

**Joint stock company
“Ukrainian railways”**

Unaudited interim condensed consolidated
financial statements

As at 30 June 2019

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Ernst & Young Audit Services LLC
19A Khreshchatyk Street
Kyiv, 01001, Ukraine
Tel: +380 (44) 490 3000
Fax: +380 (44) 490 3030
www.ey.com/ua

ТОВ «Ернст энд Янг
Аудиторські послуги»
вул. Хрещатик, 19А
Київ, 01001, Україна
Тел.: +380 (44) 490 3000
Факс: +380 (44) 490 3030

REPORT ON REVIEW OF INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Introduction

We have reviewed the accompanying interim condensed consolidated financial statements of joint stock company "Ukrainian railways" and its subsidiaries (collectively referred to as "the Group"), which comprise the interim consolidated statement of financial position as at 30 June 2019, the interim consolidated statement of comprehensive income, the interim consolidated statement of changes in equity and the interim consolidated statement of cash flows for the six-month period then ended and selected explanatory notes. Management is responsible for the preparation and presentation of these interim condensed consolidated financial statements in accordance with IAS 34, *Interim Financial Reporting*. 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 paragraph (i) of the Basis for qualified conclusion, we conducted our review in accordance with International Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*. A review of interim 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 interim condensed consolidated financial statements, certain assets and liabilities of the Group are located in, or otherwise associated with the Autonomous Republic of Crimea and certain territories of Donetsk and Lugansk regions temporarily not controlled by the Ukrainian authorities. In addition, the Group is not considered the legal successor for these assets and liabilities before completion of required statutory legal succession proceedings. There is an uncertainty in respect of timing of the legal succession and the ultimate valuation of the assets and liabilities to be succeeded to the Group as a result of that statutory legal proceedings.

We were unable to complete our review of the assets of uncontrolled territories of UAH 13,562,117 thousand and liabilities of uncontrolled territories of UAH 5,207,709 thousand as at 30 June 2019 and 31 December 2018, share of profit of an associate of UAH 31,859 thousand and revenues and expenses of Regional Branch "Donetsk Railway" for the six-month period ended 30 June 2018 disclosed in Note 2 to the interim condensed 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 effects of this departure from International Financial Reporting Standards on the carrying amounts of property, plant and equipment, related deferred tax balances as at 30 June 2019 and 31 December 2018, depreciation and impairment charges and deferred tax charges for the six-month periods ended 30 June 2019 and 2018 have not been determined.

Qualified Conclusion

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

REPORT ON THE SUPPLEMENTARY FINANCIAL INFORMATION

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

Ernst & Young Audit Services LLC

Kyiv, Ukraine
30 September 2019

INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION**as at 30 June 2019***(in thousands of Ukrainian Hryvnia)*

	Notes	30 June 2019 (unaudited)	31 December 2018 (audited)
Assets			
Non-current assets			
Property, plant and equipment	6	236,109,645	237,701,229
Investment in associates		737,056	691,759
Financial assets		97,084	91,247
Taxes receivable, other than income tax		164,293	845,648
Prepaid income tax		467,643	539,721
Deferred tax asset		177,179	58,745
Assets of uncontrolled territories	2	13,562,117	13,562,117
		<u>251,315,017</u>	<u>253,490,466</u>
Current assets			
Inventories		7,826,898	8,881,531
Trade and other receivables		1,000,502	1,002,401
Prepayments		68,498	136,842
Prepaid income tax		12,203	12,280
Taxes receivable, other than income tax		585,345	733,121
Cash and cash equivalents		2,201,464	1,251,826
		<u>11,694,910</u>	<u>12,018,001</u>
Total assets		<u>263,009,927</u>	<u>265,508,467</u>
Equity and liabilities			
Equity			
Contributed capital	7	229,879,115	229,879,115
Additional capital	7	18,894,426	18,894,521
Accumulated deficit		(37,620,727)	(38,660,688)
		<u>211,152,814</u>	<u>210,112,948</u>
Non-controlling interests	7	30,697	4,978
		<u>211,183,511</u>	<u>210,117,926</u>
Non-current liabilities			
Interest-bearing loans and borrowings	8	11,795,384	14,918,287
Lease liability	9	2,129,009	1,158,530
Defined benefit liability		2,639,539	2,654,105
Deferred tax liability		20,640	34,105
Liabilities of uncontrolled territories	2	5,207,709	5,207,709
		<u>21,792,281</u>	<u>23,972,736</u>
Current liabilities			
Interest-bearing loans and borrowings	8	16,360,928	17,086,982
Lease liability	9	436,929	286,775
Trade and other payables		7,507,351	9,358,892
Contract liabilities		1,947,843	2,324,462
Income tax payable		529,116	68,773
Taxes payable, other than income tax		1,469,176	559,651
Provisions	10	1,782,792	1,732,270
		<u>30,034,135</u>	<u>31,417,805</u>
Total liabilities		<u>51,826,416</u>	<u>55,390,541</u>
Total equity and liabilities		<u>263,009,927</u>	<u>265,508,467</u>

