

Public joint stock company
"Ukrainian Railway"

Unaudited interim condensed consolidated
financial statements

As at 30 June 2016

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REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholder of Public joint stock company "Ukrainian railway"

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of Public joint stock company "Ukrainian railway" and its subsidiaries (collectively referred to as "the Group"), which comprise the interim consolidated statement of financial position as at 30 June 2016, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity and the interim consolidated statement of cash flow for the six-month period then ended and explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with International Financial Reporting Standard IAS 34, *Interim Financial Reporting* ("IAS 34"). Our responsibility is to express a conclusion on these interim condensed consolidated financial statements based on our review.

Scope of review

Except as explained in Basis for Qualified Conclusion paragraph (i), we conducted our review in accordance with the International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim condensed consolidated financial statements 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 accompanying interim condensed consolidated financial statements, certain assets 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. As a result, we were unable to obtain sufficient appropriate audit evidence in respect of the carrying values of assets of UAH 16,640,808 thousand and UAH 15,526,087 thousand as at 30 June 2016 and 31 December 2015, respectively, liabilities of UAH 7,880,258 thousand and UAH 6,808,383 thousand as at 30 June 2016 and 31 December 2015, respectively, revenues of UAH 1,937,602 thousand and UAH 1,717,977 thousand for six-month periods ended 30 June 2016 and 2015, respectively, share of profit of an associate of UAH 31,874 thousand for the six-month period ended 30 June 2016 and loss of UAH 618,567 thousand and UAH 2,875,158 thousand for for six-month periods ended 30 June 2016 and 2015, respectively, as well as in respect of increase in retained earnings of UAH 4,536,104 thousand recognised in the statement of changes in equity for 2015 as a result of the reorganisation as disclosed in Note 2 to the consolidated financial statements.

(continued on the next page)

- (ii) As disclosed in Note 6 to the interim condensed consolidated financial statements, the Group changed its accounting policy for property, plant and equipment from cost to revaluation model starting from 1 December 2015. Carrying value of property, plant and equipment was determined based on the revaluation results as at 31 July 2014 performed for statutory purposes adjusted for depreciation and movements in property, plant and equipment for the periods since revaluation, which is not fair value as at 1 December 2015. Such approach is not in accordance with IAS 8, Accounting Policies, Changes in Accounting Estimates and Errors and IAS 16, Property, Plant and Equipment. The carrying value of the Group's property, plant and equipment as at 30 June 2016 had the Group continued to follow cost model has 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 the Basis for Qualified Conclusion paragraph (i), and with the exception of the matter described in the Basis for Qualified Conclusion paragraph (ii), nothing has come to our attention that causes us to believe that the accompanying interim condensed consolidated financial statements are not prepared, in all material respects, in accordance with IAS 34.

Emphasis of Matter

Without qualifying our conclusion, we draw attention to Note 2 in the interim condensed consolidated financial statements which indicates that the Group incurred a net loss of UAH 3,794,466 thousand for the six months ended 30 June 2016 and, as of that date, the Group's current liabilities exceeded its current assets by UAH 16,096,507 thousand. We further draw attention to Note 9 in the interim condensed consolidated financial statements which indicates that the Group breached certain undertakings under its loan arrangements as at 30 June 2016 and after the reporting period and as at the date of approval of the interim condensed consolidated financial statements, the Group has not completed its negotiations with the lenders on reaching a mutually acceptable restructuring agreement with respect to its borrowing facilities. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern.

REPORT ON THE SUPPLEMENTARY FINANCIAL INFORMATION

Our review was conducted for the purposes of issuing the review report on the interim condensed consolidated financial statements 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 and are not within the scope of IFRS. Such supplementary financial information has been subjected to the review procedures applied in our review of the interim condensed consolidated financial statements and, 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 the Basis for Qualified Conclusion paragraph (i), and with the exception of the matter described in the Basis for Qualified Conclusion paragraph (ii), nothing has come to our attention that causes us to believe that the accompanying supplementary financial information is not prepared, in all material respects, in relation to the Group's interim condensed consolidated financial statements taken as a whole.



28 October 2016

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2016

(in thousands of Ukrainian Hryvnia)

	Notes	30 June 2016 (unaudited)	31 December 2015 (audited)
Assets			
Non-current assets			
Property, plant and equipment	6	252,484,106	259,312,989
Investment in associate	7	689,874	-
Financial assets		156,167	150,559
Taxes receivable, other than income tax		923,440	679,873
Prepaid income tax		594,217	-
Deferred tax asset		821,105	555,400
		<u>255,668,909</u>	<u>260,698,821</u>
Current assets			
Inventories		4,319,544	5,140,361
Trade and other receivables		1,970,808	1,662,074
Prepayments		167,218	264,397
Prepaid income tax		19,452	620,156
Taxes receivable, other than income tax		570,568	456,379
Cash and cash equivalents		7,061,532	4,884,908
		<u>14,109,122</u>	<u>13,028,275</u>
Total assets		<u>269,778,031</u>	<u>273,727,096</u>
Equity and liabilities			
Equity			
Contributed capital	8	229,879,115	229,879,115
Additional capital	8	19,597,430	19,597,430
Accumulated deficit		(35,031,916)	(31,237,446)
		<u>214,444,629</u>	<u>218,239,099</u>
Non-controlling interests	8	4,833	-
		<u>214,449,462</u>	<u>218,239,099</u>
Non-current liabilities			
Interest-bearing loans and borrowings	9	22,449,521	21,168,008
Finance lease liability	10	680,811	960,331
Defined benefit liability		1,959,376	1,899,361
Deferred tax liability		33,232	33,232
		<u>25,122,940</u>	<u>24,060,932</u>
Current liabilities			
Interest-bearing loans and borrowings	9	20,278,536	20,810,905
Finance lease liability	10	1,018,413	1,077,380
Trade and other payables		5,190,880	6,232,816
Advances from customers		1,677,272	1,864,075
Income tax payable		380,520	45,308
Taxes payable, other than income tax		645,014	580,573
Provisions	11	1,014,994	816,008
		<u>30,205,629</u>	<u>31,427,065</u>
Total liabilities		<u>55,328,569</u>	<u>55,487,997</u>
Total equity and liabilities		<u>269,778,031</u>	<u>273,727,096</u>

Signed and authorised for release on behalf of Public joint stock company "Ukrainian Railway" on 28 October 2016:

Chief Executive Officer

Wojciech Balczun

Member of the management board

Olexandr Buzhor

Chief Accountant-Head of the Department of
Record-keeping, Fiscal Accounting, Accounting and Methodology

Tamara Ryabchun

INTERIM CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia)

	Notes	For the six months 2016 (unaudited)	For the six months 2015 (unaudited)
Revenues			
Cargo revenues		25,103,708	23,827,858
Passenger revenues		3,076,482	2,738,780
Other revenues		2,415,447	2,355,427
Total revenues		<u>30,595,637</u>	<u>28,922,065</u>
Operating expenses			
Staff costs		(11,220,330)	(10,444,843)
Depreciation		(9,237,059)	(2,423,729)
Electricity		(3,384,593)	(2,961,083)
Fuel		(2,605,729)	(3,113,159)
Maintenance		(2,446,665)	(1,890,748)
Taxes, other than income tax		(543,642)	(653,868)
Change in provisions	11	(174,811)	(158,204)
Social expenses		(149,965)	(209,641)
Other income		342,790	435,711
Other expenses		(591,935)	(846,277)
Total operating expenses		<u>(30,011,939)</u>	<u>(22,265,841)</u>
Operating profit		583,698	6,656,224
Finance income		9,435	226,344
Finance costs		(2,870,005)	(2,627,723)
Foreign exchange loss, net		(1,400,925)	(8,738,032)
Share of profit of an associate		31,874	-
Loss before income tax		<u>(3,645,923)</u>	<u>(4,483,187)</u>
Income tax expense	12	<u>(148,543)</u>	<u>(223,999)</u>
Loss for the period		<u>(3,794,466)</u>	<u>(4,707,186)</u>
Attributable to:			
Equity holder of the parent		(3,794,470)	-
Non-controlling interests		4	-
		<u>(3,794,466)</u>	<u>(4,707,186)</u>
Other comprehensive income for the period, net of tax		-	-
Total comprehensive loss for the period, net of tax		<u>(3,794,466)</u>	<u>(4,707,186)</u>
Attributable to:			
Equity holder of the parent		(3,794,470)	-
Non-controlling interests		4	-
Total comprehensive loss for the period, net of tax		<u>(3,794,466)</u>	<u>(4,707,186)</u>

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

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia)

	Notes	Contributed capital	Additional capital	Accumulated deficit	Total	Non-controlling interests	Total equity
As at 1 January 2016 (audited)		229,879,115	19,597,430	(31,237,446)	218,239,099	–	218,239,099
Loss for the period		–	–	(3,794,470)	(3,794,470)	4	(3,794,466)
Total comprehensive loss		–	–	(3,794,470)	(3,794,470)	4	(3,794,466)
Addition of a subsidiary	8	–	–	–	–	4,829	4,829
At 30 June 2016 (unaudited)		<u>229,879,115</u>	<u>19,597,430</u>	<u>(35,031,916)</u>	<u>214,444,629</u>	<u>4,833</u>	<u>214,449,462</u>

for the six months ended 30 June 2015

(in thousands of Ukrainian Hryvnia)

