

**Joint stock company
“Ukrainian railways”**

Unaudited interim condensed consolidated
financial statements

As at 30 June 2021

Contents

Report on review of interim condensed consolidated financial statements.....	i
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Interim condensed consolidated financial statements

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

Notes to the interim condensed consolidated financial statements

1. Description of business and the Group’s structure	5
2. Operating environment, risks and economic conditions in Ukraine	7
3. Basis of preparation of financial statements	11
4. New standards, interpretations and amendments adopted by the Group.....	11
5. Segment reporting.....	12
6. Property, plant and equipment	14
7. Inventories	15
8. Equity.....	15
9. Interest-bearing loans and borrowings.....	16
10. Lease liability.....	18
11. Trade and other payables	19
12. Provisions	19
13. Revenues.....	19
14. Contingencies and commitments	20
15. Fair value of financial instruments	21
16. Related party disclosure.....	23
17. Events after the reporting period.....	24

Report on review of interim financial information

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of joint stock company "Ukrainian railways" and its subsidiaries (collectively referred to as "the Group"), which comprise the interim condensed consolidated statement of financial position as at 30 June 2021, the interim condensed consolidated statement of comprehensive income, the interim condensed consolidated statement of changes in equity and the interim condensed consolidated statement of cash flows for the six-month period then ended and selected explanatory notes (interim financial information). Management is responsible for the preparation and presentation of this interim financial information in accordance with IAS 34, *Interim Financial Reporting*. Our responsibility is to express a conclusion on this interim financial information based on our review.

Scope of review

Except as explained in paragraph (i) of the Basis for qualified conclusion, we conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Basis for qualified conclusion

- (i) As disclosed in Note 2 to the interim condensed consolidated financial statements, certain assets and liabilities of the Group are located in, or otherwise associated with the Autonomous Republic of Crimea and certain territories of Donetsk and Lugansk regions temporarily not controlled by the Ukrainian authorities. In addition, the Group is not considered the legal successor for these assets and liabilities before completion of required statutory legal succession proceedings. There is an uncertainty in respect of timing of the legal succession and the ultimate valuation of the assets and liabilities to be succeeded to the Group as a result of that statutory legal proceedings.

We were unable to complete our review of the assets of uncontrolled territories of UAH 13,662,100 thousand and liabilities of uncontrolled territories of UAH 5,127,526 thousand as at 30 June 2021 (31 December 2020: UAH 13,662,100 thousand and UAH 5,213,057 thousand, respectively) disclosed in Note 2 to the interim condensed consolidated financial statements.

- (ii) As disclosed in Note 6 to the interim condensed consolidated financial statements, the Group applies revaluation model to its property, plant and equipment starting from 1 December 2015. At that date, 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.

In addition, IAS 16 Property, Plant and Equipment requires, that revaluations shall be made with sufficient regularity to ensure that the property, plant and equipment's carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period. In presence of information, which indicates that the fair value of property, plant and equipment as at 30 June 2021 and 31 December 2020 could materially differ from their carrying amount, no revaluation has been performed by the Group as at 30 June 2021 and 31 December 2020, which is not in compliance with IAS 16 Property, Plant and Equipment.

The effects of this departure from International Financial Reporting Standards on the carrying amounts of property, plant and equipment, related deferred tax balances as at 30 June 2021 and 31 December 2020, depreciation and impairment charges, gain/loss on disposals of property, plant and equipment and deferred tax charges for the six-month periods ended 30 June 2021 and 2020 have not been determined.

Qualified Conclusion

Based on our review, except for the adjustments to the interim condensed consolidated financial statements that we might have become aware of had it not been for the situation described in paragraph (i) of the Basis for qualified conclusion, and with the exception of the matter described in paragraph (ii) of the Basis for qualified conclusion, nothing has come to our attention that causes us to believe that the accompanying interim financial information is not prepared, in all material respects, in accordance with IAS 34, *Interim Financial Reporting*.

Report on the supplementary financial information

Our review was conducted for the purposes of expressing a conclusion on the interim financial information taken as a whole. Statutory reporting forms accompanying these interim condensed 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 review procedures applied in our review of the interim condensed consolidated financial statements and except for the adjustments to the interim condensed consolidated financial statements that we might have become aware of had it not been for the situation described in paragraph (i) of the Basis for qualified conclusion, and with the exception of the matter described in paragraph (ii) of the Basis for qualified conclusion, based on our review, nothing has come to our attention that causes us to believe that the accompanying supplementary financial information has not been properly prepared, in all material respects, in relation to the Group's interim condensed consolidated financial statements taken as a whole.

Ernst & Young Audit Services LLC

Kyiv, Ukraine

20 September 2021

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2021

(in thousands of Ukrainian Hryvnia)

	Notes	30 June 2021 (unaudited)	31 December 2020 (audited)
Assets			
Non-current assets			
Property, plant and equipment	6	228,244,871	230,226,016
Investment in associates		697,946	729,058
Other non-current financial assets		93,693	88,295
Taxes receivable, other than income tax		164,335	163,972
Prepaid income tax		58,445	58,445
Deferred tax asset		217,773	196,847
Assets of uncontrolled territories	2	13,662,100	13,662,100
		<u>243,139,163</u>	<u>245,124,733</u>
Current assets			
Inventories	7	7,344,240	8,725,561
Trade and other receivables		885,965	570,546
Prepayments		158,199	94,714
Prepaid income tax		11,636	112,433
Taxes receivable, other than income tax		376,561	478,087
Other current financial assets		7,878	9,759
Cash and cash equivalents		1,812,911	2,497,546
		<u>10,597,390</u>	<u>12,488,646</u>
Assets held for distribution to owner or sale		<u>25,999</u>	<u>96,162</u>
		<u>10,623,389</u>	<u>12,584,808</u>
Total assets		<u>253,762,552</u>	<u>257,709,541</u>
Equity and liabilities			
Equity			
Contributed capital	8	229,879,115	229,879,115
Additional capital	8	18,915,305	18,905,900
Accumulated deficit		(51,015,809)	(49,426,445)
		<u>197,778,611</u>	<u>199,358,570</u>
Non-controlling interests	8	27,989	30,352
		<u>197,806,600</u>	<u>199,388,922</u>
Non-current liabilities			
Interest-bearing loans and borrowings	9	19,242,788	18,336,587
Lease liability	10	1,357,651	1,545,435
Defined benefit liability		3,536,673	3,588,929
Deferred tax liability		27,483	42,716
Liabilities of uncontrolled territories	2	5,127,526	5,213,057
		<u>29,292,121</u>	<u>28,726,724</u>
Current liabilities			
Interest-bearing loans and borrowings	9	15,558,639	16,398,153
Lease liability	10	403,236	419,500
Trade and other payables	11	6,030,232	8,681,867
Contract liabilities		1,968,761	1,680,392
Income tax payable		3,658	2,572
Taxes payable, other than income tax		1,460,017	1,128,578
Provisions	12	1,239,288	1,282,833
		<u>26,663,831</u>	<u>29,593,895</u>
Total liabilities		<u>55,955,952</u>	<u>58,320,619</u>
Total equity and liabilities		<u>253,762,552</u>	<u>257,709,541</u>

Signed and authorised for release on behalf of joint stock company "Ukrainian railways" on 20 September 2021 by:

Acting Chairman of the Management Board

Oleksandr Kamyshin

Member of the Management Board

Ivan Yuryk

Chief accountant

Tamara Ryabchun

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**for the six months ended 30 June 2021***(in thousands of Ukrainian Hryvnia)*

	Notes	For the six months ended 2021 (unaudited)	For the six months ended 2020 (unaudited)
Revenues			
Cargo revenues		31,217,942	30,653,071
Passenger revenues		2,423,802	1,912,378
Other revenues		3,375,271	3,057,837
Total revenues	13	37,017,015	35,623,286
Operating expenses			
Staff costs		(20,975,173)	(20,767,695)
Depreciation		(6,110,454)	(6,597,225)
Electricity		(4,496,699)	(3,511,123)
Fuel		(3,349,519)	(2,768,165)
Materials, maintenance and repairs		(1,644,596)	(2,997,214)
Taxes, other than income tax		(2,175,436)	(1,829,778)
Social expenses		(166,737)	(186,928)
Change in provisions	12	2,809	(29,639)
Change in finished goods and work in progress		437,816	77,907
Other operating income		723,810	302,710
Other operating expenses		(908,692)	(929,251)
Total operating expenses		(38,662,871)	(39,236,401)
Operating loss		(1,645,856)	(3,613,115)
Finance income		29,210	108,645
Finance costs		(2,055,612)	(2,029,188)
Other income		889,087	146,089
Other expenses		(8)	(15)
Foreign exchange gain/(loss), net		1,369,340	(3,414,120)
Share of loss of associates		(25,973)	(24,312)
Loss before income tax		(1,439,812)	(8,826,016)
Income tax benefit		31,514	34,001
Loss for the period		(1,408,298)	(8,792,015)
Attributable to:			
Equity holder of the parent		(1,406,036)	(8,789,813)
Non-controlling interests		(2,262)	(2,202)
		(1,408,298)	(8,792,015)
Other comprehensive loss			
<i>Other comprehensive loss not to be reclassified to profit or loss in subsequent periods (net of tax)</i>			
Share of other comprehensive loss of associates		—	(4,175)
Total comprehensive loss for the period, net of tax		—	(4,175)
Attributable to:			
Equity holder of the parent		(1,406,036)	(8,793,988)
Non-controlling interests		(2,262)	(2,202)
Total comprehensive loss for the period, net of tax		(1,408,298)	(8,796,190)

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia)