Signed and authorised for release on behalf of joint stock company "Ukrainian railways" on 30 September 2019:

Chief Executive Officer

Yevgen P. Kravtsov

Member of the board

Ivan I. Yuryk

Chief Accountant

Tamara S. Ryabchun

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia)

	Notes	For the six months 2019 (unaudited)	For the six months 2018 (unaudited)
Revenues			
Cargo revenues		36,065,647	32,730,991
Passenger revenues		4,395,986	3,725,013
Other revenues		3,745,778	3,513,278
Total revenues	11	44,207,411	39,969,282
Operating expenses			
Staff costs		(21,663,168)	(19,978,422)
Depreciation		(5,729,331)	(6,951,662)
Electricity		(4,495,993)	(4,487,223)
Fuel		(4,377,770)	(4,413,165)
Maintenance		(2,756,301)	(3,499,282)
Taxes, other than income tax		(2,146,275)	(500,829)
Change in provisions	10	(96,102)	(13,811)
Social expenses		(351,150)	(248,350)
Other income		481,182	520,680
Other expenses		(1,415,402)	(297,536)
Total operating expenses		(42,550,310)	(39,869,600)
Operating profit		1,657,101	99,682
Finance income		74,081	140,349
Finance costs		(1,869,418)	(1,831,599)
Foreign exchange gain, net		1,677,242	2,298,942
Share of profit of associates		52,862	29,224
Profit before income tax		1,591,868	736,598
Income tax expense	12	(526,831)	(268,236)
Profit for the period		1,065,037	468,362
Attributable to:			
Equity holder of the parent		1,065,046	468,437
Non-controlling interests		(9)	(75)
		1,065,037	468,362
Other comprehensive loss for the period, net of tax		(18,055)	–
Total comprehensive income for the period, net of tax		1,046,982	468,362
Attributable to:			
Equity holder of the parent		1,046,991	468,437
Non-controlling interests		(9)	(75)
Total comprehensive income for the period, net of tax		1,046,982	468,362

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia)

	Notes	Contributed capital	Other additional capital	Accumulated deficit	Total	Non-controlling interests	Total equity
As at 1 January 2019 (audited)		229,879,115	18,894,521	(38,660,688)	210,112,948	4,978	210,117,926
Profit for the period		–	–	1,065,046	1,065,046	(9)	1,065,037
Other comprehensive loss		–	–	(18,055)	(18,055)	–	(18,055)
Total comprehensive income		–	–	1,046,991	1,046,991	(9)	1,046,982
Dividends	7	–	–	(3,548)	(3,548)	–	(3,548)
Dividends accrued to non-controlling interests		–	–	–	–	(65)	(65)
Acquisition of a subsidiary		–	–	–	–	25,793	25,793
Other changes		–	(95)	(3,482)	(3,577)	–	(3,577)
At 30 June 2019 (unaudited)		229,879,115	18,894,426	(37,620,727)	211,152,814	30,697	211,183,511

for the six months ended 30 June 2018

(in thousands of Ukrainian Hryvnia)

	Notes	Contributed capital	Other additional capital	Accumulated deficit	Total	Non-controlling interests	Total equity
As at 1 January 2018 (audited)		229,879,115	18,899,383	(38,006,503)	210,771,995	4,983	210,776,978
Profit for the period		–	–	468,437	468,437	(75)	468,362
Total comprehensive income		–	–	468,437	468,437	(75)	468,362
Dividends	7	–	–	(45,222)	(45,222)	–	(45,222)
Dividends paid to non-controlling interests		–	–	–	–	(93)	(93)
At 30 June 2018 (unaudited)		229,879,115	18,899,383	(37,583,288)	211,195,210	4,815	211,200,025

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

INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia)