	Notes	Contributed capital	Retained earnings	Total equity
As at 1 January 2015 (audited)		18,640,130	9,129,169	27,769,299
Loss for the period		–	(4,707,186)	(4,707,186)
Total comprehensive loss		–	(4,707,186)	(4,707,186)
Dividends accrued	15	–	(89,130)	(89,130)
At 30 June 2015 (unaudited)		<u>18,640,130</u>	<u>4,332,853</u>	<u>22,972,983</u>

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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOW

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia)

	Notes	For the six months 2016 (unaudited)	For the six months 2015 (unaudited)
Cash flows from operating activities			
Loss before income tax		(3,645,923)	(4,483,187)
<i>Adjustments to reconcile loss before income tax to net cash provided by operations</i>			
Depreciation		9,237,059	2,423,729
Finance costs, net		2,860,570	2,401,379
Loss/(gain) on disposal of property, plant and equipment		61,671	195,826
Movements in defined benefit liability and provisions		73,380	61,790
Allowance for estimated irrecoverable amounts		77,113	9,225
Unrealised foreign exchange gain		1,404,259	8,675,425
Share in profit of an associate		(31,874)	-
Operating profit before working capital changes		10,036,255	9,284,187
<i>Changes in working capital</i>			
Trade and other receivables		(1,069,232)	144,789
Prepayments		29,519	18,703
Inventories		732,809	(22,979)
Taxes receivable and prepaid		(357,749)	(34,248)
Trade and other payables		(429,332)	(1,592,841)
Advances from customers		(187,901)	(626,788)
Taxes payable, other than income tax		64,226	187,257
Cash generated from operating activity		8,818,595	7,358,080
Income tax paid		(72,549)	(392,959)
Interest paid		(1,807,916)	(1,904,016)
Dividends paid	15	(165,667)	(87,750)
Net cash flows from operating activities		6,772,463	4,973,355
Cash flows from investing activities			
Acquisition of property, plant and equipment		(2,890,217)	(1,153,994)
Proceeds from disposal of property, plant and equipment		910	16,049
Net cash movement on deposit accounts		-	(10,535)
Interest received		9,394	16,413
Addition of a subsidiary, net of cash		881	-
Net cash flows used in investing activities		(2,879,032)	(1,132,067)
Cash flows from financing activities			
Proceeds from interest-bearing loans		148,857	507,033
Repayment of interest-bearing loans		(1,041,864)	(1,665,615)
Proceeds from domestic bonds		269,000	-
Repayment of domestic bonds		(655,000)	(100,000)
Repayment of finance lease obligations		(440,091)	(1,194,497)
Net cash flows used in financing activities		(1,719,098)	(2,453,079)
Net increase in cash and cash equivalents		2,174,333	1,388,209
Net foreign exchange difference		2,291	179,852
Cash and cash equivalents at 1 January		4,884,908	2,038,008
Cash and cash equivalents at 30 June		7,061,532	3,606,069

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 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

1. Description of business and the Group's structure

Creation and operations of the Company and the Group

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

JSC "Ukrzaliznytsia" was created as a result of reorganisation through merger of public service railway enterprises and institutions ("the Reorganisation"). Substantially all assets and liabilities of entities previously subordinated to and effectively controlled by State Administration of Railway Transport of Ukraine (SART "Ukrzaliznytsia", together – "Previous Group") which were previously included in the combined financial statements of SART "Ukrzaliznytsia" were transferred to the Company.

Management believes that besides the change of legal form of entities subject to reorganisation, there were no significant changes in the substance of economic activities, qualitative and quantitative characteristics of assets and liabilities. The Company is considered as a continuation of the Previous Group. The Reorganisation was defined by management as a reorganisation under common control of the state. Accordingly to respective accounting policies the Reorganisation was presented in the consolidated financial statements using pooling of interest method prospectively from the date when changes related to the Reorganisation became effective.

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

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

Corporate information

The sole shareholder of JSC "Ukrzaliznytsia" is the State of Ukraine represented by the Cabinet of Ministers of Ukraine. Management functions for the Company's corporate rights are assigned to the Cabinet of Ministers of Ukraine. Before the Reorganisation State Administration of Railway Transport of Ukraine and other entities of the Previous Group were subordinated to the Ministry of Infrastructure of Ukraine as assigned by the Cabinet of Ministers of Ukraine.

The registered address of JSC "Ukrzaliznytsia" is 5, Tverska St., Kyiv 03680, Ukraine.

Entities included in the consolidated financial statements

The Reorganisation allowed preparing consolidated financial statements instead of combined financial statements starting from 1 December 2015.

Below is presented the information on the entities financial statements of which are included in the consolidated financial statements for the six month ended 30 June 2016.

		Share as at 30 June 2016	Share as at 31 December 2015
1	Public joint stock company "Ukrainian Railway"	Parent	Parent
2	Private joint-stock company "Dnipropetrovsk Diesel Locomotive Repair Plant"	100%	100%
3	Private joint-stock company "Zaporizhzhya Elektric 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 "Insurance Company "Tast Garantiya" (Note 8)	65.62%	-

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

As at 30 June 2016 and 31 December 2015 100% of corporate rights of Private joint-stock company "Transsignal Kyiv Electrical Engineering Plant" were not yet transferred to JSC "Ukrzaliznytsia" as contribution to the charter capital of the Group.

Below is presented the information on the entities financial statements of which are included in the combined financial statements as at and for the six-month period ended 30 June 2015.

Managing entity

1	State Administration of Railways Transportation of Ukraine (Ukrzaliznytsia)	State Enterprise
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Railways

2	Donetsk Railway	State Enterprise
3	Lviv Railway	State Regional Specialised Association
4	Odesa Railway	State Enterprise
5	Prydniprovskaya Railway	State Enterprise
6	South-Western Railway	State Regional Specialised Association
7	Southern Railway	State Enterprise

Auxiliary services

8	Ukrspetsvagon	State Enterprise
9	Ukrainian State Center for Railways Refrigerator Transportation Ukrreftrans	State Enterprise
10	Ukrainian State Center for Transportation Service "Lisky"	State Enterprise
11	Darnytsky Carriage Repair Plant	State Enterprise
12	Main Information Processing Center of Ukrzaliznytsia	State Enterprise
13	Central Communications Station	State Enterprise
14	Ukrainian State Clearing Center for International Transportation	State Enterprise
15	Ukrzaliznychpostach	State Enterprise
16	Ukrainian Center for Railroad Mechanisation	State Enterprise
17	Rava-Rusky Sleeper Plant	State Enterprise
18	Ukrainian Transport Logistics Center	State Enterprise
19	Ukrainian Railway High-Speed Company	State Enterprise
20	Vinnysiatransprylad	State Enterprise
21	Stryysky Carriage Repair Plant	State Enterprise
22	Starokonstantynovsky Concrete Sleeper Plant	State Enterprise
23	Administration for Industrial Enterprises	State Enterprise

As a result of the Reorganisation assets and liabilities of the entities of the Previous Group formed the basis for creation of branches of JSC "Ukrzaliznytsia". Details of inclusion in the consolidated financial statements of assets, liabilities, results of operations related to the temporarily occupied territory of the Autonomous Republic of Crimea and non-controlled territory of Donetsk and Lugansk regions are presented in Note 2.

Pricing policy

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

Tariffs for domestic cargo transportation – approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine and the Ministry of Finance of Ukraine. The tariffs are denominated in Ukrainian Hryvnia and are generally subject to inflation adjustments. There were upward adjustments to the tariff rates during the six-month periods ended 30 June 2016 and 2015.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Tariffs for domestic transportation of passengers and baggage – approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine. The tariffs are denominated in Ukrainian Hryvnia. There were upward adjustments to the tariff rates for domestic transportation of passengers and baggage during the six-month periods ended 30 June 2016. There were no adjustments to the above tariffs for the six-month period ended 30 June 2015.

Tariffs for international cargo transportation – regulated by special Tariff Policy annually approved by the Ministry of Infrastructure of Ukraine based on intergovernmental agreements. Tariffs are denominated in Swiss Francs.

Tariffs for international transportation of passengers and baggage – approved by the Ministry of Infrastructure of Ukraine, denominated in Swiss Francs for the countries of the Commonwealth of Independent States, Latvia, Lithuania, Estonia and in Euro for transportation in other countries.

2. Operating environment, risks and economic conditions in Ukraine

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

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

The remaining weakness of the national currency (UAH), which experienced more than triple devaluation against major foreign currencies since 2013 based on the National Bank of Ukraine ("the NBU") exchange rate of UAH, consolidated with a number of the imposed cross border settlement restrictions (including payment of dividends), and negative external trade balance, substantial dependence on the continued financial support from IMF and other international donors, which stays conditional upon the referred above structural reforms sustaining momentum, weak government finances and low level of internal demand and consumption along with continued volatility in the country's traditional export commodity markets, and high inflation represent key risks to the stabilisation of the Ukrainian operating environment in the near future.

