, among other things, the Company’s results of operations, financial condition, liquidity, prospects, growth, strategies, and the industry in which the Company operates. By their nature, forward-looking statements involve risks and uncertainties, because they relate to events and depend on circumstances that may or may not occur in the future. The Company cautions you that forward-looking statements are not guarantees of future performance and that the Company’s actual results of operations, financial condition, liquidity, prospects, growth, strategies and the development of the industry in which the Company operates may differ materially from those described in or suggested by the forward-looking statements contained herein. In addition, even if the Company’s results of operations, financial condition, liquidity, prospects, growth, strategies and the development of the industry in which the Company operates are consistent with the forward-looking statements contained herein, those results or developments may not be indicative of results or developments in future periods. The Company does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in forward-looking statements of the Company, including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia, market change in the Russian freight rail market, as well as many other risks specifically related to the Company and its operations, including those discussed herein.

Financial results – IFRS financial measures

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency") which is the Russian Rouble ("RUB"). The Group's consolidated financial statements are presented in US Dollar ("US$") which is the Group's presentation currency.

The results and financial position of the Group's entities have been translated from functional currency into presentation currency at rates established by the Central Bank of the Russian Federation. The closing rates used are the exchange rates, effective at each balance sheet date. For income and expenses the transactions are being recalculated into US$, using the average monthly rate of exchange. The exchange rates effective at 31 December 2016 and 2015 were RUB 60.66 for US$ 1 and RUB 72.88 for US$ 1 respectively. The annual average exchange rates for the years 2016 and 2015 were RUB 67.03 for US$ 1 and RUB 60.96 for US$ 1 respectively.

Consolidated income statement

The following table sets forth each of the Group's consolidated income statement line items for the year ended 31 December 2016 and 2015:

	2016	2015
	(in US$ thousand)	
Revenue	**119,049**	**133,534**
Cost of services	(21,447)	(22,078)
Property tax	(5,643)	(8,327)
Staff compensation, excluding share-based compensation	(7,487)	(8,817)
Other operating expenses	(6,133)	(15,989)
Other operating income	1,498	849
Operating profit before depreciation and reversal of impairment losses/ (impairment losses) on railcars	**79,837**	**79,172**
Share-based compensation	-	(263)
Reversal of impairment losses/(impairment losses) on railcars	44,711	(165,043)
Depreciation and amortisation	(21,013)	(35,521)
Operating profit / (loss)	**103,535**	**(121,655)**
Finance costs	(65,737)	(68,644)
Expenses related to finance restructuring	(10,273)	-
Finance income	4,503	5,714
Revaluation gains of embedded derivatives on mezzanine	-	300
Net foreign exchange gains/(losses)	123,867	(173,990)
Profit/(loss) before income tax	**155,895**	**(358,275)**
Income tax (expense) /credit	(31,549)	59,101
Profit/ (loss) for the year	**124,346**	**(299,174)**

Revenue

The following table sets forth the breakdown of the Group's total revenue for the year ended 31 December 2016 and 2015:

	2016	2015
	(in US$ thousand)	
Full service operating leases	73,606	83,430
Triple-net operating leases	23,027	28,500
Operating lease income	**96,633**	**111,930**
Transportation services income	21,613	20,540
Finance leases	803	1,064
Gross revenue	**119,049**	**133,534**

The total fleet of the Group as at 31 December 2016 stood at 25,713 railcars. During 2016 the Group took delivery of 250 railcars (including 108 gondolas, 69 oil tanks, 57 mineral hoppers, 10 grain hoppers and 6 cement hoppers) as part of in-kind settlement of outstanding receivables from clients. In addition 271 old gondolas were scrapped, as they have approached their useful lives, 20 platforms were sold and 2 damaged gondolas were retired from service, following the receipt of insurance proceeds. During the year 2,460 railcars were transferred from the transportation business to operating leases. As of 31 December 2016, the transportation business deployed 2,168 railcars.

During 2016, the railcar leasing market environment has shown signs of improvement and stabilization. Starting in the second quarter, the spot rates for gondolas improved from ca. 500 RUB/day to ca. 850 RUB/day at the end of the year. The rates for certain specialized railcars, such as oil tanks and gas tanks, however, remained severely depressed.