	<i>Notes</i>	<i>Contributed capital</i>	<i>Additional capital</i>	<i>Accumulated deficit</i>	<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
At 1 January 2021 (audited)		229,879,115	18,905,900	(49,426,445)	199,358,570	30,352	199,388,922
Loss for the period		–	–	(1,406,036)	(1,406,036)	(2,262)	(1,408,298)
Total comprehensive loss		–	–	(1,406,036)	(1,406,036)	(2,262)	(1,408,298)
Dividends	8, 16	–	–	(3,448)	(3,448)	–	(3,448)
Dividends accrued to non-controlling interests		–	–	–	–	(101)	(101)
Other changes	8	–	9,405	(179,880)	(170,475)	–	(170,475)
At 30 June 2021 (unaudited)		<u>229,879,115</u>	<u>18,915,305</u>	<u>(51,015,809)</u>	<u>197,778,611</u>	<u>27,989</u>	<u>197,806,600</u>

	<i>Notes</i>	<i>Contributed capital</i>	<i>Additional capital</i>	<i>Accumulated deficit</i>	<i>Total</i>	<i>Non-controlling interests</i>	<i>Total equity</i>
At 1 January 2020 (audited)		229,879,115	18,906,066	(36,999,362)	211,785,819	30,384	211,816,203
Loss for the period		–	–	(8,789,813)	(8,789,813)	(2,202)	(8,792,015)
Other comprehensive loss		–	–	(4,175)	(4,175)	–	(4,175)
Total comprehensive loss		–	–	(8,793,988)	(8,793,988)	(2,202)	(8,796,190)
Dividends	8, 16	–	–	(4,099)	(4,099)	–	(4,099)
Dividends accrued to non-controlling interests		–	–	–	–	(150)	(150)
Other changes		–	(82)	82	–	–	–
At 30 June 2020 (unaudited)		<u>229,879,115</u>	<u>18,905,984</u>	<u>(45,797,367)</u>	<u>202,987,732</u>	<u>28,032</u>	<u>203,015,764</u>

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**for the six months ended 30 June 2021***(in thousands of Ukrainian Hryvnia)*

	<i>Notes</i>	<i>For the six months ended 2021 (unaudited)</i>	<i>For the six months ended 2020 (unaudited)</i>
Cash flows from operating activities			
Loss before income tax		(1,439,812)	(8,826,016)
<i>Adjustments to reconcile loss before income tax to net cash flow provided by operations</i>			
Depreciation		6,110,454	6,597,225
Finance costs, net		2,026,402	1,920,543
Income from disposal of property, plant and equipment		(889,079)	(123,935)
Movements in defined benefit liability and provisions		(236,807)	(168,789)
Allowance for expected credit losses and estimated irrecoverable amounts		(47,063)	112,665
Foreign exchange (gain)/loss, net		(1,380,121)	3,114,372
Share in loss of associates		25,973	24,312
Operating profit before working capital changes		<u>4,169,947</u>	<u>2,650,377</u>
<i>Changes in working capital</i>			
Trade and other receivables		(288,589)	(317,406)
Prepayments		(63,485)	162,924
Inventories		2,582,766	1,290,880
Taxes receivable and prepaid, other than income tax		201,997	141,352
Trade and other payables		(1,565,986)	(1,892,541)
Contract liabilities		288,369	(845,847)
Taxes payable, other than income tax		<u>314,740</u>	<u>307,309</u>
Cash generated from operating activity		<u>5,639,759</u>	<u>1,497,048</u>
Income tax paid		(3,596)	(14,690)
Repayment of provisions	12	<u>(6,783)</u>	<u>(31,850)</u>
Net cash flows from operating activities		<u>5,629,380</u>	<u>1,450,508</u>
Cash flows from investing activities			
Acquisition of property, plant and equipment		(5,024,476)	(3,425,144)
Proceeds from disposal of property, plant and equipment		–	21,125
Proceeds from repayment of government bonds		1,795	–
Proceeds from withdrawal of deposits		–	2,186,701
Interest received		25,656	118,670
Dividends received from an associates		<u>5,140</u>	<u>–</u>
Net cash flows used in investing activities		<u>(4,991,885)</u>	<u>(1,098,648)</u>
Cash flows from financing activities			
Proceeds from interest-bearing loans and borrowings		20,757,869	10,926,624
Other proceeds		1,747	–
Repayment of interest-bearing loans and borrowings		(19,526,477)	(13,239,724)
Repayment of lease obligations		(197,504)	(197,103)
Interest paid		(1,654,620)	(1,566,011)
Dividends paid to equity holders of the parent	8	(654,969)	(9,915)
Dividends paid to non-controlling interests		<u>(3)</u>	<u>(62)</u>
Net cash flows used in financing activities		<u>(1,273,957)</u>	<u>(4,086,191)</u>
Net decrease in cash and cash equivalents		<u>(636,462)</u>	<u>(3,734,331)</u>
Net foreign exchange difference		(48,173)	299,748
Cash and cash equivalents at 1 January		<u>2,497,546</u>	<u>6,981,236</u>
Cash and cash equivalents at 30 June		<u>1,812,911</u>	<u>3,546,653</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

for the six months ended 30 June 2021

(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 the assets and liabilities of entities previously subordinated to and effectively controlled by State Administration of Railway Transport of Ukraine were transferred to the Company.

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

The Company is recognised as a natural monopoly on the territory of Ukraine in terms 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 the capacity of the sole shareholder of the Company.

The registered address of JSC “Ukrainian railways” is 5, Jerzy Giedroyc St., Kyiv 03150, Ukraine.

The interim condensed 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.

Entities included in the interim condensed consolidated financial statements

Set out below is presented information on the entities’ financial statements of which are included in the interim condensed consolidated financial statements:

	<i>Share as at 30 June 2021</i>	<i>Share as at 31 December 2020</i>
1 Joint stock company “Ukrainian railway”	Parent	Parent
2 Private joint-stock company “Dnipropetrovsk Diesel Locomotive Repair Plant”	100%	100%
3 Private joint-stock company “Zaporizhzhya Electric Locomotive Repair Plant”	100%	100%
4 Private joint-stock company “Lviv Locomotive Repair Plant”	100%	100%
5 Private joint-stock company “Kyiv Electrical Carriage-Repair Plant”	100%	100%
6 Private joint-stock company “Korosten Plant of Railway Sleepers”	100%	100%
7 Private joint-stock company “Hnivan Special Reinforced Concrete Plant”	100%	100%
8 Private joint-stock company “Transsignal Kyiv Electrical Engineering Plant”	100%	100%
9 LLC “UZ Cargo Wagon”	100%	100%
10 LLC “Enerho Zbut Trans”*	–	100%
11 LLC “Zbut Energy LTD” (and its subsidiaries*)	100%	100%
12 Private joint-stock company “Insurance Company “Tast Garantiya”	65.62%	65.62%
13 Private joint-stock company “Insurance Company “Inter-Policy”	50.0046%	50.0046%

* In August 2020, the Company registered a subsidiary LLC “Zbut Energy LTD”, the authorized capital of UAH 29,074 thousand, which was formed in May 2021 by contributing a 100% share of corporate rights in LLC “Energo Zbut Trans”.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

JSC “Ukrainian railways” comprises six regional branches and 33 other branches included in the interim condensed consolidated financial statements. The Company continues its internal reorganisation and forms its targeted organisational structure through segregation of market-oriented branches.

Pricing policy

The Company conducts cargo and passenger railway transportation in Ukraine under prices regulated by the government. However, there are some transportation services which are provided under free market prices. At the same time, the Company provides a wide range of auxiliary services and works, manufactures and sells products at unregulated prices in the course of its business activity. Cargo and passenger transportation is subject to the following tariffs regulations:

Tariffs for domestic cargo transportation are approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economy of Ukraine, the Ministry of Finance of Ukraine and the State Regulatory Service of Ukraine (except for wagon component of tariff for fleet carriages that belong to the carrier JSC “Ukrainian railways” starting from 20 February 2018). Since 20 February 2018, the Company has commenced setting tariffs for usage of the own fleet carriages of the carrier JSC “Ukrainian railways” in accordance with the Management Board’s decision. The tariffs are set in UAH and are mostly adjusted for changes in the amount of overhaul and depot repairs, prices per unit of rolling stock, market trends and demand for railway cars owned by the Company and changes in the industrial producer price index, which is influenced by changes in exchange rate of UAH against foreign currencies in which the Group’s loan portfolio is denominated.

During 2020, a number of measures regarding changes of tariff policy were implemented, in particular: (i) the tariffs for particular carriages that belong to the carrier JSC “Ukrainian railways” have been revised; (ii) new tariff for the usage of own piggyback flatcars has been established; (iii) the tariff for loading of carriages that belong to JSC “Ukrainian railways” has been set. Domestic freight tariffs did not change during the six months ended 30 June 2021 and during 2020.

Starting from January 2021, the Group has implemented monthly reviews of payment rates for the use of own cars of the carrier JSC “Ukrainian railways” using a marginal approach based on the utilisation level of the wagons of JSC “Ukrainian railways”. According to the results of such an analysis, the fee rate may fluctuate by up to UAH 100. The rate of payment for the use of the carriages that belong to the carrier JSC “Ukrainian railways”, in some cases, may be revised by a decision of the Management Board of the Company.

Tariffs for international cargo transportation are regulated by the Tariff Policy which is approved annually at the Tariff Conferences of the railways of the CIS member states, set in Swiss francs, US dollars and took into effect under the appropriate order of the Ministry of Infrastructure of Ukraine. There was no increase in these tariffs during the six months ended 30 June 2021 and during 2020.

Tariffs for domestic transportation of passengers and baggage (except for the 1st class cars of Intercity+ trains) are approved in accordance with the resolution of the Cabinet of Ministers of Ukraine No. 1548 *On Establishing the Powers of Executive Bodies and Executive Bodies of City Councils to Regulate Prices (Tariffs)* dated 25 December 1996 by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine, the Joint Representative Body of the Representative All-Ukrainian Trade Unions, the Joint Representative Body of employers at the national level and the State Regulatory Service. The tariffs are denominated in Ukrainian hryvnia.

The current tariffs (except for the 1st class cars of Intercity+ trains) were approved via the Order of the Ministry of Infrastructure dated 20 April 2018 № 184 *On Approval of Tariffs for Transportation of Passengers, Luggage and Baggage by Rail in Domestic Traffic*.