The known and estimable effects of the above factors on the financial position and performance of the Group in the reporting period have been taken into account in preparing the interim condensed consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Following the temporary occupation of the Autonomous Republic of Crimea by the Russian Federation in April 2014, the Group ceased its operations in the region. As at 30 June 2016 the carrying value of the Group's assets and liabilities located in or otherwise associated with the temporarily occupied territory of the Autonomous Republic of Crimea (including customers, borrowers, etc.) was UAH 1,182,515 thousand and 185,104 thousand, respectively. There were no income and/or expenses related to Crimea recorded in the Group's financial statements for the six-month periods ended 30 June 2016 and 2015. 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 per related separate financial statements as at 31 March 2014 (Note 8). Upon cessation of the temporary occupation these assets and liabilities will be revalued and contributed to the Company's Charter capital, except for a portion of property, plant and equipment, that will be transferred under the title of operating control (Note 6).

In the second half of 2014 as a result of the armed confrontations the Ukrainian authorities lost control over certain territory of Donetsk and Lugansk regions where some structural units of State Enterprise "Donetsk Railway" operated. As a result of the Reorganisation the assets and liabilities of structural units of SE "Donetsk Railway" located on the uncontrolled territory of Donetsk and Luhansk regions were transferred to the Company at the carrying values as per related separate financial statements as at 30 June 2014 (Note 8).

Due to the lack of updated official financial information received from the structural units, located on the uncontrolled territory, at the Reorganisation the non-monetary assets and liabilities of these structural units and some monetary assets and liabilities that the Group cannot control, were included in the consolidated financial statements at the carrying values as per separate financial statements of SE "Donetsk Railway" as at 30 June 2014, no adjustments were made to actualise the above carrying values as at 30 June 2016 and 31 December 2015. The income and expenses of the structural units located on the uncontrolled territory were included in the comparative information for the six-month period ended 30 June 2015 without retrospective adjustments, since during the second half of 2014 and in 2015 a large portion of operations of these structural units has been transferred to and accounted by the Regional division "Donetsk Railway" of JSC "Ukrzaliznytsya" (in the consolidated financial statements for the year ended 31 December 2015 the income and expenses of the structural units located on the uncontrolled territory were included for up to nine months ended 30 September 2015 with no retrospective adjustments). Financial liabilities, such as interest-bearing loans and borrowings, as well as finance lease liabilities in which the Group acts as a party to the contractual relationship or able to obtain financial information from third parties, were adjusted to actualise the carrying values as at 30 June 2016 and 2015. The differences that have arisen due to the Reorganisation as a result of inclusion in the consolidated financial statements of balance sheet items that do not correspond to the period of activity, were recorded as increase in equity of UAH 4,536,104 thousand within the effect of the Reorganisation as at 1 December 2015.

After regaining control the assets and liabilities relating to uncontrolled territory of Donetsk and Luhansk regions will be revalued and contributed to the Company's Charter capital, except for a portion of property, plant and equipment, that will be transferred under the title of operating control.

Management has no information which would have enabled to assess possible adjustments to the carrying values of property, plant and equipment, inventories or other assets as a result of armed confrontations on the uncontrolled territory.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

The summarised financial information of Regional division "Donetsk Railway" of JSC "Ukrzaliznytsya" (before the Reorganisation – State Enterprise "Donetsk Railway") included into the interim condensed consolidated financial statements of the Group as at and for the six months ended 30 June 2016 is presented below:

Statement of financial position of Regional division "Donetsk Railway"

	30 June 2016	31 December 2015
Assets		
Non-current assets		
Property, plant and equipment	12,142,249	12,499,602
Intangible assets	185	79
Other non-current financial assets	43,602	43,455
Income tax receivable	29,519	–
	<u>12,215,555</u>	<u>12,543,136</u>
Current assets		
Inventories	1,134,890	597,498
Trade and other receivables	646,829	468,792
Trade and other intercompany receivables	646,315	541,416
Prepayments	–	41,870
Prepaid income tax	–	29,519
Taxes receivable, other than income tax	8,884	8,658
Cash and cash equivalents	115,946	112,683
	<u>2,552,864</u>	<u>1,800,436</u>
Total assets	<u>14,768,419</u>	<u>14,343,572</u>
Equity and liabilities		
Equity		
Contributed capital	–	–
Retained earnings	<u>7,073,265</u>	<u>7,720,293</u>
	<u>7,073,265</u>	<u>7,720,293</u>
Non-current liabilities		
Interest-bearing loans and borrowings	–	–
Finance lease liability	69,723	188,000
Employee benefit liability	337,359	310,930
	<u>407,082</u>	<u>498,930</u>
Current liabilities		
Interest-bearing loans and borrowings	4,953,107	4,549,651
Finance lease liability	495,213	644,821
Trade and other payables	1,491,851	658,615
Trade and other intercompany payables	40,539	239
Advances from customers	206,428	177,326
Taxes payable, other than income tax	100,934	93,697
	<u>7,288,072</u>	<u>6,124,349</u>
Total liabilities	<u>7,695,154</u>	<u>6,623,279</u>
Total equity and liabilities	<u>14,768,419</u>	<u>14,343,572</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Statement of comprehensive income of Regional division "Donetsk Railway"

	<i>For the six months 2016</i>	<i>For the six months 2015</i>
Revenues		
Cargo revenues	1,582,368	1,479,885
Passenger revenues	41,940	45,816
Other revenues	102,396	121,339
Net intercompany revenue	210,898	70,937
Total revenues	<u>1,937,602</u>	<u>1,717,977</u>
Operating expenses		
Staff costs	(1,140,255)	(1,169,626)
Depreciation	(193,047)	(249,375)
Maintenance	(328,118)	(79,627)
Electricity	(182,815)	(245,835)
Fuel	(256,281)	(352,233)
Taxes, other than income tax	(24,776)	(37,684)
Social expenses	(11,555)	(35,931)
Other income	33,158	25,632
Other expenses	(8,414)	(293,529)
Total operating expenses	<u>(2,112,103)</u>	<u>(2,438,208)</u>
Operating loss	(174,501)	(720,231)
Finance income	725	35,966
Finance costs	(352,906)	(476,142)
Foreign exchange loss, net	(91,885)	(1,712,816)
Loss before income tax	<u>(618,567)</u>	<u>(2,873,223)</u>
Income tax expense	-	(1,935)
Loss for the six months	<u>(618,567)</u>	<u>(2,875,158)</u>
Total comprehensive loss for the six months, net of tax	<u>(618,567)</u>	<u>(2,875,158)</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Statement of cash flow of Regional division "Donetsk Railway"

	<i>For the six months 2016</i>	<i>For the six months 2015</i>
Cash flows from operating activities		
Loss before income tax	(618,567)	(2,873,223)
<i>Adjustments to reconcile loss before income tax to net cash provided by operations</i>		
Depreciation	193,047	249,375
Finance costs, net	352,181	440,176
Loss on disposal of property, plant and equipment	-	162
Movements in provisions and pensions	1,743	-
Unrealised foreign exchange loss, net	91,885	1,718,665
Operating profit before working capital changes	20,289	(464,845)
<i>Changes in working capital</i>		
Trade and other receivables	40,782	627,268
Prepayments	31,619	2,028
Inventories	(564,249)	(17,308)
Taxes receivable and prepaid	(226)	13,489
Trade and other payables	557,406	142,329
Advances from customers	(54,992)	(22,062)
Taxes payable, other than income tax	5,494	94,987
Cash generated from operating activity	36,123	375,886
Income tax paid	-	(3,589)
Interest paid	-	(227,176)
Dividends paid	-	-
Net cash flows from operating activities	36,123	145,121
Cash flows from investing activities		
Acquisition of property, plant and equipment	(34,764)	(3,404)
Proceeds from disposal of property, plant and equipment	1,179	823
Interest received	725	1,120
Net cash flows used in investing activities	(32,860)	(1,461)
Cash flows from financing activities		
Proceeds from Interest-bearing loans	-	-
Repayment of Interest-bearing loans	-	(56,422)
Proceeds from domestic bonds	-	-
Repayment of domestic bonds	-	-
Repayment of finance lease obligations	-	-
Net cash flows used in financing activities	-	(56,422)
Net increase in cash and cash equivalents	3,263	87,238
Cash and cash equivalents at 1 January	112,683	32,650
Cash and cash equivalents at 30 June	115,946	119,888

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

The above information includes assets and liabilities, income and expenses, and cash flows related to both controlled and not controlled territory of Donetsk and Lugansk regions as despite the armed confrontations managements was able to assure railway operations involving uncontrolled territories. Management supports the official position of the Ukrainian authorities that the uncontrolled territories will be reintegrated to Ukraine.

Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimise any negative effects to the extent possible. Further adverse developments in the political, macroeconomic and/or international trade conditions may further adversely affect the Group's financial position and performance in a manner not currently determinable.

