# Public Joint Stock Company “Research and Production Corporation “United Wagon Company”

Interim condensed consolidated financial statements for the six months ended 30 June 2018 (unaudited)

**PUBLIC JOINT STOCK COMPANY**
**"RESEARCH AND PRODUCTION CORPORATION**
**"UNITED WAGON COMPANY"**

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**PUBLIC JOINT STOCK COMPANY**
**"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"**

## STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)

Management is responsible for the preparation of the interim condensed consolidated financial statements that present fairly the consolidated financial position of Public Joint Stock Company "Research and Production Corporation "United Wagon Company" (PJSC RPC UWC or the "Company") and its subsidiaries (the "Group") as at 30 June 2018, and the consolidated results of the Group's operations, cash flows and changes in equity for the six months then ended, in accordance with International Accounting Standard (IAS) 34 Interim Financial Reporting ("IAS 34").

In preparing the interim condensed consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to ensure that users are able to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the interim condensed consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with local legislation and standards applicable in jurisdiction in which the Group operates;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities.

The interim condensed consolidated financial statements for the six months ended 30 June 2018 were authorized and approved for issue on 29 August 2018.

**On behalf of the Management**

| | |
|---|---|
| **Alexey Tsyplakov** | **Irina Arkhangelskaya** |
| Deputy General Director for Economics and Finance<br>PJSC RPC UWC<br>(under power of attorney No. 8-1463<br>of 12 December 2017) | Chief Accountant, PJSC RPC UWC |

**PUBLIC JOINT STOCK COMPANY**
**"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME**
**FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)**
***(in millions of Russian Rubles, unless otherwise indicated)***

| | | Six months ended | |
|---|---|---|---|
| | **Notes** | **30 June 2018** | **30 June 2017** (restated) |
| Revenue | 7 | 32 151 | 28 673 |
| Cost of sales | 8 | (28 507) | (24 038) |
| **Gross profit** | | **3 644** | **4 635** |
| Selling, general and administrative expenses | 9 | (1 484) | (1 133) |
| Share of (loss)/profit of associates and joint ventures | | (4) | 176 |
| Other operating income, net | | 11 | 68 |
| **Operating profit** | | **2 167** | **3 746** |
| Finance income | 10 | 976 | 1 302 |
| Finance costs | 11 | (6 192) | (7 086) |
| Foreign exchange loss, net | | (242) | (209) |
| **Loss before income tax** | | **(3 291)** | **(2 247)** |
| Income tax benefit/(expense) | 12 | 238 | (632) |
| **LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE PERIOD** | | **(3 053)** | **(2 879)** |
| **Loss per share** | | | |
| Weighted average number of ordinary shares outstanding | | 115 996 689 | 114 224 356 |
| Loss per share, RUB | | (26) | (25) |

The notes on pages 6-28 form an integral part of these interim condensed consolidated financial statements.

## PUBLIC JOINT STOCK COMPANY
## "RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"

### INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
### AS AT 30 JUNE 2018 (UNAUDITED)
***(in millions of Russian Rubles)***

| | Notes | 30 June 2018 | 31 December 2017 |
|---|---|---|---|
| **ASSETS** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 13 | 76 231 | 80 237 |
| Prepayments for property, plant and equipment | | 135 | 156 |
| Intangible assets | | 7 239 | 6 732 |
| Goodwill | | 8 042 | 8 042 |
| Deferred tax assets | | 3 757 | 2 949 |
| Investments in associates and joint ventures | | 1 153 | 1 175 |
| Loans receivable | 17 | 12 953 | 12 503 |
| Prepayment for subsidiary acquisition | 18 | 3 200 | 2 000 |
| Long-term trade receivables from sale of railcars | | 465 | 565 |
| Finance lease receivables | | - | 201 |
| Restricted cash | 19 | 1 851 | - |
| Other non-current assets | | 399 | 672 |
| **Total non-current assets** | | **115 425** | **115 232** |
| **Current assets** | | | |
| Inventories | 14 | 17 145 | 12 118 |
| Trade and other receivables | 15 | 6 117 | 3 510 |
| Finance lease receivables | | - | 23 |
| VAT receivable | | 6 203 | 6 847 |
| Prepayments to suppliers and other assets | 16 | 4 974 | 4 036 |
| Investment in PTK-Holding JSC | | - | 1 773 |
| Loans receivable | 17 | 66 | 56 |
| Restricted cash | 19 | 73 | 807 |
| Short-term bank deposits | | - | 5 038 |
| Cash and cash equivalents | 19 | 5 711 | 3 799 |
| **Total current assets** | | **40 289** | **38 007** |
| **TOTAL ASSETS** | | **155 714** | **153 239** |
| **EQUITY AND LIABILITIES** | | | |
| **Equity and reserves** | | | |
| Share capital issued | 20 | 116 | 116 |
| Additional paid-in capital | 20 | 22 993 | 22 993 |
| Reserve on revaluation of property, plant and equipment | | 9 169 | 9 171 |
| Accumulated deficit | | (21 830) | (18 579) |
| **Total equity and reserves** | | **10 448** | **13 701** |
| **Non-current liabilities** | | | |
| Long-term loans and borrowings | 21 | 61 944 | 75 215 |
| Bonds | 22 | 29 793 | 29 799 |
| Advances received | 24 | 2 171 | - |
| Long-term finance leases liabilities | | 18 | 156 |
| Deferred tax liabilities | | 722 | 479 |
| Accrued expenses for employees remuneration | 24 | 402 | 156 |
| **Total non-current liabilities** | | **95 050** | **105 805** |
| **Current liabilities** | | | |
| Short-term loans and borrowings | 21 | 19 072 | 6 962 |
| Bonds | 22 | 629 | 671 |
| Trade and other payables | 23 | 5 500 | 5 393 |
| Advances received and other current liabilities | 24 | 24 994 | 20 668 |
| Short-term finance lease liabilities | | 21 | 39 |
| **Total current liabilities** | | **50 216** | **33 733** |
| **TOTAL LIABILITIES** | | **145 266** | **139 538** |
| **TOTAL EQUITY AND LIABILITIES** | | **155 714** | **153 239** |

The notes on pages 6-28 form an integral part of these interim condensed consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY**
**"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"**

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**
**FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)**
***(in millions of Russian Rubles)***

| | Share capital issued | Additional paid-in capital | Reserve on revaluation of property, plant and equipment | Accumulated deficit | Total equity |
|---|---|---|---|---|---|
| **Balance at 1 January 2017** | **113** | **21 169** | **9 193** | **(14 076)** | **16 399** |
| Loss and total comprehensive loss for the period (restated) | - | - | - | (2 879) | (2 879) |
| Issue of ordinary shares during additional public offering, net of issuance costs (Note 20) | 3 | 1 816 | - | - | 1 819 |
| **Balance at 30 June 2017 (restated)** | **116** | **22 984** | **9 193** | **(16 955)** | **15 338** |
| **Balance at 1 January 2018 (as previously reported)** | **116** | **22 993** | **9 171** | **(18 579)** | **13 701** |
| Effect of change in accounting policy due to IFRS 9 adoption (Note 3) | - | - | - | (200) | (200) |
| **Balance at 1 January 2018 (as revised)** | **116** | **22 993** | **9 171** | **(18 779)** | **13 501** |
| Loss and total comprehensive loss for the period | - | - | - | (3 053) | (3 053) |
| Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period | - | - | (2) | 2 | - |
| **Balance at 30 June 2018** | **116** | **22 993** | **9 169** | **(21 830)** | **10 448** |

The notes on pages 6-28 form an integral part of these interim condensed consolidated financial statements.

## CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (UNAUDITED)
*(in millions of Russian Rubles)*

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** (restated) |
| **OPERATING ACTIVITIES** | | |
| **LOSS FOR THE PERIOD** | **(3 053)** | **(2 879)** |
| Adjustments for: | | |
| Income tax (benefit)/expense | (238) | 632 |
| Depreciation and amortization | 2 929 | 2 579 |
| Finance costs | 6 192 | 7 086 |
| Finance income | (976) | (1 302) |
| Non-operating foreign exchange loss, net | 242 | 209 |
| Share of loss/(profit) of associates and joint ventures | 4 | (176) |
| Gain from sale of railcars as part of the railcar fleet replacement program (Notes 7 and 8) | (123) | (1 086) |
| Write-down of inventories to net realizable value | 46 | 60 |
| Loss on disposal of property, plant and equipment and intangible assets | 125 | 21 |
| Effect of discounting of accounts receivable | - | 162 |
| Other adjustments | 18 | 2 |
| Movements in working capital: | | |
| Increase in trade and other receivables | (2 153) | (1 934) |
| Increase in prepayments to suppliers and other current assets | (980) | (748) |
| Decrease/(increase) in VAT receivable | 644 | (1 931) |
| Increase in inventories | (3 016) | (1 923) |
| (Decrease)/increase in trade and other payables | (102) | 149 |
| Increase in advances received and other current liabilities | 7 066 | 3 027 |
| Cash proceeds from operating activities | 6 625 | 1 948 |
| Cash paid for purchase of railcars under the railcar fleet replacement program (Note 7) | - | (6 979) |
| Cash received from the sale of railcars under the railcar fleet replacement program (Note 7) | 283 | 7 983 |
| Income tax paid | (666) | (1 868) |
| Finance costs paid | (5 430) | (7 337) |
| **Net cash generated from/(used in) operating activities** | **812** | **(6 253)** |
| **INVESTING ACTIVITIES** | | |
| Purchase of property, plant and equipment, including prepayments | (1 192) | (1 394) |
| Purchase of intangible assets | (739) | (486) |
| Loans granted | (1 254) | (3 746) |
| Placement of short-term deposits | - | (5 000) |
| Proceeds from redemption of short-term deposits | 5 000 | 5 000 |
| Proceeds from repayment of loans granted | 1 222 | 5 989 |
| Interest received | 397 | 658 |
| Net cash outflow on acquisition of subsidiaries | (1 200) | (4 104) |
| Net cash inflow from disposal of investments in associates | 1 773 | - |
| Cash paid on acquisition and increase of investments in associates | - | (1 290) |
| **Net cash generated from/(used in) investing activities** | **4 007** | **(4 373)** |
| **FINANCING ACTIVITIES** | | |
| Shareholders' capital contribution, net | - | 1 819 |
| Proceeds from loans and borrowings | - | 15 771 |
| Repayment of loans and borrowings | (1 652) | (8 780) |
| Purchase of own bonds | (6) | (172) |
| Finance lease (payments)/proceeds, net | (148) | 188 |
| Cash deposited | (1 924) | - |
| Redemption of cash deposited in accordance with covenants | 807 | 1 919 |
| **Net cash (outflows)/inflows from financing activities** | **(2 923)** | **10 745** |
| **Net increase in cash and cash equivalents** | **1 896** | **119** |
| Effect of foreign exchange changes including effect of revaluation of cash and cash equivalents | 16 | (25) |
| **Cash and cash equivalents, beginning of period** | **3 799** | **2 648** |
| **Cash and cash equivalents, end of period** | **5 711** | **2 742** |

The notes on pages 6-28 form an integral part of these interim condensed consolidated financial statements.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)***

## 1. GENERAL INFORMATION

Public Joint Stock Company "Research Production Corporation "United Wagon Company" ("PJSC RPC UWC", the "Company") was incorporated and domiciled in the Russian Federation on 26 December 2011 and is a public joint stock company from 3 March 2015. The Company's registered and business address is 7/11 Novokuznetskaya St., Bld. 1, Moscow.

As at 30 June 2018, the Company is a holding entity for the group of companies ("PJSC RPC UWC Group" or the "Group") incorporated in the British Virgin Islands (the "BVI"), Cyprus, and the Russian Federation (the "RF").

Principal activities of the Group include:

- Production of railway cars, castings and components at the manufacturing facilities located in the town of Tikhvin, Leningrad Region, Russian Federation, and their sale;
- Finance and operating lease of railway cars;
- Rail transportation services.

The list of the Company's registered shareholders and their effective ownership interest as at the reporting dates is presented in the table below:

| **Shareholders** | **At 30 June 2018 Share, %** | **At 31 December 2017 Share, %** |
|---|---|---|
| Management Company Sever Asset Management LLC | 19.24% | 15.91% |
| Management Consulting LLC[1] | 12.52% | 8.14% |
| Powerboom Investments LTD[2] | 9.33% | - |
| Joint Stock Company Otkritie Holding | 7.94% | 7.94% |
| Management Company Navigator Management LLC[1] | 7.25% | 11.56% |
| Joint Stock Company IQG Assets Management (Joint Stock Company EFG Assets Management)[3] | 5.66% | 5.66% |
| SIB (Cyprus) Limited | - | 14.33% |
| Other shareholders[1,2] | 38.06% | 36.46% |
| **Total** | **100%** | **100%** |

[1] As at 30 June 2018, Otkritie FC Bank PJSC indirect ownership of votes comprising the voting shares was 24.29 percent.
[2] As at 30 June 2018, ICT Group Ltd indirect ownership of votes comprising the voting shares was 9.47 percent.
[3] As at 30 June 2018, Safmar Financial Investments PJSC indirect ownership of votes comprising the voting shares was 5.66 percent.

As at 30 June 2018 and 31 December 2017, the Group had no ultimate controlling party.

As at 30 June 2018 and during the six months ended 30 June 2018, the Group and its consolidation perimeter had no significant changes.

## 2. BASIS OF PREPARATION

### Basis of preparation

The annual consolidated financial statements of PJSC RPC UWC and its subsidiaries have been prepared in accordance with the International Financial Reporting Standards ("IFRS"). These interim condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared in accordance with International Accounting Standard 34 *Interim Financial Reporting* ("IAS 34"). The interim condensed consolidated financial statements do not contain all the information that is required to be disclosed during preparation of the annual consolidated financial statements. Therefore, the interim condensed consolidated financial statements should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2017.

The financial results of operations for the six months ended 30 June 2018 are not necessarily indicative of the Group's financial results for the entire year.

***Functional and presentation currency –*** These interim condensed consolidated financial statements are presented in Russian Rubles ("RUB"), which is the functional currency of each company of the Group. These interim condensed consolidated financial statements are presented in millions of Russian Rubles, unless otherwise indicated.

***Income tax —*** The interim income tax is calculated based on the effective tax rate expected at the year-end.

### Going concern assumption

These interim condensed consolidated financial statements have been prepared based on the assumption that the Group will continue as a going concern in the foreseeable future, which implies the realization of assets and settlement of liabilities in the normal course of business.

Under the terms of loan agreements, the Group is required to comply with a number of covenants, including maintenance of certain financial ratios and other non-financial conditions. As at 30 June 2018, the Group's subsidiaries breached a number of financial covenants stipulated by loan agreements which could result in negative consequences for the Group, including declaration of default (Note 21).

All loans and borrowings are presented in these interim condensed consolidated financial statements in accordance with initial payment terms stipulated in the loan agreements, notwithstanding whether the covenants have been breached as at the reporting date, or not.

After the reporting date but not later than the date of approval of these interim condensed consolidated financial statements, the main creditor (Otkritie FC Bank PJSC) provided the Group the confirmation that it will not demand an early repayment of the loans with the breached covenants.

As at 30 June 2018, the Group's current liabilities exceeded its current assets by RUB 9 927 million.