In 2021 the Order of the Ministry of Infrastructure of Ukraine No. 198 *On Approval of Amendments to the Tariffs for Transportation of Passengers, Luggage and Baggage by Rail in Domestic Traffic* dated 30 March 2021 approved the gradual indexation of tariffs for transportation of passengers in domestic traffic for the period from 29 April till 31 December 2021 by 2% monthly in all categories of carriages, except for the 1st class of Intercity+ trains. During the six months ended 30 June 2021, the level of indexation of domestic tariffs increased by 6%.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Tariffs for passenger transportation in the first class of Intercity+ trains are removed from state regulation and established by the decision of the Board of JSC “Ukrainian railways” in accordance with the resolution of the Cabinet of Ministers of Ukraine No. 1548 *On Establishing the Powers of Executive Bodies and Executive Bodies of City Councils to Regulate Prices (Tariffs)* dated 25 December 1996.

During 2020 the decision of the Board of JSC “Ukrainian railways” indexed the tariffs of passenger transportation in carriages of the 1st class Intercity+ trains. Tariffs have been reduced by 15% since 1 November 2020.

For the six months ended 30 June 2021 tariffs for the transportation in the 1st class Intercity+ trains have not been changed.

Tariffs for international transportation of passengers and baggage are established in accordance with the Agreement on the Interstate Passenger Tariff and the Interstate Passenger Tariff those were adopted by the Council for Railway transport of commonwealth state-members from 19 May 1995 with respective amendments. This agreement stipulates that each of the state administrations has the right to set an increasing or decreasing index to the basic fares in terms of ticket part for the passenger transportations on its territory, to the tariffs for the baggage transportation on its territory and to the seat tariffs for own railcars for the entire train route as well as set service rates.

Tariffs for the railway passenger transportation in international traffic are agreed in accordance with the resolution of the Cabinet of Ministers of Ukraine dated 25 December 1996 No. 1548 *On Establishing the Powers of Executive Bodies and Executive Bodies of City Councils to Regulate Prices (Tariffs)*.

Tariffs for international passenger transportation with the CIS countries are determined by the Order No. 306 of the Ministry of Transport and Communications of Ukraine *On the Establishment of Tariffs for Transportation of Passengers, Luggage and Baggage by Rail in International Traffic* dated 19 March 2008. This order sets basic tariffs in Swiss francs and the indexation coefficients to the basic cost of a ticket on the territory of Ukraine and for seat tariffs for the own railcars for the entire train route.

During the six months ended 30 June 2021 and during 2020, there was no change in tariffs for international transportation of passengers and baggage.

International passenger transportation with European countries is carried out in accordance with the Special Conditions of International Carriage (SCIC) for the travel according to the travel tickets in the East-West direction (EWT) and the Agreement on International Passenger Services. In accordance with these regulations of international transportation in European countries, each of the carriers of the country travelled through sets a fare on its territory for base cost of a ticket and seat tariffs of its formation, which are set in Euros and calculated in the national currency on the date of registration of the travel document.

Tariffs for international transportation in European countries are established by the Order No. 633 *On Approval of Tariffs for Transportation of Passengers and Luggage by Rail in International Transportation in East-West Direction* dated 23 October 2012 issued by the Ministry of Infrastructure of Ukraine. During the six months ended 30 June 2021 and during 2020, there have been no changes in tariffs for transportation of passengers, luggage and baggage in the international East-West direction.

2. Operating environment, risks and economic conditions in Ukraine

Operating environment in Ukraine and COVID-19 outbreak impact

The Group conducts its operations in Ukraine. Until 2020, the Ukrainian economy started to demonstrate certain signs of recovery and growth following the significant decline in 2014-2016. However, the spread of the COVID-19 coronavirus outbreak in early 2020 and the introduction of quarantine measures to mitigate it have negatively affected the global and Ukrainian economies.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

2. Operating environment in Ukraine and sustainable operating activities (continued)

The gradual reduction of quarantine restrictions in the first half of 2021, alongside with the spread of vaccination, contributed to the recovery of economic activity of enterprises and increased business expectations, despite the emergence of new strains of coronavirus. During the first half of 2021, the volume of industrial production increased by 2.1% together with the growth of industrial producer prices by 28.4% compared to the same period in 2020. The recovery of the Ukraine's economy was accompanied by an acceleration of inflation, in particular, inflation in June 2021 was 9.5% on year to year basis.

In order to curb inflation, the National Bank of Ukraine (“NBU”) raised twice the key policy rate in the first half of 2021: to 6.5% per annum in March 2021 (from 6% per annum, effective from 11 June 2020) and to 7.5% per annum in April 2021. On 23 July 2021, NBU raised the key policy rate to 8% p.a. with further increase to 8.5% p.a. on 9 September 2021.

The renewal of foreign investors' interest also contributed to the recovery of the Ukrainian economy in the first half of 2021, which led to the strengthening of the Ukrainian hryvnia against foreign currencies. The official exchange rate of the Ukrainian hryvnia to the US dollar (“USD”) as at 30 June 2021 was 27.18 UAH per 1 USD compared to 28.27 UAH per 1 USD as at 31 December 2020. Due to the stabilization of the Ukrainian hryvnia exchange rate during the first half of 2021, the Group received a net income from exchange rate differences in the amount of UAH 1,369,340 thousand compared to a net loss from exchange rate differences in the amount of UAH 3,414,120 thousand in the first half of 2020 when the Ukrainian currency was devalued.

During the first half of 2021, the transport industry showed growth. In particular, cargo transportation increased by 1.7% compared to the same period in 2020, and total passenger transportation increased by 21.1%. Meanwhile, the cargo turnover of railway transport in January-June 2021 was 2.4% higher than in the same period of 2020. Whereas the passenger turnover of railway transport increased by 47.8% in the first half of 2021 compared to the first half of 2020, when passenger transportation by rail was temporarily suspended in March-May 2020. Due to the increase in traffic, the Group ensured the growth of sales revenues and improved operating results in the first half of 2021.

Further recovery of the Ukrainian economy will depend on the situation in future with the COVID-19 spread, in particular, the implementation of possible restrictive measures as well as cooperation with international investors and the coordinated policy of public authorities in social and economic sectors development. These factors will have an impact on the Group's future performance. The Group's management monitors the current situation and takes measures to minimize any negative consequences as much as possible.

Assets and liabilities of uncontrolled territories

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 30 June 2021 and 31 December 2020. There were no income and/or expenses related to the assets and liabilities related to the Autonomous Republic of Crimea recorded in the Group's financial statements for the six months ended 30 June 2021 and 31 December 2020.

In the second half of 2014 as a result of military aggression of Russian Federation the Ukrainian authorities temporarily lost control over certain territories 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 30 June 2021 and 31 December 2020 on the balance sheet of Regional branch “Donetsk Railway” (RB “Donetsk Railway”).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

2. Operating environment in Ukraine and sustainable operating activities (continued)

Despite the loss of control over the assets and liabilities of the temporarily occupied territories, the Group continues to record them in the interim condensed 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 to regain control over the occupied territories. Upon cessation of the temporary occupation of the 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 mentioned 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.

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 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 controlled and uncontrolled parts. Assets and liabilities of the uncontrolled territory were included in the following lines of the interim condensed 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 the Autonomous Republic of Crimea were also included in the above mentioned lines. This approach provides more transparent presentation of the Group’s assets and liabilities.

Thus, as at 30 June 2021, the value of assets and liabilities of uncontrolled territories amounted to UAH 13,662,100 thousand and UAH 5,127,526 thousand respectively (31 December 2020: UAH 13,662,100 thousand and UAH 5,213,057 thousand, respectively). At the same time, a significant part of the liabilities of uncontrolled territories were interest-bearing loans and borrowings in the amount of UAH 3,655,483 thousand, as well as liabilities under lease agreements in the amount of UAH 807,487 thousand.

However, during 2020-2021, the Supreme Court of Ukraine recognised the Company as the legal successor of SE “Donetsk Railway” with regard to certain obligations of uncontrolled territories. In response, the Company appeals against these decisions (including the representation of the Company as a debtor in accordance with the enforcement) in the courts of various instances. Although the Company has been recognised as the legal successor of SE “Donetsk Railway” by the Supreme Court of Ukraine and some courts of first instance, any recovery of assets and enforcement of obligations of Donetsk Railway is possible only after completion of succession proceedings or within six months after termination of security and defense operations and the restoration of Ukraine’s sovereignty over the temporarily occupied territories of Donetsk and Luhansk regions, in accordance with the moratorium regime described above. The potential adverse effects on the Group of these claims are disclosed in Note 14.

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 as well as a systemically important company for the whole economy of the country. Railway transportation carried by the Group represents a significant portion of the overall traffic volume in Ukraine. For six months ended 30 June 2021 and 2020, rail cargo transportation turnover amounted to about 78.8% and 79.3% of the total cargo traffic in Ukraine (excluding pipelines); railway passenger transportation turnover amounted to 26.1% and 21.4% of the total passenger turnover, respectively.

As at 30 June 2021, the Group’s current liabilities exceeded its current assets by UAH 16,066,441 thousand (31 December 2020: UAH 17,105,249 thousand). This condition is primarily caused by the upcoming current portions of long-term interest-bearing loans and borrowings maturity. As at 30 June 2021, the carrying amount of current interest-bearing loans and borrowings comprised UAH 15,558,639 thousand (31 December 2020: UAH 16,398,153 thousand).

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

2. Operating environment in Ukraine and sustainable operating activities (continued)

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 comprehensive serving its financial obligations that is a key factor in ensuring its sustainable operating activities in the foreseeable future.