Going concern

The Group operations continue to be significantly impacted by the deterioration of the operating environment referred to above. The Group's net loss for the six months ended 30 June 2016 amounted to UAH 3,794,466 thousand (six months ended 30 June 2015: UAH 4,707,186 thousand). As at 30 June 2016, the Group's current liabilities exceeded its current assets by UAH 16,096,507 thousand (31 December 2015: UAH 18,398,790 thousand). As at 30 June 2016 the Group did not comply with certain undertakings under its long-term loan agreements and failed to remediate the breaches before the reporting date. Such default have triggered a cross default of under certain other borrowings. Therefore, the lenders became entitled to request accelerated repayment of interest-bearing borrowings with carrying value of UAH 5,751,987 thousand as at 30 June 2016. The non-current portion of borrowings under these agreements of UAH 4,314,849 thousand as at 30 June 2016, was reported in these consolidated financial statements within current liabilities.

In May 2015 the Group reported suspension of principal debt repayment to Ukrainian domestic lenders. Such breach of undertakings has triggered a cross-default under certain other loan agreements. The Group began debt restructuring negotiations with the international and domestic lenders. During 2015 and 2016 the Group has signed debt restructuring agreements with certain domestic lenders and is continuing negotiations for the remaining domestic debt as at the date of authorisation of these consolidated financial statements.

In April 2015 the Government of Ukraine included the debt related to the issue of Eurobonds of USD 500,000 thousand by Shortline plc in the list of external debt subject to restructuring with the support of the Government (Note 8). In March 2016 the Group completed reprofiling of the above debt, however, in September 2016 the Group breached the Eurobonds reprofiling arrangements due to objective reasons (Note 16).

The Group's management believes that: (i) due to its objective nature the breach of undertakings under Eurobonds arrangements will be settled in the nearest future without significant additional costs to the Group; (ii) negotiations with remaining domestic and international lenders will also be successfully completed in the near future, as the lenders are not interested in accelerating repayment of debt; (iii) the Government will continue supporting the Group through increase in transportation tariffs or through other means; (iv) cost reduction measures will allow to generate additional cash flows from the operating activities to finance net working capital deficit, and (v) the Group may release additional cash flows by capping capital expenditures in case needed, without short-term negative effects on operations.

The success of the management plan to achieve further profitable operations with sufficient cash flows and the actual outcome of the debt restructuring are not virtually certain. These conditions represent a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. The Group may be unable to realize its assets and discharge its liabilities in the normal course of business.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

3. Basis of preparation

These interim condensed consolidated financial statements for the six months ended 30 June 2016 have been prepared in accordance with IAS 34 *Interim Financial Reporting*.

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 financial statements as at 31 December 2015, prepared in accordance with International Financial Reporting Standards ("IFRS").

Functional and presentation currencies

Functional and presentation currency of each of the Group's entities is Ukrainian Hryvnia ("UAH").

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 and combination

Financial statements of entities of the Group and the Previous Group were prepared on the same reporting period using consistent accounting policies. Adjustments are 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 are 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.

The initial combination of the Previous Group has been made using the pooling of interests method as if the entities of the Previous Group have always been together but not earlier than the entities were acquired under common control. The Charter capital of the Previous Group combines the registered capital of State Administration of Railway Transport of Ukraine and other entities of the Previous Group.

4. Changes in accounting policy

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 2015, except for the adoption of new standards and interpretations effective as of 1 January 2016. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

The nature and the effect of these changes are disclosed below. Although these new standards and amendments apply for the first time in 2016, they do not have a material impact on the annual consolidated financial statements of the Group or the interim condensed consolidated financial statements of the Group. The nature and the impact of each new standard or amendment is described below.

IFRS 14 Regulatory Deferral Accounts

IFRS 14 is an optional standard that allows an entity, whose activities are subject to rate-regulation, to continue applying most of its existing accounting policies for regulatory deferral account balances upon its first-time adoption of IFRS. Entities that adopt IFRS 14 must present the regulatory deferral accounts as separate line items on the statement of financial position and present movements in these account balances as separate line items in the statement of profit or loss and OCI. The standard requires disclosure of the nature of, and risks associated with, the entity's rate-regulation and the effects of that rate-regulation on its financial statements.

IFRS 14 is effective for annual periods beginning on or after 1 January 2016. Activities of the Group are not subject to rate-regulations and this standard has no significant impact on the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

4. Changes in accounting policy (continued)

Amendments to IFRS 11 Joint Arrangements: Accounting for Acquisitions of Interests

The amendments to IFRS 11 require that a joint operator accounting for the acquisition of an interest in a joint operation, in which the activity of the joint operation constitutes a business, must apply the relevant IFRS 3 principles for business combinations accounting. The amendments also clarify that a previously held interest in a joint operation is not remeasured on the acquisition of an additional interest in the same joint operation while joint control is retained. In addition, a scope exclusion has been added to IFRS 11 to specify that the amendments do not apply when the parties sharing joint control, including the reporting entity, are under common control of the same ultimate controlling party.

The amendments apply to both the acquisition of the initial interest in a joint operation and the acquisition of any additional interests in the same joint operation and are prospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. Application of these amendments will have no effect the Group's financial statements as the Group did not have joint arrangement agreement in the reporting period.

Amendments to IAS 16 and IAS 38: Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments clarify the principle in IAS 16 and IAS 38 that revenue reflects a pattern of economic benefits that are generated from operating a business (of which the asset is part) rather than the economic benefits that are consumed through use of the asset. As a result, a revenue-based method cannot be used to depreciate property, plant and equipment and may only be used in very limited circumstances to amortise intangible assets. The amendments are effective prospectively for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments are not expected to have any impact to the Group given that the Group has not used a revenue-based method to depreciate its non-current assets.

Amendments to IAS 16 and IAS 41 Agriculture: Bearer Plants

The amendments change the accounting requirements for biological assets that meet the definition of bearer plants. Under the amendments, biological assets that meet the definition of bearer plants will no longer be within the scope of IAS 41. Instead, IAS 16 will apply. After initial recognition, bearer plants will be measured under IAS 16 at accumulated cost (before maturity) and using either the cost model or revaluation model (after maturity). The amendments also require that produce that grows on bearer plants will remain in the scope of IAS 41 measured at fair value less costs to sell. For government grants related to bearer plants, IAS 20 *Accounting for Government Grants and Disclosure of Government Assistance* will apply. The amendments are retrospectively effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. The Group didn't have bearer plants as at the reporting date, thus this standard does not have significant impact on the Group.

Amendments to IAS 27: Equity Method in Separate Financial Statements

The amendments will allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying IFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively. For first-time adopters of IFRS electing to use the equity method in its separate financial statements, they will be required to apply this method from the date of transition to IFRS. The amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have significant impact on the Group's consolidated financial statements.

Annual improvements 2012-2014 cycle

These improvements are effective for annual periods beginning on or after 1 January 2016. They include:

IFRS 5 Non-current Assets Held for Sale and Discontinued Operations

Assets (or disposal groups) are generally disposed of either through sale or distribution to owners. The amendment clarifies that changing from one of these disposal methods to the other would not be considered a new plan of disposal, rather it is a continuation of the original plan. There is, therefore, no interruption of the application of the requirements in IFRS 5. This amendment must be applied prospectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

4. Changes in accounting policy (continued)

IFRS 7 Financial Instruments: Disclosures

(i) Servicing contracts

The amendment clarifies that a servicing contract that includes a fee can constitute continuing involvement in a financial asset. An entity must assess the nature of the fee and the arrangement against the guidance for continuing involvement in IFRS 7 in order to assess whether the disclosures are required. The assessment of which servicing contracts constitute continuing involvement must be done retrospectively. However, the required disclosures would not need to be provided for any period beginning before the annual period in which the entity first applies the amendments.

(ii) Applicability of the amendments to IFRS 7 to condensed interim financial statements

The amendment clarifies that the offsetting disclosure requirements do not apply to condensed interim financial statements, unless such disclosures provide a significant update to the information reported in the most recent annual report. This amendment must be applied retrospectively.

IAS 19 Employee Benefits

The amendment clarifies that market depth of high quality corporate bonds is assessed based on the currency in which the obligation is denominated, rather than the country where the obligation is located. When there is no deep market for high quality corporate bonds in that currency, government bond rates must be used. This amendment must be applied prospectively.

IAS 34 Interim Financial Reporting

The amendment clarifies that the required interim disclosures must either be in the interim financial statements or incorporated by cross-reference between the interim financial statements and wherever they are included within the interim financial report (e.g., in the management commentary or risk report). The other information within the interim financial report must be available to users on the same terms as the interim financial statements and at the same time. This amendment must be applied retrospectively.

These amendments do not have significant impact on the Group's financial statements.