The Group’s contracts denominated in US$ represented 27 percent of total revenues during the year. US$-denominated revenues continue to decrease over time and the Group’s revenues are almost 100 percent denominated in RUB at the end of Q1 2017.

Operating lease income decreased by US$ 15,297 thousand, or 13.7%, from US$ 111,930 thousand in 2015 to US$ 96,633 thousand in 2016. Revenue from full service operating leases decreased by US$ 9,824 thousand, or 11.8%, from US$ 83,430 thousand in 2015 to US$ 73,606 thousand in 2016. Revenue from triple-net operating leases decreased by US$ 5,473 thousand, or 19.2%, from US$ 28,500 thousand in 2015 to US$ 23,027 thousand in 2016.

The decrease in both full service and triple-net operating leases is primarily driven by the higher average exchange rate of US$ to RUB for the year (RUB 67.03 for US$ 1 compared to RUB 60.96 for US$ 1 in 2015). In addition to that, the operating lease revenue in RUB terms decreased due to leasing of railcars (upon expiry or termination of the existing operating lease) at lower spot rates denominated in RUB.

Transportation services income increased by US$ 1,073 thousand, or 5.2%, from US$ 20,540 thousand in 2015 to US$ 21,613 thousand in 2016. The higher transportation services income in RUB terms, is primarily attributable to the higher average gross transportation rates earned during the year, despite the lower weighted average number of railcars deployed in transportation business compared to 2015 (2016: 3,379 railcars at gross rate of RUB 1,170/day vs 2015: 4,526 railcars at gross rate of RUB 764/day; the equivalent rates net of transportation expenses were 2016: RUB 683/day vs 2015: RUB 419/day). The increase of the rates substantially outweighed the impact of gross currency exchange differences due to the higher yearly average exchange rate of US$ to RUB compared to 2015.

Cost of services

The following table sets forth the breakdown of the Group's cost of services for the year ended 31 December 2016 and 2015:

	2016	2015
	(in US$ thousand)	
Railcar repair costs	10,577	10,223
Other transportation services expenses	8,816	9,278
Other railcar expenses	1,760	2,298
Railcar insurance	197	268
Transportation services subcontracted	97	11
Total cost of services	**21,447**	**22,078**

(i) Railcar repair costs

Railcar repair costs increased by US$ 354 thousand, or 3.5%, from US$ 10,223 thousand in 2015 to US$ 10,577 thousand in 2016. The overall higher railcar repair costs are attributable to a ca. 4% increase in the total number of depot, capital and current repairs which took place during the year (15,094 in 2016 vs 14,534 in 2015), as well as an increase in average railcar repair costs in RUB terms of ca. 6.9% compared to the corresponding period last year. The increase in railcar repair costs was partially offset by the impact of currency exchange differences due to the higher yearly average exchange rate of US$ to RUB compared to 2015.

(ii) Other transportation services expenses

Other transportation expenses decreased by US$ 462 thousand, or 5%, from US$ 9,278 thousand in 2015 to US$ 8,816 thousand in 2016. The decrease relates primarily to the impact of currency exchange differences due to the higher yearly average exchange rate of US$ to RUB compared to 2015. The decrease was partially offset by non-refundable VAT on transportation commenced and completed outside of Russia.

(iii) Other railcar expenses

Other railcar expenses in 2016 amounted to US$1,760 thousand compared to US$ 2,298 thousand in 2015. The decrease of US$ 538 thousand was primarily attributable to lower transportation costs incurred during the year (remarketing of railcars and moving railcars to and from the clients), lower railcar cleaning services and the impact of currency exchange differences due to the higher yearly average exchange rate of US$ to RUB compared to 2015. This was partially offset by higher railcar monitoring costs for access to RZD database where RZD increased prices during the year.

Property tax

Property tax decreased by US$ 2,684 thousand, or 32.2%, from US$ 8,327 thousand in 2015 to US$ 5,643 thousand in 2016.

The decrease in property tax is attributable to lower net book value of the assets in 2016 compared to 2015 and also savings achieved on the 6,098 railcars that formed part of the sale and leaseback transaction with Alfa-leasing in January 2016, as these are excluded from the tax base in calculating property tax for the year.