One of the key elements to maintain a sufficient liquidity level of the Group is management of the loans portfolio, which mainly includes Eurobonds and interest-bearing bank loans. The Group continuously monitors timely settlement of its loans and borrowings and, if necessary, re-financing and restructuring:

- In March 2021, the Group repaid timely and in full the portion of the Eurobonds' principal in the amount of USD 50 million and paid the coupon income respectively according to the scheduled settlement terms. In September 2021, the Group redeemed the Shortline PLC Eurobonds after full settlement of the last payment of USD 50 million together with the coupon income according to the payment schedule;
- In May 2021, the Group restructured the debt with one of the Ukrainian banks in the amount of USD 186 million. The main terms of the restructuring include prolongation of the repayment schedules for the short-term portion and lowering of interest rates depending on the reduction of the debt level;
- In July 2021, the Group placed a new issue of Eurobonds on the Irish Stock Exchange in the amount of USD 300 million with maturity in 2026. The Group used proceeds from the new Eurobonds' placements to settle outstanding restructured debt due in 2021-2023, including the debt from the preceding paragraph, which led to the improvement of the Group liquidity after the reporting date (Note 17);

Management develops and implements measures to sustain profitable operations of the Group. The operating measures taken by the Group to improve its financial results include the following:

- Operating costs optimization by organizing the procurement of materials, goods and services through the system of transparent and competitive online auctions as well as prioritizing the Group's expenditures;
- Optimization of staff costs via lowering the number of administrative personnel and human resources initiatives to improve employees productivity;
- Identification of non-core assets and development of disposal plans in order to obtain additional cash inflows. In addition, the Group sells an available surplus of scrap metal to generate additional cash inflows.

Another crucial element to ensure sustainable operations of the Group is continuous cooperation with the state. As the sole shareholder of the Company is the state of Ukraine, the Group expects to obtain Government support, when required. Such support may include, but is not limited to, additional increase in tariffs, facilitation of granting the state guarantees for new loans, obtaining loans from the state-owned banks, additional contributions to the statutory capital of the Company, etc. The Group relationship with the Government and other state authorities resulted in the following outcomes, which will have a positive impact on the future operations:

- According to the Law of Ukraine No. 1158-IX *On the State Budget of Ukraine for 2021* dated 15 December 2020, the Group will be provided with UAH 4,025,879 thousand of direct budget financing for the procurement of passenger railcars and infrastructure modernization for the development of passenger transportation (Note 17);
- In August 2021, at the management's initiative, the Government of Ukraine approved a two-stage increase in rail cargo transportation tariffs (Note 17). This increase will sustain future additional revenues starting September 2021;
- The Group continues to take measures to reduce the tax burden, land tax in particular.

Based on the above-mentioned, implementation of measures to improve results of the operating activities and debt management combined with the new funds attraction with favourable debt terms for the Group will further contribute to the timely repayment of liabilities, financing of capital expenditures and continuation of the Group's sustainable operations.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

3. Basis of preparation of financial statements

The interim condensed consolidated financial statements for the six months ended 30 June 2021 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* (“IAS 34”).

The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group’s annual consolidated financial statements as at 31 December 2020 prepared in accordance with International Financial Reporting Standards (“IFRS”).

Functional and presentation currencies

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

These interim condensed consolidated financial statements are presented in UAH thousands and all values are rounded off to the nearest thousand except where otherwise indicated.

Basis of consolidation

Financial statements of entities of the Group were prepared for the same reporting period using consistent accounting policies. Adjustments were made to align any dissimilar accounting policies that may exist. All intra-group balances, income and expenses and unrealised gains and losses resulting from intra-group transactions were eliminated in full.

Subsidiaries are consolidated from the date the Company obtains control over them and continue to be consolidated until the date that such control ceases.

4. New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group’s annual consolidated financial statements for the year ended 31 December 2020, except for the adoption of new standards effective as of 1 January 2021.

In 2021, the Group applied for the first time amendments that entered into force on 1 January 2021 as part of the base interest rate reform (Phase 2) and included amendments to IFRS 9 *Financial Instruments*, IAS 39 *Financial Instruments: Recognition and Valuation*, IFRS 7 *Financial Disclosure Instruments*, IFRS 4 *Insurance Contracts*, IFRS 16 *Leases*. These amendments did not have a material impact on the Group’s interim condensed consolidated financial statements.

The Group has not adopted in advance any other standards, interpretations or amendments that have been issued but not yet effective.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

5. Segment reporting

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

	Cargo				Long-distance passenger							Unallocated	Eliminations (A)	Adjustments (B)	Total
	Total segment, including:	Infra-structure component	Locomotive component	Wagon component	Total segment, including:	Infra-structure and locomotive component	Wagon component	Suburban passenger	Auxiliary activity	All other segments	Total segments				
For the six months ended 30 June 2021															
Sales to third parties	31,565,632	18,873,118	9,779,331	2,913,183	2,154,707	484,107	1,670,600	269,095	2,800,212	567,581	37,357,227	—	—	(340,212)	37,017,015
Inter-segment sales	—	—	—	—	—	—	—	—	1,005,072	4,900,205	5,905,277	—	(5,905,277)	—	—
Total revenue	31,565,632	18,873,118	9,779,331	2,913,183	2,154,707	484,107	1,670,600	269,095	3,805,284	5,467,786	43,262,504	—	(5,905,277)	(340,212)	37,017,015
Staff costs	(12,568,964)	(9,665,756)	(2,832,621)	(70,587)	(3,193,163)	(1,772,842)	(1,420,321)	(1,619,544)	(2,966,677)	(617,356)	(20,965,704)	(456,078)	360,960	85,649	(20,975,173)
Depreciation	(4,360,867)	(2,906,917)	(469,311)	(984,639)	(850,654)	(340,403)	(510,251)	(336,567)	(393,410)	(47,688)	(5,989,186)	(224,555)	4,554	98,733	(6,110,454)
Electricity	(3,184,915)	(452,490)	(2,728,766)	(3,659)	(681,337)	(624,171)	(57,166)	(389,026)	(643,540)	(4,070,682)	(8,969,500)	(29,035)	4,494,615	7,221	(4,496,699)
Fuel	(2,476,285)	(193,743)	(2,273,026)	(9,516)	(335,910)	(304,284)	(31,626)	(210,918)	(306,259)	(28,253)	(3,357,625)	(13,936)	18,951	3,091	(3,349,519)
Materials, maintenance and repairs	(1,861,764)	(1,292,098)	(564,338)	(5,328)	(269,717)	(206,675)	(63,042)	(246,323)	(183,548)	(831,768)	(3,393,120)	(14,025)	1,567,444	195,105	(1,644,596)
Other operating expenses	(2,309,754)	(2,022,133)	(282,021)	(5,600)	(619,122)	(268,131)	(350,991)	(281,818)	(703,794)	(131,171)	(4,045,659)	(651,319)	1,232,863	2,555,423	(908,692)
Inter-segment expenses*	—	—	—	—	—	—	—	—	1,774,110	—	1,774,110	—	(1,774,110)	—	—
Segment result	4,803,083	2,339,981	629,248	1,833,854	(3,795,196)	(3,032,399)	(762,797)	(2,815,101)	382,166	(259,132)	(1,684,180)	(1,388,948)	—	2,605,010	(468,118)
	Cargo				Long-distance passenger							Unallocated	Eliminations (A)	Adjustments (B)	Total
	Total segment, including:	Infra-structure component	Locomotive component	Wagon component	Total segment, including:	Infra-structure and locomotive component	Wagon component	Suburban passenger	Auxiliary activity	All other segments	Total segments				
For the six months ended 30 June 2020															
Sales to third parties	30,898,032	18,800,134	9,741,513	2,356,385	1,716,823	764,471	952,352	201,714	2,655,020	389,245	35,860,834	—	—	(237,548)	35,623,286
Inter-segment sales	—	—	—	—	—	—	—	—	726,168	3,817,188	4,543,356	—	(4,543,356)	—	—
Total revenue	30,898,032	18,800,134	9,741,513	2,356,385	1,716,823	764,471	952,352	201,714	3,381,188	4,206,433	40,404,190	—	(4,543,356)	(237,548)	35,623,286
Staff costs	(12,980,145)	(10,024,777)	(2,812,558)	(142,810)	(3,092,800)	(1,458,197)	(1,634,603)	(1,455,482)	(2,948,407)	(413,395)	(20,890,229)	(412,563)	231,339	303,758	(20,767,695)
Depreciation	(4,559,375)	(2,984,927)	(375,481)	(1,198,967)	(962,013)	(510,359)	(451,654)	(321,797)	(479,784)	(27,908)	(6,350,877)	(286,308)	15,956	24,004	(6,597,225)
Electricity	(2,713,661)	(377,826)	(2,327,296)	(8,539)	(436,128)	(403,710)	(32,418)	(249,898)	(478,097)	(3,205,350)	(7,083,134)	(21,461)	3,521,471	72,001	(3,511,123)
Fuel	(2,076,568)	(216,272)	(1,851,923)	(8,373)	(275,368)	(237,326)	(38,042)	(150,967)	(301,883)	(18,517)	(2,823,303)	(10,860)	11,470	54,528	(2,768,165)
Materials, maintenance and repairs	(2,376,460)	(1,582,432)	(654,156)	(139,872)	(476,218)	(259,797)	(216,421)	(237,389)	(150,385)	(503,097)	(3,743,549)	(100,040)	1,235,545	(389,170)	(2,997,214)
Other operating expenses	(2,418,035)	(2,168,725)	(181,665)	(67,645)	(415,962)	(196,315)	(219,647)	(234,520)	(666,739)	(65,075)	(3,800,331)	(4,370,424)	1,607,428	5,634,076	(929,251)
Inter-segment expenses*	—	—	—	—	—	—	—	—	2,079,853	—	2,079,853	—	(2,079,853)	—	—
Segment result	3,773,788	1,445,175	1,538,434	790,179	(3,941,666)	(2,301,233)	(1,640,433)	(2,448,339)	435,746	(26,909)	(2,207,380)	(5,201,656)	—	5,461,649	(1,947,387)

* Management considers such presentation of “Inter-segment expenses” as appropriate given the segment “Auxiliary activity” produces its products, works and services mainly for intra-group purposes, and thus segments performance is evaluated mainly based on the existing expenses and their structure rather than in revenues terms.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

5. Segment reporting (continued)

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, 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.