Amendments to IAS 1 Disclosure Initiative

The amendments to IAS 1 *Presentation of Financial Statements* clarify, rather than significantly change, existing IAS 1 requirements. The amendments clarify:

- The materiality requirements in IAS 1
- That specific line items in the statement(s) of profit or loss and OCI and the statement of financial position may be disaggregated
- That entities have flexibility as to the order in which they present the notes to financial statements
- That the share of OCI of associates and joint ventures accounted for using the equity method must be presented in aggregate as a single line item, and classified between those items that will or will not be subsequently reclassified to profit or loss

Furthermore, the amendments clarify the requirements that apply when additional subtotals are presented in the statement of financial position and the statement(s) of profit or loss and OCI. These amendments are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have significant impact on the Group's consolidated financial statements.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

4. Changes in accounting policy (continued)

Amendments to IFRS 10, IFRS 12 and IAS 28 Investment Entities: Applying the Consolidation Exception

The amendments address issues that have arisen in applying the investment entities exception under IFRS 10. The amendments to IFRS 10 clarify that the exemption from presenting consolidated financial statements applies to a parent entity that is a subsidiary of an investment entity, when the investment entity measures all of its subsidiaries at fair value.

Furthermore, the amendments to IFRS 10 clarify that only a subsidiary of an investment entity that is not an investment entity itself and that provides support services to the investment entity is consolidated. All other subsidiaries of an investment entity are measured at fair value. The amendments to IAS 28 allow the investor, when applying the equity method, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

These amendments must be applied retrospectively and are effective for annual periods beginning on or after 1 January 2016, with early adoption permitted. These amendments do not have significant impact on the Group's consolidated financial statements.

5. Segment reporting

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

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

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

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(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
- gain on disposal, change in fair value and recoverable amounts 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. Segment expense does not include:

- interest expense
- foreign exchange losses
- loss on disposal, change in fair value and recoverable amounts of financial assets
- loss on disposal of property, plant and equipment
- loss on impairment of property, plant and equipment
- bank charges
- income tax expense
- bad debt expense
- social expenses
- maintenance
- other expenses

Segment result is measured as segment revenue less segment expense.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

5. Segment reporting (continued)

<i>For the six months 2016 (unaudited)</i>	<i>Cargo</i>	<i>Long- distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Unallocated</i>	<i>Eliminations (A)</i>	<i>Adjustments (B)</i>	<i>Total</i>
Sales to third parties	25,621,301	2,909,720	240,223	1,888,542	518,125	-	-	(582,274)	30,595,637
Inter-segment sales	-	-	-	3,257,828	-	-	(3,257,828)	-	-
Total revenues	25,621,301	2,909,720	240,223	5,146,370	518,125	-	(3,257,828)	(582,274)	30,595,637
Wages, salaries and related contributions	(5,816,135)	(1,847,762)	(917,728)	(1,229,595)	(443,985)	(776,623)	-	(188,502)	(11,220,330)
Depreciation	(6,594,186)	(1,161,252)	(491,356)	(842,390)	(18,773)	(129,102)	-	-	(9,237,059)
Electricity	(2,273,927)	(578,654)	(327,626)	(116,073)	(59,660)	(28,653)	-	-	(3,384,593)
Fuel	(1,696,639)	(325,271)	(245,357)	(313,059)	(22,903)	(2,500)	-	-	(2,605,729)
Segment result	<u>9,240,414</u>	<u>(1,003,219)</u>	<u>(1,741,844)</u>	<u>2,645,253</u>	<u>(27,196)</u>	<u>(936,878)</u>	<u>(3,257,828)</u>	<u>(770,776)</u>	<u>4,147,926</u>
<i>For the six months 2015 (unaudited)</i>	<i>Cargo</i>	<i>Long- distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Unallocated</i>	<i>Eliminations (A)</i>	<i>Adjustments (B)</i>	<i>Total</i>
Sales to third parties	24,011,534	2,469,069	265,738	2,872,428	189,899	-	-	(886,603)	28,922,065
Inter-segment sales	-	-	-	772,833	296,036	-	(1,068,869)	-	-
Total revenues	24,011,534	2,469,069	265,738	3,645,261	485,935	-	(1,068,869)	(886,603)	28,922,065
Wages, salaries and related contributions	(5,497,086)	(1,735,754)	(890,458)	(1,523,846)	(230,825)	(570,765)	-	3,891	(10,444,843)
Depreciation	(1,870,357)	(613,268)	(303,655)	(601,349)	(46,639)	(36,767)	-	1,048,306	(2,423,729)
Electricity	(2,057,252)	(482,984)	(291,152)	(123,445)	(13,922)	(15,681)	-	23,353	(2,961,083)
Fuel	(2,047,287)	(398,938)	(272,617)	(377,680)	(23,254)	(3,147)	-	9,764	(3,113,159)
Segment result	<u>12,539,552</u>	<u>(761,875)</u>	<u>(1,492,144)</u>	<u>1,018,941</u>	<u>171,295</u>	<u>(626,360)</u>	<u>(1,068,869)</u>	<u>198,711</u>	<u>9,979,251</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

5. Segment reporting (continued)

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

(B) The operating results of each operating segment does not include the following adjustments representing differences between management accounts and interim condensed consolidated financial statements prepared in accordance with IAS 34 for the six months ended 30 June 2016 and 2015:

	For the six months 2016 (unaudited)	For the six months 2015 (unaudited)
Recognition of revenue in appropriate period	(163,404)	(244,610)
Settlements with foreign railways	(418,870)	(641,993)
	<u>(582,274)</u>	<u>(886,603)</u>
Correction of bonuses and unused vacation expenses accrual	(99,176)	(85,905)
Defined benefits obligation expenses	(101,431)	89,798
Adjustment to depreciation expenses as the result of revaluation to deemed cost in IFRS accounting	-	1,048,303
Recognition of expenses in appropriate period	12,105	33,118
	<u>(188,502)</u>	<u>1,085,314</u>
Total adjustments to segment result	<u>(770,776)</u>	<u>198,711</u>

Reconciliation of profit

	For the six months 2016 (unaudited)	For the six months 2015 (unaudited)
Segment results	9,113,408	11,475,769
Total adjustments due to differences in accounting policies adopted for management accounts and IFRS	(770,776)	198,711
Total unallocated amounts	(936,878)	(626,360)
Inter-segment sales (elimination)	(3,257,828)	(1,068,869)
Items not included in segment expenses		
Maintenance	(2,446,665)	(1,890,748)
Taxes, other than income tax	(543,642)	(653,868)
Change in provisions	(174,811)	(158,204)
Social expenses	(149,965)	(209,641)
Other income	342,790	435,711
Other expenses	(591,935)	(846,277)
Finance income	9,435	226,344
Finance costs	(2,870,005)	(2,627,723)
Foreign exchange loss, net	(1,400,925)	(8,738,032)
Share of profit of an associate	31,874	-
Group loss before tax	<u>(3,645,923)</u>	<u>(4,483,187)</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

6. Property, plant and equipment

Revaluation

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

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).

Carrying value of the assets assigned under the title of operating control was UAH 105,243,099 as at 30 June 2016 (31 December 2015: UAH 108,473,122).

Acquisitions and disposals

During the six months ended 30 June 2016, the Group acquired assets with a cost of UAH 2,664,567 thousand (six months ended 30 June 2015: UAH 1,233,006 thousand).

Assets with a net book value of UAH 62,581 thousand were disposed of by the Group during the six months ended 30 June 2016 (six months ended 30 June 2015: UAH 377,762 thousand).

Capitalised depreciation charge

The Group capitalised UAH 36,952 thousand of depreciation charge for the six months ended 30 June 2016 into construction in progress (the six months ended 30 June 2015: UAH 15,895 thousand).

7. Investment in associate

On 29 January 2016 the State Property Fund of Ukraine transferred 47.67% interest in corporate rights of PJSC "Ukrtransleasing" to JSC "Ukrzaliznytsia" as a contribution to the charter capital within the Reorganisation process (Note 8). Starting from this date the Group's interest in PJSC "Ukrtransleasing" is accounted for using the equity method in the consolidated financial statements.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

7. Investment in associate (continued)

The summarised information on Ukrtransleasing group adjusted to arrive at uniform accounting policies for the period since the date of transfer of corporate rights till 30 June 2016 is presented below:

	30 June 2016 (adjusted)	At the date of transfer of corporate rights (adjusted)
Current assets	1,365,645	1,269,307
Non-current assets	1,119,742	1,287,023
Current liabilities	(707,136)	(728,825)
Non-current liabilities	(331,065)	(447,182)
Equity	1,447,186	1,380,323
Group's carrying amount of the investment	689,874	658,000
		For the period from transfer of corporate rights till 30 June 2016 (adjusted)
Revenue		107,759
Profit before tax		86,638
Income tax expense		(13,887)
Profit for the period (continuing operations)		72,751
Total comprehensive income for the period (continuing operations)		72,751
Adjustment to comply Group's uniform accounting policies by investee		(5,887)
Total comprehensive income for the period (continuing operations) after effect of change in accounting by investee		66,864
Group's share of profit for the period		31,874

8. Equity

Contributed capital

Since the date of establishment of the Company to 30 June 2016 the Charter capital of the Group was of UAH 229,879,115,000 and was divided into 229,879,115 ordinary nominal shares with a nominal value of UAH 1,000 each.