Management controls the Group's current liquidity based on expected level of cash flows and sales through maintaining cash balances sufficient to cover its short-term contractual obligations.

Thus, in the third quarter of 2018 in accordance to  the repayment schedule the Group successfully refinanced one of the bank loan of RUB 8 500 million provided for the maintenance of working capital.

In addition, in July 2018 the Group leased back railcar fleet of one of its subsidiary. The maturity of leaseback arrangement is 2028. Cash inflow under this transaction amounted to RUB 27 500 million (in particular, RUB 21 500 million received under a leaseback agreement, and RUB 6 000 million received under an additional credit facility agreement). This transaction resulted in refinancing of one of the Group's bank loan of RUB 18 600 million with maturity date in 2023. Therefore, the Group's net cash inflow under this transaction was about RUB 8 900 million which, as at the date of approval  of these interim condensed consolidated financial statements, was partially used to finance the Group's operating activities and partially placed on deposit accounts.

The Group's consolidated comprehensive loss for the six months ended 30 June 2018 and 2017 comprised RUB 3 053 million and 2 879 million, respectively.

During the six months ended 30 June 2018, the production level of 8.9 thousand railcars at manufacturing facilities of the Group was in line with the budget. Based on management forecasts, the production level at TVSZ JSC, TikhvinChemMash CJSC and TikhvinSpetsMash CJSC by the end of 2018 will be between 19 - 20 thousand railcars, as it was planned upon preparing the annual manufacturing budget.

During the six months ended 30 June 2018 the Group's finance costs were significantly adjusted due to a decrease of the effective interest rate: floating interest rates were set for a significant portion of loan agreements and coupon rates on the bonds issued by the Group decreases. The cumulative effect is the decrease of the effective interest rate from approximately 13% in the first half of 2017 to 11.4% in the second half of 2018, that caused a RUB 600-700 million decrease in finance costs.

Despite the Group's negative financial result for the six months ended 30 June 2018, its operating performance is stable during last several reporting periods. The significant part of loss is driven by depreciation and amortization charge. The Group has also received a positive cash flow from operating activity for the six months ended 30 June 2018.

The management believes that these factors taken together will allow the Group to continue as a going concern in the foreseeable future.

## 3. SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements have been prepared on the historical cost basis except for certain derivative financial instruments and groups of property, plant and equipment that are measured at fair values or estimated values at the end of each reporting period.

The same accounting policies, presentation and methods of computation have been followed in this interim condensed consolidated financial statements as were applied in the preparation of the Group's financial statements for the year ended 31 December 2017, except for the impact of the adoption of the following new and amended standards which the Group applied as of 1 January 2018, in particular:

- IFRS 9 *Financial instruments* (IFRS 9);
- IFRS 15 *Revenue from Contracts with Customers* (IFRS 15);
- Annual Improvements to IFRSs 2014-2016 Cycle.

The impact of the adoption of IFRS 9 and IFRS 15 on the interim condensed consolidated report of financial position as at 30 June 2018 and the Group's performance is presented below. Adoption of other standards and amendments had no impact on the Group's financial position, performance and cash flows.

The Group did not early adopt any other standards, amendments and interpretations issued but not yet effective.

**IFRS 15 *Revenue from Contracts with Customers***

Adoption effect

In accordance with Note 1, principal activities of the Group include sales of railcars, castings and components, as well as operating lease of railway cars.

Adoption of IFRS 15 Revenue from Contracts with Customers as of 1 January 2018 resulted in changes in the Group's revenue recognition accounting policy. Adoption of IFRS 15 has not influenced the Group's financial position and performance because the Group has no loyalty programs, specific guarantees or material obligations related to after-sales service.
Accounting policy applicable as of 1 January 2018 — Revenue recognition from contracts with customers

In accordance with the core principle of IFRS 15, the Group recognizes revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the Group is entitled in exchange for those goods or services. This core principle is delivered in a five-step model framework.

- Step 1: Identify the contract with the customer;
- Step 2: Identify the performance obligations in the contract;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price to the performance obligations in the contracts;
- Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

Under IFRS 15, the Group recognizes revenue when or as a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Thus, revenue from sales of railcars and other inventories is recognized when a significant portion of risks and benefits from owning assets is transferred to customers, and as at the date of risk and benefit transfer the Group has no unfulfilled obligations to customers which could influence the sold goods acceptance process by customers. The Group recognizes income from operating lease of railcars on a straight-line basis during the term of the relevant lease in the reporting period when the Group actually provided operating lease services to lessees.

**IFRS 9 *Financial Instruments***

Adoption effect

Adoption of IFRS 9 Financial instruments as of 1 January 2018 resulted in certain changes in the accounting policy. During transition to the new standard, the Group applied a modified retrospective approach which allows to take into account the changes related to adoption of the new accounting policy with regard to retained earnings (accumulated deficit) as at the beginning of the period. Therefore, the Group applied IFRS 9 without making adjustments to comparative information for prior periods of interim condensed consolidated financial statements for the six months ended 30 June 2018.

IFRS 9 replaced IAS 39 provisions and introduced new requirements for recognition, classification and measurement of financial assets and liabilities, derecognition of financial instruments and impairment of financial assets.

The Group applied a simplified approach to recognition of lifetime expected credit losses for its trade and other receivables. The application of the expected credit loss model under IFRS 9 resulted in earlier recognition of credit losses and an increase in the amount of the loss allowance recognized in respect of financial assets.

The Group management performed a historical analysis of bad debt allowance accruals and write-offs to profit and loss with respect to its trade and other receivables. Based on the results of the analysis the Group determined that the amount of impairment allowance of doubtful receivables accrued as at 1 January 2018 and 30 June 2018 was adequate taking into account the requirements of IFRS 9.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)*

As at 1 January 2018, impairment of financial assets measured at amortized cost (loans granted) were recognized under IFRS 9 in accordance with the expected credit losses model that resulted in earlier recognition of credit losses and influenced the financial statements as follows:

| | 1 January 2018 (as previously reported) | IFRS 9 adoption | 1 January 2018 (as revised) |
|---|---|---|---|
| *Non-current assets* | | | |
| Loans granted | 12 503 | (200) | 12 303 |
| **Total effect of change in accounting policy for IFRS 9 adoption with regard to accumulated loss** | | **(200)** | |

Accounting policies effective from 1 January 2018 — Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

***Classification and measurement of financial assets***

All recognized financial assets are subsequently measured at amortized cost or fair value, depending on classification. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the instrument. As at the reporting date, the Group had only financial assets measured at amortized cost.

Amortized cost and effective interest method.

The effective interest method is a method of calculating the amortized cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on a debt instrument paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Amortized cost of a financial asset is the amount at which it was measured at initial recognition minus principal repayments, plus the cumulative depreciation, using the effective interest method of any difference between the initial amount and the maturity amount, adjusted for loss allowances of expected credit losses (hereinafter – ECL). On the other hand, gross carrying amount of a financial asset is the amortized cost of a financial asset, before adjusting for any expected credit loss allowance.

Interest income is calculated by using the effective interest method and recognized in the Financial income line item of the consolidated statement of profit or loss and other comprehensive income.

Impairment of financial assets

The Group recognizes allowances for ECL relating to investments in debt instruments recognized at amortized cost, as well as trade and other accounts receivable. The amount of expected credit loss is updated at each reporting date to reflect changes in the credit risk which have occurred since initial recognition of the respective financial asset.

The Group always recognizes lifetime ECL for its trade and other receivables. ECL for these financial instruments is determined based on the Group's credit loss history adjusted for debtor-specific factors, the overall economic situation and an assessment of both current and projected circumstances at the reporting date (including the time value of money, where appropriate).