- (A) Inter-segment revenue and margin are eliminated on consolidation;
- (B) The operating results of each operating segment did not include adjustments representing differences between the basis of preparation of management accounts and the Group's IFRS accounting policies for the six months ended 30 June 2021 and 2020.

As the Group continues its operating transformation, management considers that the additional separation of infrastructure, locomotive and wagon components within Cargo segment as well as disclosure of infrastructure and wagon components within long-distance passenger transportation segment is required for analysis of the Group performance and further reorganisation.

Reconciliation of loss before tax

	<i>For the six months 2021</i>	<i>For the six months 2020</i>
Segment results	(468,118)	(1,947,387)
Items not included in segment expenses		
Taxes, other than income tax	(2,175,436)	(1,829,778)
Social expenses	(166,737)	(186,928)
Change in provisions	2,809	(29,639)
Other operating income	723,810	302,710
Change in finished goods and work in progress	437,816	77,907
Other expenses	(8)	(15)
Other income	889,087	146,089
Finance income	29,210	108,645
Finance costs	(2,055,612)	(2,029,188)
Foreign exchange gain/(loss), net	1,369,340	(3,414,120)
Share of loss of associates	(25,973)	(24,312)
Group loss before tax	<u>(1,439,812)</u>	<u>(8,826,016)</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

6. Property, plant and equipment

Revaluation

When state enterprise was reorganised into a joint stock company its assets, including property, plant and equipment, and liabilities had 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 mentioned period. The Group is taking measures to conduct a further revaluation in the near future.

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 Company under the title of operating control. The title of operating control allows to possess and use the assets, disposal of the assets should be authorised by the owner (the State). As at 30 June 2021, carrying value of the assets assigned under the title of operating control was UAH 88,506,301 thousand (31 December 2020: UAH 90,373,176 thousand).

Acquisitions and disposals

During the six months ended 30 June 2021, the Group acquired assets with a cost of UAH 4,597,499 thousand (for the six months ended 30 June 2020: UAH 2,819,427 thousand). There were disposals of assets in the amount of UAH 371,170 thousand during the six months ended 30 June 2021, of which are classified as assets held for distribution in the amount of UAH 25,999 thousand (for the six months ended 30 June 2020: UAH 322,922 thousand).

Some fixed assets that can not be reused in the current state are subject to repair or liquidation, as a result of which certain components of such fixed assets can be utilized for future repairs or sold in the form of scrap metal. During the six months ended 30 June 2021, the Group has recognised the relevant income in the amount of UAH 878,993 thousand from the disposal of fixed assets, which are included in other income.

Assets held for distribution to owner or sale

The Group has initiated the sale and distribution of non-core assets. At the first stage, non-core assets have already been identified, namely non-residential premises, buildings, structures, integral property complexes, etc.

As a result of management decisions, the Group recognised 14 non-core assets with a total carrying amount of UAH 25,999 thousand as assets held for sale. The Group expects to sell these non-core assets within one year.

During six months ended 30 June 2021, in accordance with the resolution of the Cabinet of Ministers of Ukraine, the Group completed the free-of-charge transfer of construction in progress with carrying value of UAH 96,162 thousand which were accounted for as assets held for distribution to owner as at 31 December 2020 and performed the transfer of certain property, plant and equipment with carrying value of UAH 55,081 thousand (Note 8).

Capitalised depreciation charge

For the six months ended 30 June 2021, the Group capitalised UAH 97,020 thousand of depreciation charge into construction in progress (for the six months ended 30 June 2020: UAH 70,646 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

7. Inventories

As at 30 June 2021, the book value of inventories decreased mainly due to seasonal fluctuations of the value of fuel and spare parts as well as the sale of scrap metal amounted to UAH 327,342 thousand for the six months ended 30 June 2021 (for the six months ended 30 June 2020: UAH 141 thousand), which are included in other operating income.

8. Equity

Charter capital

Since the date of registration of the Company to 30 June 2021 the charter capital of the Company was UAH 229,879,115 thousand and was divided into 229,879,115 ordinary shares with a nominal value of UAH 1,000 each.

Profit distribution and dividends

The profit distribution and the payment of dividends are subject to approval by the General Meeting of the Company which must take into account the relevant legislation of Ukraine. Dividend payments are transferred directly to the state budget in accordance with the relevant decision approved by the general meeting of shareholders of the Company within the time limits established by law.

According to the Law of Ukraine *On Managing State-Owned Entities* No. 185-V dated 21 September 2006, the entities, with state ownership in their share capital, by 1 May of the year after the reporting year, shall approve a relevant decision on declaration of dividends in amount of at least 30% of net profit. As at 31 December 2019, the Company has recognised respective liability on dividend payments for 2019. According to the Ukrainian legislation, general meeting of the Company, which are held no later than 30 April, after the reporting year, is obliged to decide on profit distribution and declare dividends for 2019.

According to the Law of Ukraine No. 540 *On Amendments to Certain Legislative Acts of Ukraine Aimed at Providing Additional Social and Economic Guarantees in Connection with the Spread of Coronavirus Disease (COVID-19)* dated 30 March 2020 decision on declare dividends for 2019 financial year may be made by the general meeting of shareholders no later than three months after the end of quarantine.

According to the Order of the Cabinet of Ministers of Ukraine No. 349-p dated 21 April 2021, 30% of the Company's net profit for 2019 in the amount of UAH 749,500 thousand were directed to the payment of dividends to the State Budget of Ukraine. The amount of actual payment to the state budget was 648,665 thousand UAH, while UAH 100,835 thousand was offset by advance payment from income tax.

Dividends paid to the State

For the six months ended 30 June 2021 the subsidiaries of JSC “Ukrainian railways” paid a portion of their net profit (dividends) in the amount of UAH 6,304 thousand directly to the state budget (for the six months ended 30 June 2020: UAH 9,915 thousand).

Other changes

For the six months ended 30 June 2021 the Group completed the transfer of property, plant and equipment and construction in progress to entities under the common control of the State with carrying value of UAH 151,243 thousand and made related value added tax charges in the amount of UAH 19,232 thousand in accordance with the relevant resolutions of the Cabinet of Ministers. The transferred facilities included railway tracks, rolling stock and a checkpoint of exit entry into the temporarily occupied territory of Ukraine for the Chongar road service (Note 6). The effect of such disposals was accounted in the interim condensed consolidated statement of changes in equity directly as equity distribution.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

9. Interest-bearing loans and borrowings

As at 30 June 2021 and 31 December 2020 interest-bearing loans and borrowings comprised:

	30 June 2021	31 December 2020
Interest-bearing bank loans	16,056,148	13,787,145
Eurobonds issued	18,243,046	20,441,824
Other borrowings	502,233	505,771
	<u>34,801,427</u>	<u>34,734,740</u>

During 2013-2019, the Group has placed loan participation notes (Eurobonds) on the Irish Stock Exchange. The Group's Eurobonds pertain to:

- The remaining loan of USD 500,000 thousand received as a result of loan participation notes (Eurobonds) placed by Shortline PLC on the 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 at 30 June 2021, the Group has timely paid in full 90% of its Eurobonds placed by Shortline PLC.
- The loan of USD 594,902 thousand received as a result of loan participation notes (Eurobonds) placed by Rail Capital Markets PLC on the Irish Stock Exchange in July and September 2019 with maturity date in July 2024.

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 amendments were made to the reorganization legislation, which provided for a moratorium on foreclosure on assets of railway transport companies whose assets are located on the territory of the anti-terrorist operation, until the termination of the joint force operation and completion of succession procedures (stock-take of assets and liabilities, their valuation and official transfer and acceptance by the Company).

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 30 June 2021, the liabilities of uncontrolled territories comprised interest-bearing loans and borrowings in the amount of UAH 3,655,483 thousand, which are denominated in USD (USD 116,036 thousand) with a fixed interest rate of 10.65% - 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 17.4% - 18%.

However, during 2020-2021, the Supreme Court of Ukraine recognised the Company as the legal successor of SE “Donetsk Railway” with regard to certain obligations of uncontrolled territories. In response, the Company appeals against these decisions (including the representation of the Company as a debtor in accordance with the enforcement) in the courts of various instances. Although the Company has been recognised as the legal successor of SE “Donetsk Railway” by the Supreme Court of Ukraine and some courts of first instance, any recovery of assets and enforcement of obligations of Donetsk Railway is possible only after the completion of succession proceedings or within six months after termination of security and defense operations and the restoration of Ukraine's sovereignty over the temporarily occupied territories of Donetsk and Luhansk regions, in accordance with the moratorium regime described above. The potential adverse effects on the Group of these claims are disclosed in Note 14.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the six months ended 30 June 2021***(in thousands of Ukrainian Hryvnia, unless otherwise indicated)***9. Interest-bearing loans and borrowings (continued)**

As at 30 June 2021 and 31 December 2020, effective interest rates and currency split for borrowings were as follows:

	<i>Interest rate</i>	<i>30 June 2021</i>	<i>Interest rate</i>	<i>31 December 2020</i>
USD				
Fixed rate	3.5%-11.5%	29,622,635	8.68%-12%	32,048,341
Floating rate	LIBOR 6 m + 1%	119,322	LIBOR 6m + 1%-6%	256,742
		<u>29,741,957</u>		<u>32,305,083</u>
EUR				
Floating rate	EURIBOR 6m + 0.3%-1%	1,816,515	EURIBOR 6m + 0.3%	1,902,769
		<u>1,816,515</u>		<u>1,902,769</u>
UAH				
Fixed rate	10.46%	502,233	10.46%-16.4%	506,357
Floating rate	UIRD 6m + 4.35%	2,283,806	UIRD 6m + 3%	20,531
	UIRD 12m + 5%	456,916	–	–
		<u>3,242,955</u>		<u>526,888</u>
Total interest-bearing loans and borrowings		34,801,427		34,734,740
Less: current portion		<u>(15,558,639)</u>		<u>(16,398,153)</u>
Interest-bearing loans and borrowings, non-current		<u>19,242,788</u>		<u>18,336,587</u>

In March 2021, the Group signed a loan agreement for a revolving credit line with one of the state-owned Ukrainian banks with a total limit of USD 38 million with maturity in December 2021.