Staff compensation, excluding share-based compensation

Staff compensation decreased by US$ 1,330 thousand, or 15.1%, from US$ 8,817 thousand in 2015 to US$ 7,487 thousand in 2016. The decrease relates to: (i) the impact of currency exchange differences due to the higher yearly average exchange rate of US$ to RUB compared to 2015 and (ii) lower severance costs recognised in 2016 compared to 2015.

Other operating expenses

Other operating expenses decreased by US$ 9,856 thousand, or 61.6%, from US$ 15,989 thousand in 2015 to US$ 6,133 thousand in 2016. The decrease relates primarily to: (i) provision for bad debts, (ii) the impact of currency exchange differences due to the higher yearly average exchange rate of US$ to RUB compared to 2015, (iii) legal and other professional fees, including costs associated with syndicated loan refinancing, (iv) fees associated with forensic review and sanctions related matters, (v) rent and related expenses, reflecting implementation of cost efficiency programs and (vi) director fees and expenses.

During 2016, the railcar leasing market environment has shown signs of improvement and stabilization; together with the stabilization of the market, clients' payment discipline substantially improved and certain doubtful receivables were collected, following Management's successful negotiations and signing of settlement agreements.

The provision for bad debts, in an amount of US$ 1,118 thousand recognised in the consolidated income statement in 2016 included (i) a reversal of bad debts provision in the amount of US$ 1,094 thousand, resulting from partial recovery of a client's receivables which were fully provided for in prior years, (ii) a provision in the amount of US$ 1,650 thousand in relation to the outstanding recourse loan receivable granted to former management as at 31 December 2016 and (iii) provisions on client outstanding receivables, in the total amount of US$ 562 thousand. The provision for bad debts in 2015 amounted to US$ 9,207 thousand.

Other operating income

Other operating income increased by US$ 649 thousand, or 76.4%, from US$ 849 thousand in 2015 to US$ 1,498 thousand in 2016.

The increase relates primarily to a settlement agreement signed with a client pursuant to which, the client assumed certain penalties and fines. As a result, the amount of US$883 thousand was recognized in the consolidated income statement under 'other operating income'. This was partially offset by lower gains on disposal of spare parts and obsolete railcars sold for scrap, in 2016 compared to 2015.

Reversal of impairment losses on railcars

During 2016, the railcar leasing market environment has shown signs of improvement and stabilization. As a result of the equipment review for impairment or possible reversals of impairment as at 31 December 2016, the Group has identified certain factors that supported the recovery of the lease rates for gondolas. The Group believes that the trends identified for gondolas are sustainable and indicative of longer-term changes in the market. At the same time, the Group has identified a number of factors that have negatively affected and decreased the recoverable amount for the oil and gas tank cars during the reporting period.

As a result of the review, a net reversal of impairment losses in an amount of US$ 44,711 thousand was recorded in profit or loss in 2016, as opposed to impairment losses on railcars in the amount of US$ 165,043 thousand recognised in 2015.

Depreciation and amortisation

Depreciation decreased by US$ 14,508 thousand, or 40.8%, from US$ 35,521 thousand in 2015 to US$ 21,013 thousand in 2016. The decrease is primarily explained by the decrease in the net book value of equipment at 31 December 2015, as a result of impairment losses on railcars in the amount of US$ 165,043 thousand recognised in profit or loss.

Finance costs

Finance costs in 2016 amounted to US$ 65,737 thousand, lower than the finance costs of US$ 68,644 thousand recorded in 2015.

The decrease in 2016 interest expense relates primarily to: (i) the lower interest expense attributable to the lower amount of RUB denominated borrowings compared to 2015, (ii) the gradually decreasing principal on Alfa facility and (iii) to a lesser extent, the impact of currency exchange differences due to the higher yearly average exchange rate of US$ to RUB compared to 2015.