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in the credit risk since the initial recognition of the respective financial instrument. On the other hand, when a credit risk has not increased significantly since initial recognition, the Group creates an allowance for such financial instruments in an amount equaling to the following 12-month ECL. The determination of the need to recognize lifetime ECL is based on the identification of a significant increase in the credit risk or probability of default since initial recognition, rather than evidence of financial asset impairment as at the reporting date or an actual default event. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Estimation of ECL is based on the default probability and loss given default. Default probability and loss given default estimation is based on historical data adjusted for forecast data.

<u>Derecognition of financial assets</u>

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset carried at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

***Classification and measurement of financial liabilities***

All recognized financial liabilities are subsequently measured at amortized cost using the effective interest method or fair value through profit or loss (FVTPL). As at the reporting date, the Group had only financial liabilities measured at amortized cost.

<u>Financial liabilities held at amortized cost</u>

Financial liabilities that are not (1) contingent liabilities of acquirers in a business combination, (2) held for trading, or (3) classified at FVTPL, are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on a financial liability paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

<u>Derecognition of financial liabilities</u>

The Group derecognizes financial liabilities when, the Group's obligations are discharged, cancelled or expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)*

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Critical accounting judgments and key sources of estimation uncertainty used in preparation of these interim condensed consolidated financial statements correspond with the same accounting judgments and sources of estimation uncertainty used in preparation of the Group's consolidated financial statements for the year ended 31 December 2017.

## 5. COMPARATIVE INFORMATION ADJUSTMENTS

Having approved the interim condensed consolidated financial statements for the six months ended 30 June 2017, the Group management concluded that there were several errors in the said interim condensed consolidated financial statements, in particular: (i) incorrect cost calculation of railcars manufactured by the Group which were subsequently presented as property, plant and equipment and leased to external lessees, (ii) revenue recognition under one of the railcar sales agreements in the amount which was not a fair value of remuneration receivable by the Group because the supply agreement provided for installments with a period up to 4 years.

The management adjusted retrospectively the identified errors by restating comparative information in the interim condensed consolidated financial statements for the six months ended 30 June 2017, presented in the interim condensed consolidated financial statements of the Group for the six months ended 30 June 2018.

Significant changes caused by the retrospective adjustments made in the interim condensed consolidated statement of profit or loss and other comprehensive income for the six months ended 30 June 2017 are presented in the table below:

| | Six months ended 30 June 2017 (as previously reported) | Correction effect | Six months ended 30 June 2017 (restated) |
|---|---|---|---|
| Revenue | 28 835 | (162) | 28 673 |
| Cost of sales | (23 220) | (818) | (24 038) |
| **Gross profit** | **5 615** | **(980)** | **4 635** |
| **Operating profit** | **4 726** | **(980)** | **3 746** |
| Finance income | 1 257 | 45 | 1 302 |
| **Loss before income tax** | **(1 312)** | **(935)** | **(2 247)** |
| Income tax | (819) | 187 | (632) |
| **Loss and total comprehensive loss for the period** | **(2 131)** | **(748)** | **(2 879)** |

Significant changes caused by the retrospective adjustments made in the interim condensed consolidated statement of changes in equity for the six months ended 30 June 2017 are presented in the table below:

| | Six months ended 30 June 2017 (as previously reported) | Correction effect | Six months ended 30 June 2017 (restated) |
|---|---|---|---|
| Loss and total comprehensive loss for the period | (2 131) | (748) | (2 879) |
| **Balance at 30 June 2017 (restated)** | **(16 207)** | **(748)** | **(16 955)** |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)***

Significant changes caused by the retrospective adjustments made in the interim condensed consolidated statement of cash flows for the six months ended 30 June 2017 are presented in the table below:

| | Six months ended 30 June 2017 (as previously reported) | Correction effect | Six months ended 30 June 2017 (restated) |
|---|---|---|---|
| **OPERATING ACTIVITIES** | | | |
| **LOSS FOR THE PERIOD** | **(2 131)** | **(748)** | **(2 879)** |
| Adjustments for: | | | |
| Income tax expense | 819 | (187) | 632 |
| Finance income | (1 257) | (45) | (1 302) |
| Effect of discounting of accounts receivable | - | 162 | 162 |
| Cash paid for purchase of railcars under the railcar fleet replacement program (Note 7) | (7 797) | 818 | (6 979) |
| **Net cash used in operating activities** | **(6 253)** | - | **(6 253)** |

## 6. SEGMENT INFORMATION

The Group is divided into business units on the basis of goods manufactured and services rendered, and incorporates two reporting segments:

- The "Production" segment is involved in manufacturing and sale of freight railcars of new generation;
- The "Lease" segment provides operating and finance lease of freight railcars.

The Group's principal business activities are within the Russian Federation. Other activities of the Group do not constitute a separate reporting segment and are included in the "Other" segments. In 2017 as a result of the reorganization of the manufacturing facility of the Group the results of TAP Titran-Express JSC were transferred to the "Production" segment. Therefore, segment information for the six months ended 30 June 2017 was adjusted in accordance with this change.

Accounting principles of the reportable segments are consistent with the Group accounting policies described in Note 3. The management of the Group assesses performance of operating segments based on profit before tax, finance costs and income, foreign exchange differences, depreciation and amortization and impairment loss ("EBITDA"). This is the measure reported to the chief operating decision-maker for the purposes of resource allocation and assessment of segment performance.

There are no differences from the annual consolidated financial statements in the basis of segmentation or in the basis of measurement of segment profit or loss.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)***

Segment information for the six months ended 30 June 2018 and 2017 is presented as follows:

| 30 June 2018 | Production segment | Lease segment | Other segments | Total segment | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Revenue** | **28 476** | **3 440** | **1 972** | **33 888** | **(1 737)** | **32 151** |
| including inter-segment revenue | 212 | 83 | 1 563 | 1 858 | (1 858) | - |
| **Cost of sales, including:** | **(27 458)** | **(958)** | **(2 031)** | **(30 447)** | **1 940** | **(28 507)** |
| - Inventories | (19 623) | (64) | | | | |
| - Payroll | (3 520) | - | | | | |
| - Property tax | (20) | (87) | | | | |
| - Maintenance and repairs of railcars | (143) | (168) | | | | |
| - Depreciation and amortization | (2 262) | (579) | | | | |
| - Write-down of inventories to net realizable price | (46) | - | | | | |
| - Other | (1 844) | (60) | | | | |
| Selling, general and administrative expenses | (522) | (226) | (642) | (1 390) | (94) | (1 484) |
| Other operating income/(expenses), net | 3 | 16 | 6 | 25 | (14) | 11 |
| Share of (loss)/profit of associates and joint ventures | (71) | 67 | - | (4) | - | (4) |
| Depreciation and amortization | 2 262 | 579 | 93 | 2 934 | (5) | 2 929 |
| **EBITDA** | **2 690** | **2 918** | **(602)** | **5 006** | **90** | **5 096** |
| Finance income | 17 | 2 804 | 3 486 | 6 307 | (5 331) | 976 |
| Finance costs | (3 060) | (4 573) | (3 951) | (11 584) | 5 392 | (6 192) |
| Depreciation and amortization | | | | | | (2 929) |
| Foreign exchange loss, net | | | | | | (242) |
| **Loss before income tax** | | | | | | **(3 291)** |