In May 2021, the agreement with the Ukrainian bank on the partial change of the debt repayment schedule to the local bank was finalized and come to terms on a gradual reduction of the cost of financing by reducing the interest rate in proportion to the debt reduction (including in case of early repayment).

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 a result of worsening of the economic conditions in Ukraine due to the COVID-19 outbreak as described in Note 2, as at 31 December 2020, the Group did not comply with the financial covenant under one of the long-term loan with the carrying amount of UAH 1,902,514 thousand. In November 2020, the Group has initiated negotiations with the relevant bank in order to obtain a waiving letter to remediate this breach before 31 December 2020. Due to the bank's internal administrative procedures, the internal approval process was completed by the bank after the reporting date, and in March 2021, the Group received a written letter waiving the right to demand early repayment of this debt. Pursuant to the requirements of IAS 1 *Presentation of Financial Statements*, the non-current portion under the above-mentioned agreement of UAH 1,893,829 thousand was reported within current liabilities at 31 December 2020. As at 30 June 2021, this non-compliance was rectified with the obtaining of the waiver in March 2021 and the respective obligation were classified as non-current and current liabilities based on the contractual maturities.

As at 30 June 2021 and 31 December 2020, a breach of undertakings was continuing under the loan agreements in foreign currency with one of the creditors that the Group was not able to timely restructure for an outstanding amount of UAH 5,952,159 thousand and UAH 5,956,799 thousand, respectively. As at 30 June 2021 and 31 December 2020, the cross-default was rectified as the respective lenders provided written letters waiving the right for accelerated repayment of debt and accrual of fines related to the breach before the reporting dates. Management undertakes measures to rectify the breach.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the six months ended 30 June 2021***(in thousands of Ukrainian Hryvnia, unless otherwise indicated)***9. Interest-bearing loans and borrowings (continued)**

As at 30 June 2021, undrawn loan facilities available to the Group were of UAH 5,688,339 thousand (31 December 2020: UAH 5,216,238 thousand).

As at 30 June 2021 and 31 December 2020, interest-bearing loans and borrowings were secured as follows:

	30 June 2021	31 December 2020
Type of collateral		
Property, plant and equipment	–	216,064
Inventories	111,251	111,251
Proceeds from future revenue	11,560,487	21,609,618
Guarantees issued by the State of Ukraine (Note 16)	1,935,837	2,088,986

10. Lease liability

Lease liability is represented by amounts due under agreements for lease of diesel locomotives, electric multiple unit train and certain buildings, constructions and infrastructure assets. Some of lease payments are pegged to USD; the average lease term is 7 years.

Set out below are the carrying amounts of the Group’s right-of-use assets and lease liabilities recognised and the movements during the period:

	Right of use assets					
	Buildings, constructions and infra- structure	Locomotives	Vehicles	Plant, equipment, tools and other	Total	Lease liabilities
At 1 January 2021	630	3,479,396	704	—	3,480,730	1,964,935
Addition	492	—	—	—	492	492
Depreciation	(406)	(45,624)	(59)	—	(46,089)	—
Interest expenses	—	—	—	—	—	158,197
Foreign exchange difference, net	—	—	—	—	—	(239)
Payments	—	—	—	—	—	(362,498)
At 30 June 2021	716	3,433,772	645	—	3,435,133	1,760,887

	Right of use assets					
	Buildings, constructions and infra- structure	Locomotives	Vehicles	Plant, equipment, tools and other	Total	Lease liabilities
At 1 January 2020	596	3,570,645	811	727	3,572,779	2,366,244
Addition/(transfer), net	729	—	—	(727)	2	2
Depreciation	(388)	(48,036)	(59)	—	(48,483)	—
Interest expenses	—	—	—	—	—	210,511
Foreign exchange difference, net	—	—	—	—	—	3,456
Payments	—	—	—	—	—	(411,730)
At 30 June 2020	937	3,522,609	752	—	3,524,298	2,168,483

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

11. Trade and other payables

As at 30 June 2021, trade and other payables decreased mainly due to settlement by the Group of payables related to the main activities (purchase of fuel, electricity, and inventories) according to the payment terms as well as seasonal reduction in purchase of spare parts and fuel.

12. Provisions

Movement in the provisions was as follows:

	<i>For the six months 2021</i>	<i>For the six months 2020</i>
At 1 January	1,282,833	1,217,103
Accrued/(reversed) during the period	(2,809)	29,639
Amounts used	(6,783)	(31,850)
Foreign exchange difference	(33,953)	86,394
At 30 June	<u>1,239,288</u>	<u>1,301,286</u>

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 consist mostly of provision for litigations.

13. Revenues

Revenue from contracts with customers for the six months ended 30 June 2021 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	31,217,942	–	–	–	–	31,217,942
Passenger revenues	–	2,154,707	269,095	–	–	2,423,802
Other revenues	–	–	–	2,807,690	567,581	3,375,271
Total revenue from contracts with customers	31,217,942	2,154,707	269,095	2,807,690	567,581	37,017,015
Timing of revenue recognition						
At a point in time	–	–	–	885,172	13,844	899,016
Over time	31,217,942	2,154,707	269,095	1,922,518	553,737	36,117,999
Total revenue from contracts with customers	<u>31,217,942</u>	<u>2,154,707</u>	<u>269,095</u>	<u>2,807,690</u>	<u>567,581</u>	<u>37,017,015</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the six months ended 30 June 2021***(in thousands of Ukrainian Hryvnia, unless otherwise indicated)***13. Revenues (continued)**

Revenue from contracts with customers for the six months ended 30 June 2020 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	30,653,071	–	–	–	–	30,653,071
Passenger revenues	–	1,710,664	201,714	–	–	1,912,378
Other revenues	–	–	–	2,668,592	389,245	3,057,837
Total revenue from contracts with customers	30,653,071	1,710,664	201,714	2,668,592	389,245	35,623,286
Timing of revenue recognition						
At a point in time	–	–	–	749,632	15,203	764,835
Over time	30,653,071	1,710,664	201,714	1,918,960	374,042	34,858,451
Total revenue from contracts with customers	30,653,071	1,710,664	201,714	2,668,592	389,245	35,623,286

Seasonal fluctuations

The Group’s activities are characterised by the absence of significant seasonal fluctuations. Cargo revenues are generally stable throughout the year, however, due to some seasonality of passenger traffic due to summer vacations, passenger revenues may increase in the second half of the year compared to the first one. Moreover, quarantine measures to prevent the spread of coronavirus (COVID-19) in Ukraine in the first half of 2020 had a significant negative impact on the volume of passenger revenues.

14. 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 tax legislation and regulations and other regulatory frameworks, 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 interim condensed consolidated financial statements.

Litigations

In the normal course of business, the Group is subject to various routine litigation and arbitration related matters. As at 30 June 2021, the Group was involved in litigations with tax authorities with respect to additional accrual of tax liabilities for corporate income tax, VAT and other taxes in total amount of UAH 1,184,274 thousand, including additional charges and penalties (31 December 2020: UAH 1,446,307 thousand).

As at 30 June 2021, the Group’s possible exposure to the ascertained third parties’ claims was UAH 1,732,468 thousand (31 December 2020: UAH 2,011,822 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

14. Contingencies and commitments (continued)

As at 30 June 2021, the Group’s possible exposure related to the claims in respect of the interest-bearing loans and borrowing of uncontrolled territories (and covered by the moratorium on payment) described in Note 2, was UAH 3,012,552 thousand (31 December 2020: UAH 3,196,484 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 interim condensed consolidated financial statements. Provisions were recognised for obligations with probable outflow of resources embodying economic benefits (Note 12).

Capital commitments

As at 30 June 2021, the Group’s outstanding commitment in respect of purchase of property and equipment amounted to UAH 4,610,484 thousand (31 December 2020: UAH 235,748 thousand), out of which UAH 3,042,042 thousand will be financed from the state budget of Ukraine (2020: nil), and other commitments amounted to UAH 1,960,400 thousand (31 December 2020: UAH 1,777,809 thousand).

15. 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 interim condensed consolidated statements of financial position:

	<i>Fair value</i>		<i>Carrying value</i>	
	<i>30 June 2021</i>	<i>31 December 2020</i>	<i>30 June 2021</i>	<i>31 December 2020</i>
Financial assets				
Trade and other receivables	885,965	570,546	885,965	570,546
Equity instruments of another entities	62,326	62,326	62,326	62,326
Other non-current financial assets	31,367	25,969	31,367	25,969
Other current financial assets	7,878	9,759	7,878	9,759
Cash and cash equivalents	1,812,911	2,497,546	1,812,911	2,497,546
Financial liabilities				
Interest-bearing loans and borrowings	35,474,569	35,312,824	34,801,427	34,734,740
Trade and other payables	6,030,232	8,681,867	6,030,232	8,681,867

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, 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.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the six months ended 30 June 2021***(in thousands of Ukrainian Hryvnia, unless otherwise indicated)***15. Fair value of financial instruments (continued)**

Fair value of financial assets and liabilities as at 30 June 2021 and 31 December 2020 as follows:

<i>30 June 2021</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	–	–	885,965	885,965
Other non-current financial assets	–	–	31,367	31,367
Other current financial assets (domestic government bonds)	7,878	–	–	7,878
Financial assets carried at fair value through profit or loss				
Equity instruments of another entities (i)	–	–	62,326	62,326
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	18,916,188	–	16,558,381	35,474,569
Trade and other payables	–	–	6,030,232	6,030,232
<i>31 December 2020</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	–	–	570,546	570,546
Other non-current financial assets	–	–	25,969	25,969
Other current financial assets (domestic government bonds)	9,759	–	–	9,759
Financial assets carried at fair value through profit or loss				
Equity instruments of another entities (i)	–	–	62,326	62,326
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	21,019,910	–	14,292,914	35,312,824
Trade and other payables	–	–	8,681,867	8,681,867

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 six-month period ended 30 June 2021.