Finance income

Finance income in 2016 amounted to US$ 4,503 thousand, lower than the finance income of US$ 5,714 thousand recorded in 2015. The decrease relates primarily to the fact that no fair value gains on interest rate swaps (cash flow hedge) were recorded in 2016, compared to US$ 1,097 thousand transferred from other comprehensive income to profit or loss in 2015 when the Group was managing its interest rate exposure on the syndicated loan through the use of interest rate swaps. At the same time, interest income earned on RUB deposits in 2016 increased, as a result of higher cash balances placed on deposit during the year.

Net foreign exchange gains

As a result of the RUB appreciation against the US$ during the year ended 31 December 2016, net foreign exchange gains in the amount of US$ 123,867 thousand were recognized in 2016, mostly attributable to the US$-denominated borrowings; net foreign exchange losses in the amount of US$ 173,990 thousand were recognized in 2015, as a result of the RUB depreciation against the US$.

Profit before income tax

The Group’s profit before income tax for 2016 of US$ 155,895 thousand is mainly attributable to positive operational results, the foreign exchange gains recognised during the period as well as the net reversal of impairment losses on railcars discussed above.

Income tax expense

The Group includes companies registered in Bermuda, Cyprus, Ireland and Russia. Subsidiaries registered in Russia, Ireland and Cyprus are subject to corporate income tax at the following applicable rates: Russia 20%, Ireland 25% and Cyprus 12.5%. At the present time, no income, profit or capital gains taxes are levied in Bermuda.

The Group's income tax expense for 2016 amounted to US$ 31,549 thousand. The Group’s income tax is in line with the Group’s results for 2016.

Profit for the year

The Group’s profit for the year 2016 amounted to US$ 124,346 thousand.

Financial results – non-IFRS financial measures

The following table sets forth the Group's non-IFRS financial measures for the year ended 31 December 2016 and 2015:

	2016	2015
Adjusted EBITDA (in US$ thousand)	81,998	80,432
Gross revenue (in US$ thousand)	119,049	133,534
Adjusted EBITDA Margin (in %)	68,9	60,2

Adjusted EBITDA

Adjusted EBITDA is a measure used by the Board and the Management to assess the performance of the Group; adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortisation and other non-cash charges, exceptional and non-recurring items.

	2016	2015
	(in US$ thousands)	
Profit/(loss) for the year	**124,346**	**(299,174)**
plus / (minus)		
Income tax expense / (credit)	31,549	(59,101)
Net foreign exchange (gains) / losses	(123,867)	173,990
Revaluation gains of embedded derivatives on mezzanine	-	(300)
Finance income	(4,503)	(5,714)
Finance costs	65,737	68,644
Depreciation and amortisation	21,013	35,521
(Reversal of impairment losses) / impairment losses on railcars	(44,711)	165,043
Expenses related to finance restructuring	10,273	-
Share-based compensation	-	263
Provision for bad debts on recourse loan receivable from former CEO	1,650	-
Professional services associated with forensic review, sanctions related matters and litigation processes	511	1,260
Adjusted EBITDA	**81,998**	**80,432**

Adjusted EBITDA increased by US$ 1,566 thousand or 1.9% from US$ 80,432 thousand in 2015 to US$ 81,998 thousand in 2016. The increase is primarily due to: (i) the decrease in other operating expenses (primarily related to a decrease in provision for bad debts), (ii) the decrease in property tax, (iii) the decrease in staff costs, and (iv) the positive impact of currency exchange differences, due to the higher yearly average exchange rate of US$ to RUB compared to 2015. These positive factors outweighed the decrease in revenue due to lower average lease rates.

Adjusted EBITDA Margin

Adjusted EBITDA Margin is a measure used by the Board and the Management to assess the operating profitability of the Group. Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by gross revenue, expressed as a percentage. Adjusted EBITDA Margin shows the cost efficiency of the Group and shows its ability to cover long term debts. Adjusted EBITDA Margin increased from 60.2% in 2015 to 68.9% in 2016 as EBITDA increased by 1.9% while the revenue has declined for 10.8%.

Liquidity and Capital Resources

Capital expenditures

In 2016 the Group incurred capital expenditures on railcar maintenance in the amount of US$ 5,429 thousand, related predominantly to the replacement of wheelsets. Capital expenditures were higher compared to the US$ 3,327 thousand incurred in 2015. Capital expenditures were not significant in the years under review due to the young age of most of the Group's fleet; however these are expected to increase in line with the age of the fleet.