| 30 June 2017 | Production segment | Lease segment | Other segments | Total segment | Adjustments and eliminations | Consolidated |
|---|---|---|---|---|---|---|
| **Revenue** | **25 740** | **3 248** | **1 677** | **30 665** | **(1 992)** | **28 673** |
| including inter-segment revenue | 8 874 | 2 | 1 380 | 10 256 | (10 256) | - |
| **Cost of sales, including:** | **(22 705)** | **(1 015)** | **(1 473)** | **(25 193)** | **1 155** | **(24 038)** |
| - Inventories | (15 685) | - | | | | |
| - Payroll | (3 270) | - | | | | |
| - Property tax | (13) | (87) | | | | |
| - Maintenance and repairs of railcars | (221) | (171) | | | | |
| - Depreciation and amortization | (2 222) | (710) | | | | |
| - Write-down of inventories to net realisable price | (60) | - | | | | |
| - Other | (1 234) | (47) | | | | |
| Selling, general and administrative expenses | (472) | (166) | (460) | (1 098) | (35) | (1 133) |
| Other operating income/(expenses), net | 122 | 10 | 44 | 176 | (108) | 68 |
| Share of profit/(loss) of associates and joint ventures | (62) | 9 | 229 | 176 | - | 176 |
| Depreciation and amortization | 2 222 | 710 | 134 | 3 066 | (487) | 2 579 |
| **EBITDA** | **4 845** | **2 796** | **151** | **7 792** | **(1 467)** | **6 325** |
| Finance income | 12 | 2 670 | 3 969 | 6 651 | (5 349) | 1 302 |
| Finance costs | (3 125) | (5 226) | (4 280) | (12 631) | 5 545 | (7 086) |
| Depreciation and amortization | | | | | | (2 579) |
| Foreign exchange loss, net | | | | | | (209) |
| **Loss before income tax** | | | | | | **(2 247)** |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)***

In the first half of 2017, the Group's management decided to replace the old railcars fleet previously leased out by the Group with the new innovative railcars. Revenue from the sale of old railcars amounted to RUB 8 605 million, the cost of disposed railcars amounted to RUB 7 519 million (Notes 7 and 8), and the effect on the EBITDA amounted to RUB 1 086 million. The above amounts were recognized in the Adjustments and eliminations.

Breakdown of the Group's revenue by types of goods and services is presented in Note 7.

During the six months ended 30 June 2018, the key external customer of the Production segment was PJSC "GTLK", which accounted for about 57% of the segment's external sales. During the six months ended 30 June 2018, the key external customer of the Lease segment was LLC "Vostok" 1520, which accounted for about 57% of the segment's external sales.

Segment assets and liabilities are not disclosed, as this information is not provided to the chief operating decision-maker.

## 7. REVENUE

Revenue of the Group comprised the following:

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Sales of railcars | 26 988 | 25 264 |
| *including sales of railcars as part of the railcar fleet replacement program* | *283* | *8 605* |
| Rail transportation services | 257 | - |
| Operating lease of railcars | 3 262 | 3 276 |
| Revenue from repair services | 142 | 27 |
| Sales of castings, components and other inventories (incl. spare parts) | 1 218 | 18 |
| Other | 284 | 88 |
| **Total revenue** | **32 151** | **28 673** |

## 8. COST OF SALES

Cost of sales of the Group comprised the following:

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Raw materials used in production | 19 302 | 10 192 |
| *Including government grants for compensation of costs for production and acquisition of innovative railcars* | - | (489) |
| Carrying value of railcars sold as part of the railcar fleet replacement program | 160 | 7 519 |
| Payroll and social contributions | 3 683 | 2 196 |
| Depreciation and amortization | 2 911 | 2 562 |
| Railcar repair and maintenance | 268 | 79 |
| Lease expenses | 200 | 84 |
| Property tax | 113 | 108 |
| Write-down of inventories to net realizable price | 46 | 60 |
| Other | 1 824 | 1 238 |
| **Total cost of sales** | **28 507** | **24 038** |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)*

## 9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses comprised the following:

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Payroll, social contributions and other staff costs | 761 | 346 |
| Leases | 158 | 171 |
| Information, consulting and audit services | 124 | 147 |
| Transportation costs for the delivery of railcars to the buyer | 170 | 101 |
| Advertising expenses | 47 | 37 |
| Railcar-sales related costs | - | 78 |
| Other | 224 | 253 |
| **Total selling, general and administrative expenses** | **1 484** | **1 133** |

## 10. FINANCE INCOME

Finance income of the Group comprised the following:

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Interest income on loans granted | 605 | 791 |
| Interest income on deposits, cash and equivalents | 347 | 465 |
| Interest income from accounting of financial assets using the effective interest rate (accounts receivable) | 24 | 46 |
| **Total finance income** | **976** | **1 302** |

## 11. FINANCE COSTS

Finance costs of the Group comprised the following:

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Interest expense on loans and borrowings | 4 600 | 4 848 |
| Interest expense on bonds | 1 272 | 1 597 |
| Cost of guarantees and sureties | 313 | 541 |
| Bank commissions | 17 | 59 |
| Interest expense on liabilities for acquisition of subsidiaries | - | 184 |
| Government grants | (6) | (8) |
| Less: amounts included in the cost of qualified assets: | | |
| Capitalized interest expense | (4) | (135) |
| **Total finance costs** | **6 192** | **7 086** |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)***

## 12. INCOME TAX

Income tax expense recorded in the interim condensed statement of profit or loss and other comprehensive income comprised the following:

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| Current income tax expense | (518) | (1 177) |
| Adjustment of income tax expense for prior years | 191 | - |
| Deferred income tax benefit | 565 | 545 |
| **Income tax benefit/(expense)** | **238** | **(632)** |

Reconciliation of income tax calculated using the income tax rate effective in Russian Federation to the actual income tax expense recorded in the interim condensed consolidated statement of profit or loss and other comprehensive income is presented below:

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| **Loss before income tax** | **(3 291)** | **(2 247)** |
| Theoretical tax credit at statutory tax rate of 20% | 658 | 449 |
| Tax effect of items which are not deductible or assessable for taxation purposes: | | |
| Unrecognized tax losses of foreign subsidiaries of the Group | (94) | (576) |
| Effect of different income tax rates and taxation rules applicable to foreign subsidiaries of the Group | (498) | (555) |
| Prior year income tax expense adjustment | 191 | - |
| Share of profit/(loss) of joint venture | (1) | 35 |
| Other items | (18) | 15 |
| **Income tax benefit/ (expense)** | **238** | **(632)** |

## 13. PROPERTY, PLANT AND EQUIPMENT

During the reporting period, the Group continued to expand its current production facilities (JSC TVSZ, JSC "TikhvinChemMash", JSC "Heavy Engineering Works", JSC "TikhvinSpetsMash") and other capital projects. For the six months ended 30 June 2018, the total capital investments to purchase equipment and expand the existing production facilities amounted to RUB 950 million.

For the six months ended 30 June 2018, upon completion of the railcar fleet replacement program (Notes 7 and 8) the Group sold railcars at residual value of RUB 160 million.

In the first half 2018, the Group management signed a number of sales agreements involving sale of railcars which were previously included in the Group's property, plant and equipment in the amount of RUB 1 675 million. Therefore, as at 30 June 2018, railcars held for sale in the third quarter 2018 were transferred to the Inventories line item of the interim condensed consolidated statement of financial position (Note 11).

Depreciation charged for the six months ended 30 June 2018 amounted to RUB 3 121 million.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)***

## 14. INVENTORIES

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Raw materials and components for railcar production | 11 896 | 9 474 |
| Finished goods (railcars and wheelsets) | 4 929 | 2 304 |
| Other inventory | 320 | 340 |
| **Total inventories** | **17 145** | **12 118** |

## 15. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following:

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Trade receivables from operating lease and other services | 4 434 | 2 306 |
| Trade receivables from sale of railcars | 996 | 863 |
| Trade receivables from sale of castings, components and other inventories | 389 | 265 |
| Trade receivables from repair of railcars | 278 | 92 |
| Other receivables | 66 | 30 |
| Allowance for doubtful trade and other receivables | (46) | (46) |
| **Total trade and other receivables** | **6 117** | **3 510** |

As at 30 June 2018, Trade receivables from operating lease and other services line item includes receivables under a lease agreement with one of the Group's railcar lessees in the amount of RUB 4 256 million (as at 31 December 2017: RUB 2 092 million). As for these receivables, the Group provides lease payment installments for the period up to 12 months after the month when the railcars were actually used. These receivables were fully repaid in the third quarter 2018.