(i) *Equity instruments of another entities* are classified and measured at fair value through profit or loss. The fair value of such non-listed equity instruments is determined by the Group using market multiples and applying to the relevant financial information of the investees. The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis as at 30 June 2021 and 31 December 2020 are shown below:

<i>Significant unobservable input</i>	<i>Range</i>	<i>Sensitivity of the input to fair value of the equity instruments</i>
Price to book value	2021: 0.85 2020: 0.97	5% increase/decrease in the multiplier would result in an increase/decrease in fair value by UAH 1,114 thousand (2020: UAH 1,296 thousand)
Enterprise value to invested capital	2021: 0.93 2020: 0.99	5% increase/decrease in the multiplier would result in increase/decrease in fair value by UAH 4,694 thousand (2020: UAH 3,920 thousand)

Reconciliation of fair value measurement of equity instruments of another entities is as follows:

At 31 December 2020	62,326
Remeasurement recognised in profit or loss	–
At 30 June 2021	62,326

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the six months ended 30 June 2021***(in thousands of Ukrainian Hryvnia, unless otherwise indicated)***16. Related party disclosure**

The outstanding balances and transaction with related parties comprised:

	<i>30 June 2021</i>	<i>31 December 2020</i>
Entities under common control of the State		
Prepayments for property, plant and equipment	6,396	6,396
Trade and other receivables	408,991	324,339
Prepayments	64,544	18,204
Cash and cash equivalents	1,703,212	2,362,176
Trade and other payables, other than dividends	241,300	194,105
Contract liabilities (advances received)	36,953	53,106
Interest-bearing loans and borrowings and lease liability	6,005,472	2,479,580
Other current financial assets	7,878	9,759
	<i>For the six months 2021</i>	<i>For the six months 2020</i>
Entities under common control of the State		
Cargo revenues	1,819,652	1,004,566
Passenger revenues	45,333	5,383
Other revenues	265,177	223,968
Electricity	(1,170,119)	(1,104,676)
Materials, maintenance and repairs	(233,287)	(105,678)
Finance income	22,359	103,714
Finance costs	(357,325)	(268,277)

The outstanding balances and transaction with associates comprised:

	<i>30 June 2021</i>	<i>31 December 2020</i>
Outstanding balances		
Contract liabilities (advances received)	–	3,214
	<i>For the six months 2021</i>	<i>For the six months 2020</i>
Transactions during the year		
Cargo revenues	10,719	31,044
Other revenues	328	187

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are conducted at regular prices, broadly similar to those with other non-related customers and suppliers. Outstanding balances at the reporting date are unsecured, interest-free, and settlements occur in cash. There have been no guarantees provided or received for any related party receivables or payables.

Guarantees issued by the State of Ukraine

As at 30 June 2021, the Group's interest-bearing loans with carrying value of UAH 1,935,837 thousand (31 December 2020: UAH 2,088,986 thousand) were guaranteed by the State of Ukraine.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

16. Related party disclosure (continued)

Compensation to key management personnel

For the six months ended 30 June 2021, the total compensation to the Management Board mostly included payroll, payroll related taxes and bonuses amounted to UAH 19,742 thousand (six months ended 30 June 2020: UAH 26,417 thousand).

For the six months ended 30 June 2021, the total compensation to the members of the Supervisory Board was UAH 15,127 thousand (six months ended 30 June 2020: UAH 14,380 thousand).

Dividends to the State

As at 30 June 2021, dividends payable to the State in the amount of UAH 1,392 thousand were included in trade and other payables (31 December 2020: UAH 753,748 thousand). For the six months ended 30 June 2021, dividends were accrued in amount of UAH 3,448 thousand (for the six months ended 30 June 2020: UAH 4,099 thousand). The information on dividends to the State is provided in Note 8.

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 40,772 thousand during the six months ended 30 June 2021 (six months ended 30 June 2020: UAH 24,061 thousand) were included into passenger revenues.

17. Events after the reporting period

Pricing policy

Tariffs for domestic cargo transportation

In August 2021, the order of the Ministry of Infrastructure of Ukraine No. 418 *On the Introduction Changes to the Coefficients Applicable to the Tariffs of the Collection of Tariffs for the Carriage of Goods by Rail within Ukraine and Related Services* dated 11 August 2021 (registered with the Ministry of Justice of Ukraine under No. 1070/36692 dated 13 August 2021) was made effective. The main points of the order are the convergence of tariff classes by changing the level of state-regulated tariffs for transportation of goods, namely:

- Setting tariffs for extracurricular cargo at the previously effective level for of the 1st tariff class, which cause the tariff rise up 25.9%;
- Gradual increase in the level of tariffs for cargo transportation of the 1st tariff class by 8% from 1 September 2021 and by another 20.4% from 1 January 2022;
- Gradual increase in the level of tariffs for cargo transportation of the 2nd tariff class by 8% from 1 September 2021 and by another 6.5% from 1 January 2022;
- Establishment of tariffs for transportation of empty carriages for cargo of 1st tariff class and cargo of extracurricular group for the next load at the level of tariffs from under the unloading of goods of the 2nd tariff class under the next load, which led to an increase in the tariff by 51.8%.

Management of interest-bearing loans and borrowings after the reporting date

In July 2021, the Group signed an agreement to open a revolving credit line with a credit limit of UAH 260 million valid until the end of June 2025.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2021

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

17. Events after the reporting period (continued)

In July 2021, the Group raised a loan from the international capital market by issuing bonds on the Irish Stock Exchange in the amount of USD 300 million (equivalent to UAH 8,191 million at the exchange rate of NBU on the date of issue) with a maturity in 2026 and an interest rate of 8.28948% per annum.

A significant part of the proceeds from the issuance of Eurobonds was used to repay long-term debt with one of the Ukrainian creditors in the amount of USD 131 million (equivalent to UAH 3,576 million at the exchange rate of NBU on the date of payment).

In addition, in September 2021, the Group repaid in a timely manner and in full the last part of its principal debt on Shortline PLC Eurobonds in the amount of USD 50 million or the equivalent of UAH 1,334 million. (at the official exchange rate of NBU on the date of payment) and paid the coupon income on them.

Renewal of passenger transportation carriages and modernization of railway infrastructure for the development of passenger transportation

In order to renew passenger transportation carriages, the State Budget of Ukraine for 2021 provides funding to the Group for the purchase of new carriages worth over UAH 4 billion (including VAT) under the program 3101270 “Renovation of rolling stock for passenger transportation and modernization of railway infrastructure for the development of passenger traffic”.

On 25 June 2021, the Group signed a supply agreement with the Ukrainian producer of the passenger transportation carriages for 100 carriages. In July 2021, the Group transferred an advance payment of 30% of total value in the amount of almost UAH 913 million to one of local producer of the passenger transportation carriages. Under the terms of the contract, the first batch of cars – 10% of the total – is planned to be delivered no later than 6 months from the date of prepayment, i.e. the first 10 cars have to be delivered in January 2022 and delivery all carriages should take place by the end of July 2022.

Supplementary financial information

CONSOLIDATED BALANCE SHEET (STATEMENT OF FINANCIAL POSITION)
as at 30 June 2021

Entity: JSC "Ukrainian railways"

Location: Ukraine

Ownership: Joint Stock Company

Type of activity: Freight railroad transport

Average quantity of employees: 241 691

Address, telephone: 5, Jerzy Giedroyc St., Kyiv 03150, phone 465-05-52

Date (year month date)

Per EDRPOU

Per KOATUU

Per KOPFG

Per KVED

2021 | 06 | 30**40075815****8038200000****230****49.20**

Units of measurement: UAH thousand rounded to decimal sign

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 2020	As at 30 June 2021
1	2	3	4
I. Non-current assets			
Intangible assets:	1000	45,876,324	45,883,869
historical cost	1001	46,169,105	46,201,406
accumulated amortization	1002	292,781	317,537
Capital investments in progress	1005	7,039,711	7,939,248
Property, plant and equipment:	1010	177,309,981	174,421,754
historical cost	1011	482,430,713	485,586,417
accumulated depreciation	1012	305,120,732	311,164,663
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	729,058	697,946
other financial investments	1035	62,326	62,326
Non-current receivables	1040	11,945	11,297
Deferred tax assets	1045	196,847	217,773
Other non-current assets	1090	13,898,541	13,904,950
Total section I	1095	245,124,733	243,139,163
II. Current assets			
Inventories:	1100	8,725,528	7,344,187
production inventories	1101	8,128,247	6,312,216
work in progress	1102	253,203	657,444
finished goods	1103	336,576	370,151
Commodities	1104	7,502	4,376
Current biological assets	1110	33	53
Accounts receivable for goods, works and services	1125	319,117	585,301
Accounts receivable on settlements:			
on prepayments made	1130	94,714	158,199
with budget	1135	296,604	168,613
including income tax	1136	112,433	11,636
Accounts receivable on intercompany settlements	1145	–	–
Other current accounts receivable	1155	234,299	276,815
Current financial investments	1160	9,759	7,878
Cash and cash equivalents:	1165	2,497,546	1,812,911
cash in hand	1166	225	356
cash at banks	1167	2,482,438	1,776,263
Deferred expenses	1170	11,247	18,856
Other current assets	1190	299,799	224,577
Total section II	1195	12,488,646	10,597,390
III. Assets classified as held for distribution	1200	96,162	25,999
Balance	1300	257,709,541	253,762,552