As at 30 June 2016 and as at the date of authorisation of these financial statements, the issuance of the Company's shares was not registered by the National Securities and Stock Market Commission of Ukraine. Management believes that the absence of registration has no significant impact on the Company's activities and that it will be completed in the near time.

The Group reorganisation, formation of Charter capital, additional capital

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

8. Equity (continued)

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

30 November 2015 is the date of completion of the Reorganisation through merger. On this date the acts of property transfer and acceptance and other relevant documents were signed, which in particular, allowed JSC "Ukrzaliznytsya" to commence its economic activities starting from 1 December 2015.

Due to objective inability to conduct all necessary standard reorganisation procedures (e.g. stock-take), it was not possible to contribute net asset related to the temporarily occupied territory of the Autonomous Republic of Crimea and uncontrolled territories of Donetsk and Lugansk regions to the Charter capital of the Company. Instead, the additional capital was formed through the contribution of the above net assets. Financial information on the temporarily occupied territory of the Autonomous Republic of Crimea and uncontrolled territories of Donetsk and Lugansk regions is provided in Note 2.

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

At the beginning of 2016 JSC "Ukrzaliznytsya" obtained legal title for 65.62% interest in corporate rights of PJSC "Insurance Company "Tast Garantiya" within the Reorganisation process. The principal activity of PJSC "Insurance Company "Tast Garantiya" is providing insurance services except life insurance.

The carrying values of assets of the subsidiary was UAH 16,654 thousand and UAH 14,504 thousand as at the date of transfer of corporate rights and 30 June 2016 respectively. From the date of transfer of corporate rights to 30 June 2016 the subsidiary contributed UAH 12 thousand of net profit to Group's total comprehensive loss for the period.

The Group elected to measure the non-controlling interest in the subsidiary at the proportionate share of its interest in the subsidiary's identifiable net assets.

Not contributed capital

As at 30 June 2016 and 31 December 2015 corporate rights of the following entities were not contributed to the charter capital:

<i>Name of the entity</i>	<i>Share of ownership</i>	<i>30 June 2016</i>	<i>31 December 2015</i>
Leasing Company PJSC "Ukrtransleasing"	47.67	-	658,000
PJSC "Transsignal Kyiv Electrical Engineering Plant"	100	103,481	103,481
Insurance Company PJSC "Inter-Policy"	8.16	-	1,204
PJSC "International transportation company "Ukrzovnishtrans"	25.1	-	6
		<u>103,481</u>	<u>762,691</u>

Respective receivable on the outstanding contribution is reflected as trade and other receivables in the interim consolidated statement of financial position.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

9. Interest-bearing loans and borrowings

As at 30 June 2016 and 31 December 2015 interest-bearing loans and borrowings consisted of the following:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Interest-bearing bank loans	26,052,968	25,807,195
Eurobonds issued	13,016,615	12,129,288
Bonds issued in domestic markets	3,282,381	3,691,230
Other borrowings	376,093	346,487
Overdrafts	-	4,713
	<u>42,728,057</u>	<u>41,978,913</u>

In March 2016 the Group has reprofiled the loan of USD 500,000 thousand received as a result of Eurobonds placement performed by Shortline plc. The loan 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.

After the reporting period, the Group breached its undertakings under the amended and restated loan agreement between JSC "Ukrzaliznytsia" and Shortline plc dated 19 February 2016, as the Group was not capable to restructure a portion of its debt by mid-September 2016. JSC "Ukrzaliznytsia" notified the lender on the breach of undertakings.

Currently, JSC "Ukrzaliznytsia" is working on the measures to rectify the existing breach.

Domestic bonds are issued and placed in Ukraine. They are denominated in UAH, bear interest of 18%-23.5% and mature in 2015-2017.

As at 30 June 2016 and 31 December 2015, interest rates and currency split for borrowings were as follows:

	Interest rate	30 June 2016 (unaudited)	31 December 2015 (audited)
USD			
floating rate	LIBOR 6 month +1%-6%	5,505,845	5,906,835
fixed rate	9.5%-12%	<u>31,309,610</u>	<u>29,593,496</u>
		<u>36,815,455</u>	<u>35,500,331</u>
EUR			
floating rate	EURIBOR 6m + 6.55%	<u>425,767</u>	<u>622,308</u>
		<u>425,767</u>	<u>622,308</u>
UAH			
fixed rate	17.9%-23.5%	<u>5,486,835</u>	<u>5,856,274</u>
		<u>5,486,835</u>	<u>5,856,274</u>
Total interest-bearing loans and borrowings		<u>42,728,057</u>	<u>41,978,913</u>
Less: current portion		<u>(20,278,536)</u>	<u>(20,810,905)</u>
Interest-bearing loans and borrowings, non-current		<u>22,449,521</u>	<u>21,168,008</u>

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

9. Interest-bearing loans and borrowings (continued)

As at 31 December 2015 as well as at 30 June 2016 the Group was not in compliance with certain undertakings under its long-term loan agreements and failed to remediate certain breaches before the reporting date. Such default have triggered a cross default of under certain other borrowings. Therefore, the lenders became entitled to request accelerated repayment of interest-bearing borrowings with carrying value of UAH 5,751,987 thousand as at 30 June 2016 (31 December 2015: UAH 5,787,070 thousand). Pursuant to the requirements of IAS 1 *Presentation of Financial Statements* the non-current portion of the Group's borrowings under the above mentioned agreements of UAH 4,314,849 thousand as at 30 June 2016 (31 December 2015: UAH 4,808,105 thousand), were reported in these interim condensed consolidated financial statements within current liabilities. The Group reached agreements as for the restructuring of a portion of internal debt, however as at the date of the authorisation of the financial statements the restructuring negotiations with internal and external lenders were continuing.

As at 30 June 2016 undrawn loan facilities available to the Group were of UAH 3,564,964 thousand (31 December 2015: UAH 1,442,272 thousand). Following the breaches of undertakings as at 30 June 2016 the access to certain undrawn loan facilities was restricted. Assuming there was no breach, undrawn loan facilities available to the Group would comprise UAH 4,032,232 thousand as at 30 June 2016.

As at 30 June 2016 and 31 December 2015 interest-bearing loans and borrowings were secured as follows:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Type of collateral		
Property and equipment	254,272	259,121
Inventories	111,251	111,251
Future proceeds from revenue	27,406,348	26,108,391

10. Finance lease liability

The Group leases railway cars, locomotives, electric trains and equipment. The majority of lease payments are pegged to USD; the average lease term is 7 years. As at 30 June 2016 the interest rates implicit in the lease were within the range of 11.0%-23.7% per annum.

During the six months ended 30 June 2016 and 30 June 2015, the Group did not acquire assets under finance lease agreement.

Principal repayments under finance lease to Ukrainian lessors (unlike foreign lessors) is subject to 20% VAT levied at the payment date. Finance charge is not VAT taxable.

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

	Minimum lease payments		Present value of finance lease liability	
	30 June 2016 (unaudited)	31 December 2015 (audited)	30 June 2016 (unaudited)	31 December 2015 (audited)
Amounts payable under finance leases				
Within one year	1,165,310	1,280,185	1,018,413	1,083,014
In the second to fifth years inclusive	798,893	1,135,383	680,811	940,599
After five years	-	15,479	-	14,098
	1,964,203	2,431,047	1,699,224	2,037,711
Less: future finance charges	(264,979)	(393,336)	-	-
	1,699,224	2,037,711	1,699,224	2,037,711
Current	1,018,413	1,077,380	1,018,413	1,077,380
Non-current	680,811	960,331	680,811	960,331

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

11. Provisions

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. As at 30 June 2016 such provision was recognized in the amount of UAH 1,014,994 thousand (31 December 2015: UAH 816,008 thousand).

12. Income tax

The components of income tax expense were as follows:

	<i>For the six months 2016 (unaudited)</i>	<i>For the six months 2015 (unaudited)</i>
Current income tax charge	380,411	144,856
Deferred income tax expenses	(231,868)	79,143
Income tax expense	<u>148,543</u>	<u>223,999</u>

During the six months ended 30 June 2016, the statutory income tax rate in Ukraine was 18% (during the six months ended 30 June 2015: 18%).

13. Contingencies and commitments

Tax matters

Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local, regional 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. However, where the risk of outflow of resources is probable, the Group has accrued tax liabilities based on management's best estimate.

The uncertainty related to enforcement and application of Ukrainian tax laws creates a risk of substantial additional tax liabilities and penalties being claimed by the tax authorities. Such claims, if sustained, could have a material effect on the Group's financial position, results of operations and cash flows. Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises in Ukraine. When it is not considered probable that a material claim will arise, no provision has been established in these financial statements.