There were no capital expenditures on acquisition of rolling stock in 2016 and 2015. This reflected the change in the Group's strategy from growth to cash preservation and the focus on deleveraging the business.

Cash flows

The following table sets forth the principal components of the Group's consolidated statement of cash flows for the year ended 31 December 2016 and 2015:

	2016	2015
	(in US$ thousands)	
Net cash generated by operating activities	90,013	81,645
Net cash from investing activities	153	1,427
Net cash used in financing activities	(109,894)	(64,072)
Net (decrease)/increase in cash and cash equivalents	**(19,728)**	**19,000**
Cash and cash equivalents at beginning of the year	67,315	72,910
Exchange gains/(losses) on cash and cash equivalents	6,131	(24,595)
Cash and cash equivalents at end of year	**53,718**	**67,315**

Net cash from operating activities

Net cash from operating activities increased by US$ 8,368 thousand, or 10.2%, from US$ 81,645 thousand in 2015 to US$ 90,013 thousand in 2016.

Net cash from investing activities

Net cash from investing activities decreased by US$ 1,274 thousand, or 89.3%, from US$ 1,427 thousand in 2015 to US$ 153 thousand in 2016. The decrease reflects primarily the higher spending on railcar maintenance that was partially offset by higher proceeds from disposal of assets.

Net cash used in financing activities

Net cash used in financing activities increased by US$ 45,822 thousand, or 71.5%, from US$ 64,072 thousand in 2015 to US$ 109,894 thousand in 2016. The increase relates primarily to higher finance lease principal repayments and finance restructuring costs compared to 2015. The finance lease principal repayments relate to payments under the two sale and leaseback facilities with Alfa-Leasing LLC, drawn down in January 2016; the first sale and leaseback facility was used, together with the Group's own cash, to repay fully the existing syndicated facility. The second sale and leaseback facility was drawn down to secure liquidity in the event of a further market downturn.

Capital resources

<u>UniCredit syndicated loan</u>

In 2014, the Group signed a syndicated loan facility for over RUB 8 billion with a group of international banks, with UniCredit Bank AG as facility agent, and drew down part of the proceeds to refinance the VTB Leasing finance lease obligations in the amount of approximately RUB 4 billion. The facility which was secured by way of a pledge on equipment (3.398 railcars) was fully repaid on 18 January 2016.

Sale and leaseback facilities

In December 2015, OOO Brunswick Rail, the Group's principal Russian operating subsidiary, signed the first agreement with Alfa-Leasing LLC for the provision of RUB 2.3 billion (including VAT) of financing under a new sale and leaseback facility with respect to 3,398 railcars and the transaction was completed, followed by the drawdown, on 18 January 2016. On the same day, OOO Brunswick Rail used the proceeds of this sale and leaseback facility, together with its own cash, to repay fully its existing syndicated loan.

In January 2016, OOO Brunswick Rail signed the agreement for the second sale and leaseback facility with respect to 2,700 railcars in the amount of ca. RUB 1.6 billion (including VAT); the transaction was completed, followed by the drawdown, on the same day. The second Alfa-Leasing tranche was intended to provide liquidity in the event of a further market downturn.

The following table sets forth the maturity profile of the Group's debt as of 31 December 2016 and 2015, excluding finance lease payables:

	2016	2015
Maturity of borrowings, excluding finance lease payables	*(in US$ thousands)*	
Less than 1 year	606,859	66,136
Later than 1 year and not later than 3 years	-	597,005
Total	**606,859**	**663,141**

The following table sets forth the maturity profile of the Group's finance leases as of 31 December 2016 and 2015.

	2016	2015
Maturity of finance lease payables	*(in US$ thousands)*	
Not later than 1 year	30,001	1,235
Later than 1 year and not later than 3 years	807	1,440
Later than 3 years and not later than 5 years	514	791
Total	**31,322**	**3,466**

The balance of the mezzanine credit facility at 31 December 2016 and 2015 was US$ 100,349 thousand and US$ 86,768 thousand respectively.