Supplementary financial information

Liabilities and equity	Line code	As at 31 December 2020	As at 30 June 2021
1	2	3	4
I. Equity			
Share capital	1400	229,879,115	229,879,115
Capital in revaluation	1405	–	–
Additional capital	1410	18,905,900	18,915,305
Reserve fund	1415	–	–
Retained earnings (accumulated deficit)	1420	(49,426,445)	(51,015,809)
Unpaid capital	1425	–	–
Treasury shares	1430	–	–
Non-controlling interests	1490	30,352	27,989
Total section I	1495	199,388,922	197,806,600
II. Non-current liabilities and provisions			
Deferred tax liabilities	1500	42,716	27,483
Non-current bank loans	1510	1,508,426	3,069,322
Other non-current liabilities	1515	23,586,653	22,658,643
Other non-current provisions	1520	3,588,929	3,536,673
Non-current provisions for staff expenses	1521	3,588,929	3,536,673
Special purpose financing	1525	35,113	39,109
Total section II	1595	28,761,837	29,331,230
III. Current liabilities and provisions			
Short-term bank loans	1600	–	1,001,718
Current liabilities for:			
current portion of non-current liabilities	1610	14,310,974	12,351,687
for goods, works and services	1615	3,961,039	1,489,025
with budget	1620	1,091,972	1,406,901
with Income tax	1621	2,572	3,658
social insurance	1625	417,720	324,884
wages	1630	1,668,793	1,374,846
Current liabilities on advances received	1635	1,680,392	1,968,761
Current payables to settlements with participants	1640	755,434	3,177
Current liabilities on intercompany settlements	1645	–	–
Other provisions	1660	2,791,091	3,720,706
Deferred income	1665	25,910	55,575
Other current liabilities	1690	2,855,457	2,927,442
Total section III	1695	29,558,782	26,624,722
IV. Liabilities directly associated with the assets classified as held for distribution	1700	–	–
Balance	1900	257,709,541	253,762,552

Supplementary financial information

Entity: JSC "Ukrainian railways"

Date (year, month, date)
per EDRPOU

CODE		
2021	06	30
40075815		

CONSOLIDATED STATEMENT OF FINANCIAL RESULTS
(STATEMENT OF COMPREHENSIVE INCOME)
FOR THE SIX MONTHS ENDED 30 JUNE 2021

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	37,017,015	35,623,286
Cost of goods (merchandise, works, services) sold	2050	(37,428,518)	(37,303,644)
Gross:			
Profit	2090	–	–
Loss	2095	(411,503)	(1,680,358)
Other operating income	2120	2,095,959	302,710
Administrative expenses	2130	(535,396)	(412,616)
Selling expenses	2150	(36,499)	(35,315)
Other operating expenses	2180	(1,389,077)	(5,201,656)
Financial results from operating activities:			
Profit	2190	–	–
Loss	2195	(276,516)	(7,027,235)
Income from investments accounted for under the equity method	2200	–	–
Other finance income	2220	29,210	108,645
Other income	2240	889,087	146,089
Finance costs	2250	(2,055,612)	(2,029,188)
Losses from investments accounted for under the equity method	2255	(25,973)	(24,312)
Other expenses	2270	(8)	(15)
Financial results before taxation:			
Profit	2290	–	–
Loss	2295	(1,439,812)	(8,826,016)
Income tax expense	2300	31,514	34,001
Income (loss) from discontinued operations after tax	2305	–	–
Net financial result:			
Profit	2350	–	–
Loss	2355	(1,408,298)	(8,792,015)

II. COMPREHENSIVE INCOME

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Revaluation of non-current assets	2400	–	–
Revaluation of financial instruments	2405	–	–
Accumulated foreign exchange rate differences	2410	–	–
Share of other comprehensive income of associates and joint ventures	2415	–	(4,175)
Other comprehensive income	2445	–	–
Other comprehensive income before tax	2450	–	(4,175)
Income tax related to other comprehensive income	2455	–	–
Other comprehensive income after tax	2460	–	(4,175)
Comprehensive profit (sum lines 2350, 2355 and 2460)	2465	(1,408,298)	(8,796,190)
Net financial result attributable to:			
Equity holder of the parent	2470	(1,406,036)	(8,789,813)
Non-controlling interests	2475	(2,262)	(2,202)
Comprehensive (loss)/income attributable to:			
Equity holder of the parent	2480	(1,406,036)	(8,793,988)
Non-controlling interests	2485	(2,262)	(2,202)

Supplementary financial information

III. ELEMENTS OF OPERATING EXPENSES

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Cost of materials	2500	9,401,264	8,831,147
Labour costs	2505	17,261,368	17,082,338
Social security charges	2510	3,713,805	3,685,357
Depreciation and amortization	2515	6,110,454	6,597,225
Other operating expenses	2520	3,340,415	6,835,071
Total	2550	39,827,306	43,031,138

IV. CALCULATION OF EARNINGS PER SHARE

Description	Line code	For the reporting period	For the previous period
1	2	3	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	(6.12625)	(38.25000)
Adjusted net income per ordinary share	2615	(6.12625)	(38.25000)
Dividends per ordinary share	2650	—	—

Supplementary financial information

Entity: JSC "Ukrainian railways"

Date (year, month, date)
per EDRPOU

CODE		
2021	06	30
40075815		

**CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method)
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

Form # 3-ci

DKUD code

1801010

Description 1	Line code 2	For the reporting period		For the previous period	
		proceeds 3	expense 4	proceeds 5	Expense 6
I. Cash flows from operating activities					
Profit (loss) from ordinary activities before tax	3500	–	1,439,812	–	8,826,016
Corrections on:					
depreciation of fixed assets	3505	6,110,454	X	6,597,225	X
increase (decrease) in provisions	3510	729,570	–	434,031	–
loss (profit) on unrealized exchange differences	3515	–	1,380,121	3,114,372	–
loss (profit) from non-operating activities and other non-cash transactions	3520	–	892,316	–	230,407
Financial expenses	3540	2,055,612	X	2,029,188	X
Decrease (increase) in current assets	3550	2,290,396	–	1,385,800	–
increase (decrease) in inventories	3551	2,571,242	–	1,294,637	–
decrease (increase) in accounts receivable for products, goods, works, services	3553	–	266,103	–	290,321
decrease (increase) in other current receivables	3554	–	76,595	198,024	–
decrease (increase) in deferred expenses	3556	–	7,609	3,427	–
decrease (increase) in other current assets	3557	69,461	–	180,033	–
Increase (decrease) in current liabilities, including:	3560	–	1,840,807	–	3,038,995
increase (decrease) in current accounts payable for goods and services	3561	–	1,910,346	–	2,475,605
increase (decrease) in current budget settlements	3562	297,144	–	304,102	–
increase (decrease) in current insurance settlements	3563	–	92,836	–	87,062
increase (decrease) in current salary settlements	3564	–	293,947	–	376,889
increase (decrease) in deferred income	3566	29,665	–	–	6,670
Increase (decrease) in other current payables	3567	129,513	–	–	396,871
Cash from operating activities	3570	5,632,976	–	1,465,198	–
Income tax paid	3580	X	3,596	X	14,690
Borrowings interest paid	3585	–	–	–	–
Net cash flow from operating activities	3195	5,629,380	–	1,450,508	–
II. Cash flows from investing activities					
Proceeds from sale of:					
financial investments	3200	1,795	X	2,186,701	X
Fixed assets	3205	–	X	21,125	X
Proceeds from received:					
interests	3215	2,400	X	35,519	X
Dividends	3220	5,140	X	–	X
proceeds from derivatives	3225	–	X	–	X
other proceeds	3250	23,256	X	83,151	X
Payments on acquisition:					
financial investments	3255	X	–	X	–
fixed assets	3260	X	5,024,476	X	3,425,144
payments for derivatives	3270	X	–	X	–
other payments	3290	X	–	X	–
Net cash flows from investing activities	3295	–	4,991,885	–	1,098,648
III. Cash flows from financing activities					
Proceeds from share capital	3300	–	X	–	X
Proceeds from borrowings	3305	20,757,869	X	10,926,624	X
Other proceeds	3340	1,747	X	–	X
Payments for:					
own securities	3345	X	–	X	–
repayment of borrowings	3350	X	19,526,477	X	13,239,724
dividends paid	3355	X	654,972	X	9,977
Borrowings interest paid	3360	X	1,373,291	X	1,269,623
Finance lease interests paid	3365	X	362,498	X	411,730
Other payments	3390	X	116,335	X	81,761
Net cash flows from financing activities	3395	–	1,273,957	–	4,086,191
Net (decrease)/increase in cash and cash equivalents	3400	–	636,462	–	3,734,331
Cash balance at the beginning of the year	3405	2,497,546	X	6,981,236	X
Net foreign exchange difference	3410	–	48,173	299,748	–
Cash balance at the end of the year	3415	1,812,911	X	3,546,653	X

Translation from Ukrainian original

Supplementary financial information

Entity: JSC "Ukrainian railways"

Date (year, month, date)
per EDRPOU

CODE		
2021	06	30
40075815		

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED 30 JUNE 2021**

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	–	18,905,900	–	(49,426,445)	–	–	199,358,570	30,352	199,388,922
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	–	18,905,900	–	(49,426,445)	–	–	199,358,570	30,352	199,388,922
Net profit (loss) for the reporting period	4100	–	–	–	–	(1,406,036)	–	–	(1,406,036)	(2,262)	(1,408,298)
Other comprehensive income for the current period including:	4110	–	–	–	–	–	–	–	–	–	–
Revaluation (disposal) of fixed assets	4111	–	–	–	–	–	–	–	–	–	–
Other comprehensive income	4116	–	–	–	–	–	–	–	–	–	–
Distribution of profit:											
Payments to shareholders (dividends)	4200	–	–	–	–	(3,448)	–	–	(3,448)	(101)	(3,549)
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	–	–	9,405	–	(179,880)	–	–	(170,475)	–	(170,475)
Total changes in equity	4295	–	–	9,405	–	(1,589,364)	–	–	(1,579,959)	(2,363)	(1,582,322)
Balance at the end of the period	4300	229,879,115	–	18,915,305	–	(51,015,809)	–	–	197,778,611	27,989	197,806,600