Results of tax inspections of entities of the Previous Group

As a result of the Reorganisation, the entities of the Previous Group were subject to tax audits with the purpose of confirmation of tax position before cancellation of their tax registration. Such tax audits have been finished as at 30 September 2016 for majority of the entities. Based on the tax audits, tax authorities have charged the entities with additional taxes and fines in the total amount of UAH 1,862,527 thousand. The majority of additional charges result from the absence of documents supporting operations of certain entities of the Previous Group on the temporarily occupied territory of Autonomous Republic of Crimea. Therefore, Management do not agree with the amounts charged and intends to challenge them within relevant administrative procedure or in the court.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

13. Contingencies and commitments (continued)

Litigations

In the normal course of business, the Group is subject to various routine litigation and arbitration related matters. As at 30 June 2016 the Group was involved in litigations with tax authorities with respect to additional accrual of tax liabilities in total amount of UAH 539,923 thousand, including additional charges and penalties (31 December 2015: UAH 321,880 thousand). In addition, the Group's exposure to various third parties' claims is UAH 191,415 thousand (31 December 2015: UAH 244,385 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 adverse effect on the Group's financial position or the results of its future operations, accordingly, no corresponding accrual was provided in these interim condensed consolidated financial statements. Probable obligations are accrued for in these interim condensed consolidated financial statements (Note 11).

Capital commitments

As at 30 June 2016 the Group's outstanding commitment in respect of purchase of property and equipment amounted to UAH 1,851,780 thousand (31 December 2015: UAH 2,986,521 thousand).

14. 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 2016 (unaudited)</i>	<i>31 December 2015 (audited)</i>	<i>30 June 2016 (unaudited)</i>	<i>31 December 2015 (audited)</i>
Financial assets				
Trade and other receivables	1,970,808	1,662,074	1,970,808	1,662,074
Other financial assets	156,167	150,559	156,167	150,559
Cash and cash equivalents	7,061,532	4,884,908	7,061,532	4,884,908
Financial liabilities				
Interest-bearing loans and borrowings	41,765,105	41,216,342	42,728,057	41,978,913
Finance lease liability	1,699,224	2,037,711	1,699,224	2,037,711
Trade and other payables	5,190,880	6,232,816	5,190,880	6,232,816

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 face values of financial assets and liabilities with a maturity of less than one year, less any estimated credit adjustments, are assumed to be their fair values. The fair value of interest bearing loans and borrowings is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

15. Related party disclosure

The outstanding balances and transaction with related parties comprised:

	30 June 2016 (unaudited)	31 December 2015 (audited)
Entities under common control of the State		
Prepayments for property, plant and equipment	3	13
Other financial assets	9,539	10,710
Trade and other receivables	105,166	90,786
Prepayments, other than dividends	39,139	50,555
Cash and cash equivalents	6,808,265	3,635,448
Trade and other payables, other than dividends	7,205	7,031
Advances received	9,422	3,626
Interest-bearing loans	894,735	883,382
Associate		
Finance lease obligation	1,152,970	-
	For the six months 2016 (unaudited)	For the six months 2015 (unaudited)
Entities under common control of the State		
Cargo revenues	88,935	49,126
Electricity	3,599,355	550,398
Maintenance services purchased	12,142	60,700
Finance income	21,270	3,105
Finance costs	61,057	68,990
Other expenses	241,470	62,543
Associate		
Finance costs	54,224	-

Terms and conditions of transactions with related parties

The sales to and purchases from related parties are made at regular prices, broadly similar to those with other non-related customers and suppliers. Outstanding balances at the 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. During the six months ended 30 June 2015 the Group has recorded impairment of accounts receivable due from Vugillya Ukrainy. Loss on impairment of UAH 234,850 thousand was included to other expenses in interim combined statement of comprehensive income.

Guarantees issued by the State of Ukraine

The Group's interest bearing loans with carrying value of UAH 5,643,663 thousand (31 December 2015: UAH 5,906,833 thousand) were guaranteed by the State of Ukraine.

Compensation of key management personnel

During the six months ended 30 June 2016 key management personnel consist of 7 members of the management board of JSC "Ukrzaliznytsia". During the six months ended 30 June 2015 key management personnel consist of 19 members of the Board of SART "Ukrzaliznytsia". Total compensation to key management personnel during the six months ended 30 June 2016 amounted to UAH 886 thousand (six months ended 30 June 2015: UAH 1,215 thousand). Compensation mainly includes salaries and salary related taxes.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2016

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

15. Related party (continued)

Dividends to the State

Before the Reorganisation dividends to the State were accrued on a quarterly basis based on cumulative quarterly net results of operations separately for each state enterprise included in the Previous Group. Distribution of dividends of a public joint stock company is declared for the annual results of operations based on the general shareholders meeting (the sole shareholder of JSC "Ukrzaliznytsia" is the State of Ukraine represented by the Cabinet of Ministers of Ukraine). Dividends were not declared during the six months ended 30 June 2016 (six months ended 30 June 2015: dividends accrued in the amount of UAH 89,130 thousand).

As at 30 June 2016 dividends prepaid to the State in the amount of UAH 7,870 thousand were included in prepayments (31 December 2015: UAH 1,065 thousand). Included in trade and other payables are dividends payable to the State of UAH 353 thousand as at 30 June 2016 (31 December 2015: UAH 167,621 thousand).

Government subsidies

The Group receives subsidies from the State for carriage of certain categories of preferential passengers. During the six months ended 30 June 2016 such subsidies of UAH 10,029 thousand (six months ended 30 June 2015: UAH 88,000 thousand) were included into passenger revenues.

16. Events after the reporting period

After the reporting period, the Group has breached the conditions of restructuring of the loan received as a result of Eurobonds placement by Shortline plc (Note 9), as it was not capable to restructure a portion of its debt by mid-September 2016. JSC "Ukrzaliznytsia" notified the lender on the breach of undertakings.

Currently, JSC "Ukrzaliznytsia" is working on the measures to rectify the existing breach.

Supplementary financial information

BALANCE SHEET as at 30 June 2016

Entity: JSC "Ukrzaliznytsia"
Location: Ukraine
Ownership: Public Joint Stock Company
Type of activity: Freight railroad transport
Average quantity of employees: 270,001
Address, telephone: 03680, Kyiv, Tverska Str., phone 465-05-52

Date (year month date)	2016 06 30
Per EDRPOU	40075815
Per KOATUU	8038200000
Per KOPFG	230
Per KVED	49.20

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

V

Form # 1 Per DKUD 1801003

	Line code	As at 31 December 2015	As at 30 June 2016
Assets			
1	2	3	4
I. Non-current assets			
Intangible assets:	1000	187,442	146,376
historical cost	1001	249,560	286,474
accumulated amortization	1002	(62,118)	(140,098)
Capital investments in progress	1005	5,285,814	6,115,596
Property, plant and equipment:	1010	253,839,733	246,222,134
historical cost	1011	274,749,128	683,661,852
accumulated depreciation	1012	(20,909,395)	(437,439,718)
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	-	689,874
other financial investments	1035	81,016	74,750
Non-current receivables	1040	69,543	81,417
Deferred tax assets	1045	555,400	821,105
Other non-current assets	1090	679,873	1,517,657
Total section I	1095	260,698,821	255,668,909
II. Current assets			
Inventories:	1100	5,140,361	4,319,544
production inventories	1101	4,376,647	3,562,031
work in progress	1102	-	-
finished goods	1103	444,599	507,241
commodities	1104	319,115	250,272
Current biological assets	1110	-	-
Accounts receivable for goods, works and services	1125	1,280,767	945,080
Accounts receivable on settlements:		-	-
on prepayments made	1130	212,902	167,218
with budget	1135	1,076,535	590,020
including income tax	1136	620,156	18,577
Accounts receivable on intercompany settlements	1145	-	-
Other current accounts receivable	1155	381,307	921,150
Current financial investments	1160	-	-
Cash and cash equivalents:	1165	4,884,908	7,061,532
Cash in hand	1166	477	649
Cash at banks	1167	4,884,431	7,060,883
Deferred expenses	1170	51,495	14,303
Other current assets	1190	-	90,275
Total section II	1195	13,028,275	14,109,122
III. Assets classified as held for distribution	1200	-	-
Balance	1300	273,727,096	269,778,031

Supplementary financial information

Liabilities and equity	Line code	As at 31 December 2015	As at 30 June 2016
1	2	3	4
I. Equity			
Share capital	1400	229,879,115	229,879,115
Capital in revaluation	1405	-	-
Additional capital	1410	19,597,430	19,597,430
Reserve fund	1415	-	-
Retained earnings (accumulated deficit)	1420	(31,237,446)	(35,031,916)
Unpaid capital	1425	-	-
Treasury shares	1430	-	-
Non-controlling interests	1490	-	4,833
Total section I	1495	218,239,099	214,449,462
II. Non-current liabilities and provisions			
Deferred tax liabilities	1500	33,232	33,232
Non-current bank loans	1510	8,543,906	21,188,259
Other non-current liabilities	1515	13,584,432	1,942,073
Other non-current provisions	1520	1,899,362	1,959,376
Non-current provisions for staff expenses	1521	1,899,362	1,959,376
Special purpose financing	1525	-	-
Total section II	1595	24,060,932	25,122,940
III. Current liabilities and provisions			
Short-term bank loans	1600	21,015,224	20,019,602
Current liabilities for:			
current portion of non-current liabilities	1610	-	-
for goods, works and services	1615	3,373,233	2,148,106
with budget	1620	793,502	1,025,534
with Income tax	1621	45,308	380,427
social insurance	1625	416,458	228,346
wages	1630	800,851	769,015
Current liabilities on advances received	1635	1,833,603	1,594,899
Current liabilities on intercompany settlements	1645	-	-
Other provisions	1660	1,175,171	2,659,391
Deferred income	1665	30,472	82,373
Other current liabilities	1690	1,988,551	1,678,363
Total section III	1695	31,427,065	30,205,629
IV. Liabilities directly associated with the assets classified as held for distribution			
Balance	1900	-	-
		273,727,096	269,778,031