	Notes	For the six months 2019 (unaudited)	For the six months 2018 (unaudited)
Cash flows from operating activities			
Profit before income tax		1,591,868	736,598
<i>Adjustments to reconcile profit before income tax to net cash provided by operations</i>			
Depreciation		5,729,331	6,951,662
Finance costs, net		1,795,337	1,691,250
Income from disposal of property, plant and equipment		12,877	–
Movements in defined benefit liability and provisions		(111,104)	71,913
Allowance for estimated irrecoverable amounts		1,281,226	121,289
Unrealised foreign exchange gain, net		(1,672,132)	(2,284,571)
Share in profit of associates		(52,862)	(29,224)
Operating profit before working capital changes		8,574,541	7,258,917
<i>Changes in working capital</i>			
Trade and other receivables		(560,431)	(216,064)
Prepayments		68,344	40,870
Inventories		1,024,948	(273,875)
Taxes receivable and prepaid, other than income tax		222,827	74,651
Trade and other payables		(765,061)	(428,178)
Contract liabilities		(376,619)	(807,534)
Taxes payable, other than income tax		909,487	253,847
Cash generated from operating activity		9,098,036	5,902,634
Income tax paid		(225,180)	(149,736)
Interest paid		(1,562,630)	(1,464,890)
Dividends paid	7	(111,686)	(45,222)
Dividends paid to non-controlling interests		(52)	(93)
Repayment of provisions	10	(3,278)	(54)
Net cash flows from operating activities		7,195,210	4,242,639
Cash flows from investing activities			
Acquisition of property, plant and equipment		(3,852,666)	(7,172,983)
Interest received		71,984	136,279
Net cash flows used in investing activities		(3,780,682)	(7,036,704)
Cash flows from financing activities			
Proceeds from interest-bearing loans and borrowings		15,373,600	5,250,474
Repayment of interest-bearing loans and borrowings		(17,639,795)	(5,901,763)
Repayment of lease obligations		(225,254)	(190,180)
Net cash flows used in financing activities		(2,491,449)	(841,469)
Net increase/(decrease) in cash and cash equivalents		923,079	(3,635,534)
Acquisition of a subsidiary		31,669	–
Net foreign exchange difference		(5,110)	(14,371)
Cash and cash equivalents at 1 January		1,251,826	5,188,988
Cash and cash equivalents at 30 June		2,201,464	1,539,083

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 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

1. Description of business and the Group’s structure

Creation and operations of the Company and the Group

Joint stock company “Ukrainian railways” (JSC “Ukrainian railways” or “the Company”) is a private joint stock company organised under the laws of Ukraine. Prior to 31 October 2018, the Company’s name was Public joint stock company “Ukrainian railways”, which was registered on 21 October 2015. The Company was created as a result of reorganisation through merger of public service railway enterprises and institutions (“the Reorganisation”) and started economic activities since 1 December 2015. All assets and liabilities of entities previously subordinated to and effectively controlled by State Administration of Railway Transport of Ukraine were transferred to the Company.

The consolidated financial statements include financial statements of JSC “Ukrainian railways” and its subsidiaries (together – “The Group”). The list of entities included in the Group is presented further.

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

The Company is recognised as a natural monopoly in the area of an access to public service infrastructure for railway transportation and railway traffic control function.

Corporate information

The sole shareholder of JSC “Ukrainian railways” is the State of Ukraine represented by the Cabinet of Ministers of Ukraine acting in capacity of the sole shareholder of the Company.

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

Entities included in the consolidated financial statements

Below is presented the information on the entities financial statements of which are included in the interim condensed consolidated financial statements:

	<i>Share as at 30 June 2019</i>	<i>Share as at 31 December 2018</i>
1 Joint stock company “Ukrainian railway”	Parent	Parent
2 Private joint-stock company “Dnipropetrovsk Diesel Locomotive Repair Plant”	100%	100%
3 Private joint-stock company “Zaporizhzhya Electric Locomotive Repair Plant”	100%	100%
4 Private joint-stock company “Lviv Locomotive Repair Plant”	100%	100%
5 Private joint-stock company “Kyiv Electrical Carriage-Repair Plant”	100%	100%
6 Private joint-stock company “Korosten Plant Of Railway Sleepers”	100%	100%
7 Private joint-stock company “Hnivan Special Reinforced Concrete Plant”	100%	100%
8 Private joint-stock company “Transsignal Kyiv Electrical Engineering Plant”	100%	100%
9 LLC “UZ Cargo Wagon”	100%	100%
10 LLC “Enerho Zbut Trans”	100%	100%
11 Private joint-stock company “Insurance Company “Tast Garantiya”	65.62%	65.62%
12 Private joint-stock company “Insurance Company “Inter-Policy”	50.0046%	30.97%

JSC “Ukrainian railways” comprises six regional branches and 28 other branches. The Company continues its internal reorganisation and forms its target organisational structure through segregation of market-oriented branches.