Management determines the allowance for impairment of receivables based on assessment of customers' credit quality, changes in industry trends, subsequent receipts and historical experience.

## 16. PREPAYMENTS TO SUPPLIERS AND OTHER ASSETS

Prepayments to suppliers and other assets comprised the following:

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Prepayments to suppliers | 3 359 | 2 453 |
| Prepaid income taxes and social contributions | 884 | 796 |
| Prepaid expenses | 200 | 201 |
| Bank guarantees and sureties | 591 | 625 |
| Prepayment to customs | 42 | 65 |
| Allowance for doubtful prepayments | (102) | (104) |
| **Total prepayments to suppliers and other assets** | **4 974** | **4 036** |

As at 30 June 2018 and 31 December 2017 Prepaid income taxes and social contributions include prepaid income taxes of RUB 699 million and RUB 695 million, respectively.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)*

## 17. LOANS GRANTED

Loans issued including interest accrued were as follows:

| | Currency | Interest rate as at 30 June 2018 | 30 June 2018 | 31 December 2017 |
|---|---|---|---|---|
| **Loans to related parties** | | | | |
| ***Secured*** | | | | |
| SZIZhK CJSC | RUB | 11.00% | 2 649 | 2 529 |
| Business Engineering CJSC | RUB | 11.00% | 753 | 719 |
| ***Unsecured*** | | | | |
| SZIPK LLC | RUB | 13.00% | 1 452 | 1 375 |
| IST-Capital LLC | RUB | 11.50% | 1 381 | 1 316 |
| Re Test Cyprus LTD | USD | 6.40% | 570 | 471 |
| Re Test LTD | USD | 6.40% | 4 | 4 |
| NitroChemProm LLC | RUB | 10.00% | - | 6 067 |
| Other | RUB | 1.00-10.75% | - | 44 |
| **Loans to third parties** | | | | |
| NitroChemProm LLC | RUB | 10.00% | 6 339 | - |
| Other | RUB | 1.00-11.00% | 71 | 34 |
| Allowance for impairment | | | (200) | - |
| **Total loans receivable** | | | **13 019** | **12 559** |
| Short-term loans | | | 66 | 56 |
| Long-term loans | | | 12 953 | 12 503 |
| **Total loans receivable** | | | **13 019** | **12 559** |

Movements in the issued loans impairment allowance for the six months ended 30 June 2018 comprised the following:

| | Stage 1 12-month ECL | Total |
|---|---|---|
| **Allowance for impairment as at 1 January 2018** | **200** | **200** |
| Changes in the allowance | - | - |
| **Impairment allowance as at 30 June 2018** | **200** | **200** |

## 18. PREPAYMENT FOR SUBSIDIARY ACQUISITION

In December 2017, the Group entered into a preliminary agreement on acquisition of 100% share of SZIPK CJSC and made a prepayment of RUB 2 000 million. In January 2018, the Group increased the prepayment amount by RUB 1 200 million. These prepayments have been recognized in the respective line item of the interim condensed consolidated statement of financial position. As at the date of the interim condensed consolidated financial statements, the Group had not received control of the acquired entity as its shares were pledged as collateral.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated*)**

## 19. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised the following:

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Bank deposits in RUB | 1 834 | 3 072 |
| Current accounts in RUB | 3 835 | 704 |
| Current accounts in EUR | 20 | 13 |
| Current accounts in USD | 15 | 7 |
| Bank deposits in foreign currency | 7 | 3 |
| **Total cash and cash equivalent** | **5 711** | **3 799** |

As at 30 June 2018 and 31 December 2017 the Group placed cash in overnight deposits to gain interest income. The interest rate on these deposits ranges from 5.65% to 6.5% for deposits in RUB.

### Restricted cash

Under the credit facility agreement concluded between the Group's subsidiary and Alfa-Bank JSC a pledge agreement was signed in respect of the bank collateral account (RUB). In accordance with the terms of the agreement, the collateral account shall accumulate proceeds from the railcar lease services under a number of the Group's lease contracts. The use of funds deposited in the collateral account is only possible for repayment of the short-term portion of the loan from Alfa-Bank JSC.

As at 30 June 2018 and 31 December 2017, the amount of deposited cash accumulated on the collateral bank account of RUB 73 million and RUB 807 million, respectively, was included in current assets in the consolidated statement of financial position.

In the first half of 2018, a Group's company entered into a number of bank guarantees agreements issued to its customers in order to ensure the Group participates in tenders and receives advance payments for further sales of railcars. As at 30 June 2018, the amount of cash deposited as collateral of such guarantees was recognized as long-term assets in the interim condensed consolidated statement of financial position and amounted to RUB 1 851 million which does not exceed 100% of the guaranteed amounts. This cash was placed in bank account (in RUB) at 3.5-4% p.a. interest income. This cash will be paid back to the Group's current account after the expiration of the guarantee period limited by the railcars delivery term in the second half of 2019.

## 20. SHARE AND ADDITIONAL PAID-IN CAPITAL

As at 30 June 2018 and 31 December 2017, the Group's issued and registered share capital amounted to RUB 116 million, divided into 116 million ordinary non-certificated registered shares with par value of RUB 1 each. As at 30 June 2018 and 31 December 2017, the company's share capital was fully paid.

On 8 February 2017, the Group's shareholders approved a decision to increase the share capital of the Group by an additional issue of 7.5 million ordinary registered uncertified shares. In May 2017 the Group held an additional public offering of 2.6 ordinary registered uncertified shares by listing its shares on the Moscow stock exchange for RUB 1 853 million (based on the issuance price of RUB 720 per share with a par value of RUB 1). The difference between the issuance price and the par value was recorded in additional paid-in capital of the Company.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)*

## 21. LOANS AND BORROWINGS

Loans and borrowings comprised the following:

| | Maturity | Interest rate (at 30 June 2018) | | 30 June 2018 | 31 December 2017 |
|---|---|---|---|---|---|
| **At amortized cost, including:** | | | | | |
| ***RUB-denominated*** | | | | | |
| Otkritie FC Bank PJSC | 2021-2024[1] | Floating | Key rate of the CBR +3.5% | 37 171 | 36 751 |
| Alfa-Bank JSC | 2023 | Fixed | 12.7% | 18 606 | 18 993 |
| Otkritie FC Bank PJSC | 2021 | Fixed | 13.8% | 9 000 | 9 000 |
| Khanty-Mansiysk Bank Otkritie PJSC | 2018-2020 | Floating | MosPrime 3m +2.5% | 6 801 | 7 517 |
| National Bank Trust PJSC | 2023 | Floating | Key rate of the CBR +2.5% | 3 909 | 3 946 |
| Otkritie FC Bank PJSC | 2022-2024 | Floating | 8.75%[2] | 2 641 | 2 940 |
| National Bank Trust PJSC | 2020 | Floating | MosPrime 3m +1.5% | 1 380 | 1 385 |
| AO UniCredit Bank | 2024 | Floating | MosPrime 3m +1.5% | 776 | 806 |
| ROSEXIMBANK JSC | 2021 | Fixed | 9% | 670 | 777 |
| Fund of industry development | 2021 | Fixed | 5% | 62 | 62 |
| **Total loans and borrowings** | | | | 81 016 | 82 177 |
| Less: current portion | | | | 19 072 | 6 962 |
| **Long-term loans and borrowings** | | | | **61 944** | **75 215** |

[1] RUB 8 500 million loan is an annually refinanced loan, and, therefore, it is included in short-term liabilities of loans and borrowings;
[2] within the range of the key rate of CBR + 1.5% and the rate for investment projects support program +2.5%

### Security on loans and borrowings

Under the terms of the loan agreements as at 30 June 2018 and 31 December 2017, the Group provided the following types of security:

- Property, plant and equipment with a carrying value of RUB 61 135 and RUB 63 297 million, respectively;
- Intangible assets with a carrying value of RUB 0.28 and RUB 0.31 million, respectively;
- Rights to claim proceeds from export revenue in the amount of RUB 917 and RUB 914 million, respectively;
- Other financial instruments with a carrying value of RUB 88 and RUB 89 million, respectively.