Supplementary financial information

Entity: JSC "Ukrzaliznytsia"

Date (year, month, date)
per EDRPOU

CODE		
2016	06	30
40075815		

STATEMENT OF FINANCIAL RESULTS (STATEMENT OF COMPREHENSIVE INCOME) for the six months ended 30 June 2016

Form # 2

Per DKUD

1801003

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	30,595,637	28,922,065
Cost of goods (merchandise, works, services) sold	2050	(29,376,649)	(21,899,504)
Gross:			
Profit	2090	1,218,988	7,022,561
Loss	2095	-	-
Other operating income	2120	688,848	1,031,506
Administrative expenses	2130	(319,749)	(820,212)
Selling expenses	2150	(37,179)	(54,181)
Other operating expenses	2180	(2,145,121)	(8,555,778)
Financial results from operating activities:			
Profit	2190	-	-
Loss	2195	(594,213)	(1,376,104)
Income from investments accounted for under the equity method	2200	31,874	-
Other finance income	2220	41	520,731
Other income	2240	361,877	188,206
Finance costs	2250	(3,110,425)	(3,782,390)
Losses from investments accounted for under the equity method	2255	-	-
Other expenses	2270	(335,077)	(33,630)
Financial results before taxation:			
Profit	2290	-	-
Loss	2295	(3,645,923)	(4,483,187)
Income tax expense	2300	(148,543)	(223,999)
Income (loss) from discontinued operations after tax	2305	-	-
Net financial result:			
Profit	2350	-	-
Loss	2355	(3,794,466)	(4,707,186)

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	-	-
Other comprehensive income	2445	-	-
Other comprehensive income before tax	2450	-	-
Income tax related to other comprehensive income	2455	-	-
Other comprehensive income after tax	2460	-	-
Comprehensive profit (sum lines 2350, 2355 and 2460)	2465	(3,794,466)	(4,707,186)

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	8,349,085	8,035,135
Labour costs	2505	8,690,945	7,105,879
Social security charges	2510	1,962,613	2,699,466
Depreciation and amortization	2515	9,403,284	2,549,328
Other operating expenses	2520	5,932,040	10,444,622
Total	2550	34,337,967	30,834,430

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	-	-
Adjusted annual average number of ordinary shares	2605	-	-
Net income per ordinary share	2610	-	-
Adjusted net income per ordinary share	2615	-	-
Dividends per ordinary share	2650	-	-

Supplementary financial information

Entity: JSC "Ukrzaliznytsia"

Date (year, month, date)
per EDRPOU

CODE		
2016	06	30
40075815		

STATEMENT OF CASH FLOWS (indirect method) for the six months ended 30 June 2016

Form # 3

DKUD code

1801003

Description	Line code	For the reporting period		For the previous period	
		proceeds	expense	proceeds	expense
1	2	3	4	3	4
I. Cash flows from operating activities		d			
Profit (loss) from ordinary activities before tax	3500	-	3,645,923	-	4,483,187
Corrections on:					
depreciation of fixed assets	3505	9,237,059	-	2,423,729	-
increase (decrease) in provisions	3510	73,380	-	61,790	-
loss (profit) on unrealized exchange differences	3515	1,404,259	-	8,675,424	-
loss (profit) from non-operating activities and other non-cash transactions	3520	106,910	-	205,051	-
Financial expenses	3540	2,860,570	-	2,401,380	-
Decrease (increase) in current assets	3550	762,328	1,426,981	163,494	57,227
Increase (decrease) in inventories	3551	732,809	-	-	22,979
Decrease (increase) in accounts receivable for products, goods, works, services	3553	-	1,069,232	144,791	-
decrease (increase) in other current receivables	3554	29,519	-	18,703	-
decrease (increase) in other current assets	3557	-	357,749	-	34,248
Increase (decrease) in current liabilities, including:	3560	64,226	617,233	187,257	2,219,629
increase (decrease) in current accounts payable for goods and services	3561	-	429,332	-	1,592,841
increase (decrease) in current budget settlements	3562	64,226	-	187,257	-
increase (decrease) in current insurance settlements	3563	-	188,112	-	10,838
increase (decrease) in current salary settlements	3564	-	31,836	-	27,175
Increase (decrease) in other current payables	3567	-	187,901	-	626,788
Cash from operating activities	3570	8,818,595	-	7,358,082	-
Income tax paid	3580	-	72,549	-	393,044
Dividends paid	3585	-	1,807,916	-	1,904,016
Net cash flow from operating activities	3195	6,938,130	-	5,061,022	-
II. Cash flows from investing activities					
Proceeds from sale of:					
financial investments	3200	-	-	-	-
Fixed assets	3205	910	-	16,051	-
Proceeds from received:					
interests	3215	-	-	-	-
dividends	3220	-	-	-	-
proceeds from derivatives	3225	-	-	-	-
other proceeds	3250	10,275	-	5,878	-
Payments on acquisition:					
financial investments	3255	-	-	-	-
fixed assets	3260	-	2,890,217	-	1,153,913
payments for derivatives	3270	-	-	-	-
other payments	3290	-	165,667	-	87,750
Net cash flows from investing activities	3295	-	3,044,699	-	1,219,734
III. Cash flows from financing activities					
Proceeds from share capital	3300	-	-	-	-
Proceeds from borrowings	3305	417,857	-	507,033	-
Other proceeds	3340	-	-	-	-
Payments for:					
own securities	3345	-	-	-	-
repayment of borrowings	3350	-	1,696,864	-	1,765,615
dividends paid	3355	-	-	-	-
Borrowings interest paid	3360	-	-	-	-
Finance lease interests paid	3365	-	440,091	-	1,194,497
Other payments	3390	-	-	-	-
Net cash flows from financing activities	3395	-	1,719,098	-	2,453,079
Net (decrease)/increase in cash and cash equivalents	3400	2,174,333	-	1,388,209	-
Cash balance at the beginning of the year	3405	4,884,908	-	2,038,008	-
Net foreign exchange difference	3410	2,291	-	179,852	-
Cash balance at the end of the year	3415	7,061,532	-	3,606,069	-

Entity: JSC "Ukrzaliznytsia"

Date (year, month, date)
per EDRPOU

CODE		
2016	06	30
40075815		

STATEMENT OF CHANGES IN EQUITY for the six months ended 30 June 2016

Form # 4

DKUD code

1801003

Description	Line code	Share capital	Capital in revaluation	Additional capital	Reserve fund	Retained earnings (accumulated deficit)	Unpaid capital	Treasury capital	Non-controlling interests	Total
1	2	3	4	5	6	7	8	9	10	11
Balance at the beginning of the year	4000	229,879,115	-	19,597,430	-	(31,237,446)	-	-	-	218,239,099
Adjustments:										
Changes in accounting policies	4005	-	-	-	-	-	-	-	-	-
Correction of errors	4010	-	-	-	-	-	-	-	-	-
Other adjustments	4090	-	-	-	-	-	-	-	-	-
Adjusted balance at the beginning of the year	4095	229,879,115	-	19,597,430	-	(31,237,446)	-	-	-	218,239,099
Net profit (loss) for the reporting period	4100	-	-	-	-	(3,794,470)	-	-	4	(3,794,466)
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	-	-	-	-	-	-	-	-	-
Distribution to share capital	4205	-	-	-	-	-	-	-	-	-
Distribution to the reserve fund	4210	-	-	-	-	-	-	-	-	-
Total net profit, due to the budget in accordance with the law	4215	-	-	-	-	-	-	-	-	-
Total net income for the establishment of special (earmarked) funds	4220	-	-	-	-	-	-	-	-	-
Total net profit on financial incentives	4225	-	-	-	-	-	-	-	-	-
Contributions made by shareholders:										
Contributions to capital	4240	-	-	-	-	-	-	-	-	-
Repayment of debts from equity	4245	-	-	-	-	-	-	-	-	-
Withdrawal of capital:										
Purchase of shares (contributions)	4260	-	-	-	-	-	-	-	-	-
Re-sale of purchased shares (contributions)	4265	-	-	-	-	-	-	-	-	-
Cancellation of purchased shares (contributions)	4270	-	-	-	-	-	-	-	-	-
Withdrawal of contribution in capital	4275	-	-	-	-	-	-	-	-	-
Other changes in equity	4290	-	-	-	-	-	-	-	4,829	4,829
Total changes in equity	4295	-	-	-	-	(3,794,470)	-	-	4,833	(3,789,637)
Balance at the end of the six months ended 30 June	4300	229,879,115	-	19,597,430	-	(35,031,916)	-	-	4,833	214,449,462