Additional Capital Resources

VTB facility agreement

On 5 April 2016, OOO Brunswick Rail and PJSC VTB Bank signed a facility agreement for the provision of up to RUB 20 billion towards funding the potential restructuring of the Group's existing debt. The terms of the secured facility contemplate a 6.5% per annum margin over the current Central Bank of Russia key rate and a five-year maturity from the date on which the agreement enters into force. The facility would be guaranteed by Brunswick Rail Finance Designated Activity Company (Ireland), OOO Proftrans, Brunswick Rail Holding Ltd (Cyprus) and the Company, and secured by substantially all of the unencumbered assets of OOO Brunswick Rail and OOO Proftrans. The initial availability period of 9 months was extended to 15 months in December 2016. The VTB facility has not been utilised by the date of this report.

Review of the Capital Structure

In 2016 the Group undertook a strategic review of the Group's capital structure as the Management believed it was in the best interests of all stakeholders to address the capital structure in a manner that reflected the fundamental and permanent changes to the Group's operating environment and business model, as it appeared increasingly ill-suited to the changed environment, and was believed to be vulnerable to further macroeconomic, geopolitical and industry-specific shocks.

Despite recent positive developments, the Group's ability to sustain its current capital structure, including the ability to maintain significant US dollar denominated debt at current levels and maturities, remains impaired. In particular, the Group is not expected to generate sufficient cash flows to repay its Notes at their November 2017 maturity.

Negotiations with an ad hoc committee of the Noteholders, which represent approximately 50% of the Notes, took place in 2016 but no agreement was reached on the terms of a restructuring of the Notes.

In November 2016, the Company was informed that in light of the present inability to reach a consensual transaction with the Noteholders, an ad-hoc shareholder committee representing approximately 48% of the ordinary shareholders of the Company was formed and launched a bid process for the sale of up to 100% of the Company's equity.

On 19 April 2017, the Company was informed that Amalgam Rail Investment Ltd. had acquired 100% of the Company's issued share capital. The Company believes that a change of control has occurred under the terms of the trust deed dated 1st November 2012.

The Company is continuing to pursue a restructuring of its Notes. If the Company is ultimately unable to reach agreement with the holders of the Notes for a restructuring, it will be required to consider alternatives to a voluntary restructuring, including the option of initiating a liquidation process.

Working capital

The table below sets forth the components of the Group's working capital for the year ended 31 December 2016 and 2015:

	2016	2015
	(in US$ thousands)	
Current assets		
Cash and cash equivalents	53,718	67,315
Trade and other receivables	8,841	13,453
Finance lease receivables	386	1,827
Advances paid for rail tariffs	833	861
Current income tax prepayment	189	243
Current liabilities		
Trade and other payables	(7,301)	(6,316)
VAT payable	(2,836)	(3,568)
Other taxes payable	(1,405)	(1,633)
Current income tax liabilities	(18)	(85)
Working capital	**52,407**	**72,097**

Working capital decreased by US$ 19,690 thousand or 27.3% from US$ 72,097 thousand in 2015 to US$ 52,407 thousand in 2016 reflecting primarily the decrease in cash and cash equivalents and trade and other receivables during the year.

Off-balance sheet arrangements

As at 31 December 2016 the Group had no material off-balance sheet arrangements.

Contractual obligations and commercial commitments

As at 31 December 2016, no member of the Group had any material obligation as a guarantor or surety of the obligation of any person, not being a member of the Group, which is not reflected on the balance sheet.

As at 31 December 2016 the Management was not aware of any contingent tax, litigation or other liabilities, which could have a material effect on the result of operations or financial position of the Group and which have not been accrued or disclosed in the Group's audited consolidated financial statements.

Critical Accounting Estimates and Judgements

Critical accounting estimates and judgements are those that require the application of Management's most challenging, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. Critical accounting policies involve judgments and uncertainties that are sufficiently sensitive to result in materially different results under different assumptions and conditions.

The main critical accounting estimates and judgements were applied to going concern impairment of equipment, deferred income tax asset recognition and provision for doubtful debts. A detailed description of the critical accounting estimates and judgements used in preparing the Group's audited consolidated financial statements is set out in Note 6 of the Group's audited consolidated financial statements.