As at 30 June 2018, the Group also provided the pledge of share in the following subsidiaries: RAIL1520 LLC (100%), RAIL 1520 Cyprus Ltd (75%), TM-Energo (100%), TikhvinSpecMash CJSC (100%), AFCT Advanced Freight Car Technology Limited (100%), DEANROAD Limited (100%), Raygold Limited (99.9%). At 31 December 2017 the Group provided the pledge of share in the following subsidiaries: RAIL1520 LLC (100%), RAIL 1520 Cyprus Ltd (75%), TM-Energo (100%), TikhvinSpecMash CJSC (100%).

The repayment schedule of loans and borrowings in compliance with contractual terms for five years ending 30 June 2022 and thereafter is as follows:

| | |
|---|---|
| **Year ended 30 June** | |
| 2019 | 19 072 |
| 2020 | 10 694 |
| 2021 | 10 089 |
| 2022 | 14 829 |
| 2023 | 5 899 |
| Thereafter | 20 433 |
| **Total** | **81 016** |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)***

**Covenants**

Under the terms of loan agreements, the Group is required to comply with a number of covenants, including maintenance of certain financial ratios and other non-financial conditions. The non-compliance with these covenants may result in negative consequences for the Group, including declaration of default.

**Compliance with covenants as at 30 June 2018 and during the six months ended 30 June 2018**

As at 30 June 2018, one of the Group's subsidiaries breached a number of obligatory default financial covenants stipulated in the loan agreement with Bank FC Otkritie PJSC (as at the reporting date, long-term debt under this agreement amounts to RUB 18 169 million), in particular:

- the ratio of the accounts payable less inventory and accounts receivable to total assets, determined in accordance with the financial statements prepared in accordance with the Russian Accounting Standards ("RAS");
- the ratio of intra-group (settlements with the companies of PJSC RPC UWC Group) accounts payable and accounts receivable balances to a larger amount of accounts payable and accounts receivable determined in accordance with the financial statements prepared in accordance with RAS;
- the target ratio of capital to assets of the borrower;
- the ratio of the cumulative debt of the Group as at the reporting date to EBITDA determined based on the Group's consolidated financial statements data for the last 12 months prior to the reporting date;

The sanction applied to the borrower was an increase of the interest rate by 1% (one percentage point) from 8 February 2018. As at the date of approval of these interim condensed consolidated financial statements, the Group has received a letter from the bank confirming that Otkritie FC Bank PJSC will not impose additional sanctions, apart from those previously notified to the borrower.

The management of the Group estimated the probability that the bank will use their right and demand an early repayment of the borrowings is low and, therefore, as at 30 June 2018, such loans and borrowings were presented in these interim condensed consolidated financial statements for the six months ended 30 June 2018 according to the initial payment terms stipulated in the loan agreements.

**Compliance with covenants as at 31 December 2017 and during the six months ended 30 June 2017**

As at 31 December 2017, the Group and a number of its subsidiaries breached certain financial and non-financial covenants set out in loan agreements with banks. In 2018, the banks did not use their right to demand an early repayment of such loans. During the first half of 2018, the Group eliminated the breach of certain covenants as indicated in the consolidated financial statements for the year ended 31 December 2017.

**Available credit facilities**

As at 30 June 2018 the Group's total unused credit facilities amounted to RUB 600 million and related to the following credit lines:

| | Maturity | Interest rate | Available till | Amount |
|---|---|---|---|---|
| ROSEXIMBANK JSC | 2019 | 7.5% | 29 December 2018 | 600 |
| **Total** | | | | **600** |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)*

## 22. BONDS

In 2014 and 2013 the Group issued and placed 30 000 000 bonds (Series BO 01 and Series 01) at par value of RUB 1 thousand each on the MICEX CJSC (currently, Moscow Exchange PJSC). In addition, in 2017, the Group issued and placed 5 000 000 bonds (Series BO-P03) at par value of RUB 1 thousand each on the Moscow Exchange PJSC. In February 2018, these bonds were repaid in full.

As at 30 June 2018 and 31 December 2017, subsidiaries of the Group held bonds for RUB 207 million and RUB 5 201 million, respectively, for a purpose of their future resale on the market.

The annual coupon rate of bonds was set at:

- 8.7% for bonds of Series 01 for the first half-year period and Russia CPI + 3% thereafter with interest being paid semi-annually. In the first half of 2018 the following coupon rates were used:
  - 4.12% p.a. from 1 January 2018 to 29 May 2018;
  - 6.68% p.a. from 30 May 2018 to 30 June 2018.
- CBR REPO rate for bonds of Series BO 01 on the 7th day prior to coupon payment + 3.5% with interest being paid semi-annually. In the first half of 2018 the following rates were used:
  - 13.5% p.a. from 01 January 2018 to 12 March 2018;
  - 12% p.a. from 13 March 2018 to 30 June 2018.

The bonds are guaranteed by certain entities of the Group.

The carrying value of bonds issued and placed by the Group was as follows:

| | Maturity | Effective interest rate for the six months ended 30 June 2018 | 30 June 2018 | 30 June 2017 |
|---|---|---|---|---|
| Series 01 | 24 November 2021 | 4.57% | 14 793 | 14 799 |
| Series BO 01 | 10 September 2019 | 12.59% | 15 000 | 15 000 |
| **Total** | | | **29 793** | **29 799** |

The balance of interest accrued as at 30 June 2018 and 31 December 2017 in the amount of RUB 629 million and RUB 671 million, respectively, is included in the interim condensed consolidated statement of financial position as the short-term portion of the bonds.

## 23. TRADE AND OTHER PAYABLES

Trade and other payables comprised the following:

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Trade payables | 5 392 | 5 109 |
| Payables for property, plant and equipment and intangible assets | 108 | 284 |
| **Total trade and other payables** | **5 500** | **5 393** |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)*

## 24. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

Advances received and other current liabilities comprised the following:

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Advances received from customers, including: | 21 046 | 15 810 |
| *Advances received for sale of goods (railcars)* | *20 949* | *15 527* |
| *Operating lease prepayments* | *31* | *227* |
| Taxes payable | 2 663 | 3 884 |
| Provisions and accrued expenses | 1 035 | 799 |
| Other short-term payables to employees | 250 | 175 |
| **Total advances received and other current liabilities** | **24 994** | **20 668** |

As at 30 June 2018 non-current liabilities presented in the interim condensed consolidated statement of financial position includes long-term advances received from customers for railcars in the amount of RUB 2 171 million.

The Provisions and accrued expenses line item includes the short-term part of the remuneration payable to the key management personnel in the amount of RUB 530 million (including social contributions taxes). The long-term part of the remuneration payable not earlier than 12 months is presented as accrued expenses for employees remuneration of the interim condensed consolidated statement of financial position in the amount of RUB 402 million (including social contributions taxes). The estimated liability of remuneration is based on the assumption that the approved key performance indicators will be achieved for 100%.

## 25. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions, as defined by IAS 24 *Related Party Disclosures*. In considering each possible related party relationship, attention is directed to the substance of the relationship not merely the legal form. Related parties may enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

The Group, in the ordinary course of business, enters into various transactions with related parties, such as sale and purchase of railcars spare parts or financing and investing transactions.

Related parties with which the Group entered into significant transactions during the six months ended 30 June 2018 and 2017 or had significant balances outstanding at 30 June 2018 and 31 December 2017 are subsidiaries of the group with significant influence over RPC UWC PJSC, associates and joint ventures, Otkritie FC Bank PJSC, as well as other related parties.

Outstanding balances with associates and joint ventures as at 31 December 2017 and turnovers for the six months ended 30 June 2017 comprise the Group's balances and turnovers on settlements with PTK-Holding JSC which includes Nitrokhimprom LLC and Vostok 1520 LLC. As of 1 January 2018, PTK-Holding JSC is not a related party of the Group.

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)***

As at 30 June 2018 and 31 December 2017 the Group had the following balances with its related parties:

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| **Trade and other receivables** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | 6 | 15 |
| Associates and joint ventures | 6 | 2 211 |
| **Cash and cash equivalents** | | |
| Otkritie FC Bank PJSC | 2 630 | - |
| Subsidiaries of the group with significant influence over RPC UWC | 45 | 98 |
| **Loans issued and deposits** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | 6 706 | 6 415 |
| Associates and joint ventures | - | 6 108 |
| **Prepayment for subsidiary acquisition** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | 3 200 | 2 000 |
| **Prepayments to suppliers and other assets** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | 5 | 9 |
| Other | 675 | 985 |
| Otkritie FC Bank PJSC | 79 | - |
| Associates and joint ventures | - | 485 |
| **TOTAL ASSETS** | **13 352** | **18 326** |
| **Loans and borrowings** | | |
| Otkritie FC Bank PJSC | 55 613 | - |
| **Trade and other payables** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | 688 | 662 |
| Associates and joint ventures | 23 | 48 |
| **Advances received** | | |
| Associates and joint ventures | - | 6 183 |
| **TOTAL LIABILITIES** | **56 324** | **6 893** |

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)*

The Group's transactions with related parties comprised the following:

| | Six months ended | |
|---|---|---|
| | **30 June 2018** | **30 June 2017** |
| **Operating lease of railcars** | | |
| Associates and joint ventures | - | 1 671 |
| **Sales of railcars and inventories** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | 25 | 3 |
| Associates and joint ventures | 753 | 16 |
| **Income from consulting services** | | |
| Associates and joint ventures | 6 | 6 |
| **Rent income** | | |
| Associates and joint ventures | 14 | 49 |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | 2 | 2 |
| **Other income** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | 10 | 9 |
| Associates and joint ventures | 1 | 19 |
| **Raw materials used in production** | | |
| Associates and joint ventures | (349) | - |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | (44) | (46) |
| **Cost of provided services (maintenance, lease and other services)** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | (451) | (319) |
| Associates and joint ventures | - | (25) |
| **Finance income** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | 312 | 484 |
| Otkritie FC Bank PJSC | 164 | - |
| Associates and joint ventures | - | 272 |
| Other | - | 5 |
| **Finance costs** | | |
| Otkritie FC Bank PJSC | (3 070) | - |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | - | (307) |
| Other | (310) | (357) |
| **Foreign exchange loss** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | (48) | (29) |
| Associates and joint ventures | - | 1 |
| Other | - | (5) |
| **Purchase of property, plant and equipment** | | |
| Subsidiaries of the group with significant influence over RPC UWC PJSC | (9) | (2) |

**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2018 (*in millions of Russian Rubles, unless otherwise indicated)***

### Compensation of key management personnel of the Group

Compensation to key management personnel and to the Board of Directors is made up of a contractual salary and a performance bonus depending on operating results. The total amount of compensation accrued (including social insurance contributions) for the Groups' key management personnel and the Board of Directors for the six months ended 30 June 2018 and for the six months ended 30 June 2017 equaled to RUB 691 million and RUB 55 million, respectively.

## 26. COMMITMENTS AND CONTINGENCIES

### Capital expenditure commitments

As at 30 June 2018, the Group had contractual obligations in respect of property, plant and equipment and intangible assets totaling RUB 287 million (31 December 2017: RUB 387 million).

### Guarantees issued

As at 30 June 2018, guarantees issued with respect to lease payments comprised the following:

| Debtor | Creditor | Start of validity period | End of validity period | Contract currency | Contractual amount |
|---|---|---|---|---|---|
| Vostok 1520 LLC | PJSC GTLK | 31 March 2017 | 30 September 2034 – 31 January 2035 | RUB | 812 |
| **Total** | | | | | **812** |

As at 30 June 2018 and 31 December 2017, the promissory note acquired by the Group from Nitrokhimprom LLC was transferred as a guarantee for the liabilities of Nitrokhimprom LLC (Note 17).

### Operating lease

*The Group as a lessor*

Operating leases relate to the railcars owned by the Group with lease terms of between 2 to 10 years, with an option to extend at the discretion of the lessee.

Non-cancellable operating lease payments are presented as follows:

| | 30 June 2018 | 31 December 2017 |
|---|---|---|
| Less than one year | 6 889 | 5 804 |
| From 1 year to 5 years | 21 481 | 16 220 |
| Later than 5 years | 817 | 1 758 |
| | **29 187** | **23 782** |

### Operating environment

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market.

During 2018 the oil and gas prices remained low. The management cannot reasonably estimate future price changes and the impact they may have on the financial position of the Group.

Starting from 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. These sanctions remained in 2018. Moreover, downgrade of Russia's long-term foreign currency sovereign rating by international credit agencies has led to reduced access of the Russian businesses to international capital and export markets, increased inflation, economic recession and other negative economic consequences.

The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

**Taxation**

The Russian business legislation continues to be subject to rapid changes. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation and as a result, it is possible that transactions and activities that have not been challenged in the past may be challenged. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years proceeding the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

The Group identified possible contingent tax liabilities for the three-year period ended 30 June 2018. Management estimates that the Group's possible exposure in relation to the aforementioned tax risks will not exceed 5% of the Group's total revenue for the six months ended 30 June 2018.

**Legal proceedings**

As at 30 June 2018, the Group is involved in legal proceedings initiated by some of its shareholders (Investment Management LLC, IQG Asset Management JSC) who filed a claim against RPC UWC PJSC to redeem its ordinary shares with a total value of RUB 8 200 million. The claim has been filed against the Group based on the respective right of the shareholders. In March 2018, at the extraordinary shareholders' meeting (hereinafter – the "EGMS") of RPC UWC a number of large transactions were approved with the total value exceeding 50% of the carrying amount of total assets of RPC UWC. The shareholders who did not participate in the meeting received the right to demand from RPC UWC the redemption of all or part of the shares of RPC UWC, that they own. The management of RPC UWC considers that the approval of the transactions was not within the responsibility of the general meeting of shareholders, therefore the General Director of RPC UWC PJSC also initiated a legal proceeding to invalidate the EGMS' approval.

In August 2018, after the Arbitration court refused to satisfy the claim filed by RPC UWC PJSC General Director, an appeal was filed. The Group believes that after consideration of this appeal the EGMS decision will be declared to be invalid and this will result in cancellation of the redemption claims. Given the court practices the Group management estimated the probability of unfavorable outcome of the court proceedings, which could oblige the Group to redeem its own shares of RUB 8 200 million and pay RUB 42 million penalties provided for by the Civil Code of the Russian Federation, is low. Nevertheless, as at the approval date of these interim condensed consolidated financial statements, the Group admits the uncertainty with respect to the outcome of the court proceedings.

## 27. SUBSEQUENT EVENTS

In August 2018 the Group leased back railcar fleet of one of its subsidiary. This transaction resulted in refinancing of one of the Group's bank loan. The Group management expects that this transaction will also decrease the effective interest rate applicable to the debt financing of the Group's lease operations down to 9.7%.