In April 2019, the Group obtained control over PJSC “Insurance Company “Inter-Policy”. As of the date when control was obtained the assets of the subsidiary amounted to UAH 73,231 thousand, liabilities to UAH 21,640 thousand, net assets were of UAH 51,591 thousand.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Pricing policy

Cargo and passenger railway transportation in Ukraine is a regulated by government prices and some services that connected with transportation is provided with free market prices. At the same time JSC “Ukrainian railways” in the course of its business activity provides a wide range of auxiliary services and works, manufactures and sells products at unregulated prices. Cargo and passenger transportation is subject to the following tariffs regulations:

Tariffs for domestic cargo transportation – approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine and the Ministry of Finance of Ukraine (except carriage part of tariff for carriages that belong to shipping company JSC “Ukrainian railways” from 19 February 2018). In accordance with Order No. 425 from 12 December 2017 of the Ministry of Infrastructure of Ukraine, process of deregulation of carriage part of tariff for fleet carriages that belong to JSC “Ukrainian railways” is finished and company has been determining fee for usage the Company’s carriages since 19 February 2018. The tariffs are denominated in UAH and are generally subject to changes in cost of transportations and producer price index, which flatten out the level of devaluation of UAH against US dollar and Euro, which expresses the Group’s loan portfolio. During the 6 months that ended 30 June 2019 tariffs have been increased on 14.2% since 30 March 2019 according to Order No. 205 “About changes in indexes that applied for tariffs of Listing of tariffs for domestic cargo transportation by railroad and related services” dated 22 March 2019 issued by the Ministry of Infrastructure of Ukraine.

In accordance with the resolution of the Management Board of JSC “Ukrainian railways” dated 15 April 2019, the tariffs for carriages that belong to shipping company JSC “Ukrainian railways” have been updated (effective from 20 May 2019). After the reporting period, in accordance with the decision of the Management Board of JSC “Ukrainian railways” dated 6 September 2019, the tariffs for carriages that belong to shipping company JSC “Ukrainian railways” have been updated (effective from October 2019).

Tariffs for domestic transportation of passengers and baggage – approved by the Ministry of Infrastructure of Ukraine as agreed with the Ministry of Economic Development and Trade of Ukraine (except suburban transportation and transportation with high-speed trains Intercity+ in the first class cars). The tariffs are denominated in Ukrainian Hryvnia. During the six months that ended 30 June 2019 there were no changes in tariffs for domestic transportation of passengers and baggage. During 2018, there was an increase in tariffs for domestic transportation of passengers and baggage by 12% from 1 June 2018 and 1 October 2018 in accordance with Order No. 184 dated 20 April 2018.

Tariffs for international cargo transportation – regulated by special Tariff Policy annually approved by the Ministry of Infrastructure of Ukraine based on intergovernmental agreements. Tariffs are denominated in Swiss Francs, US dollars or Euro. There were no adjustments to the above tariffs during the six months ended 30 June 2019 and during 2018.

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. During the six months that ended 30 June 2019 there were adjustment of indexes of base cost of tickets for interstate passengers’ tariffs for the year according to Order No.208 “About changes of tariffs for transportation of passengers and baggage by railroad for interstate transportation” dated 25 March 2019 issued by the Ministry of Infrastructure of Ukraine.

2. Operating environment, risks and economic conditions in Ukraine

Primarily, 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

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

The weakness of the national currency (UAH), which experienced triple devaluation against US dollar and against Euro since the beginning of 2014, combined with cross border settlement restrictions, negative external trade balance, along with continued volatility in the country's traditional export commodity markets, high inflation and considerable external debt represent key risks to the stabilisation of the Ukrainian operating environment in the near future. The continued support from the International Monetary Fund ("IMF") and other international lenders, which would allow for more opportunities of macroeconomic stability and external debt management, is contingent upon the mentioned above structural reforms sustaining momentum.

The known and estimable effects of the above events on the financial position and performance of the Group in the reporting period have been taken into account in preparing the consolidated financial statements. Management is monitoring the developments in the current environment and taking actions, where appropriate, to minimise any negative effect 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.

Following the temporary occupation of the Autonomous Republic of Crimea by the Russian Federation as a result of military aggression in April 2014, the Group ceased its operations in the region. As a result of the Reorganisation, the assets and liabilities related to the temporarily occupied Autonomous Republic of Crimea were transferred to the Company at the carrying values as at 31 March 2014 and continued to be carried at these values as at 30 June 2019 and 31 December 2018. There were no income and/or expenses related to the assets and liabilities related to Autonomous Republic of Crimea recorded in the Group's financial statements for the six months ended 30 June 2019 and 2018.

In the second half of 2014 as a result of military aggression of Russian Federation the Ukrainian authorities temporarily lost control over certain territory of Donetsk and Luhansk regions where some structural units of State Enterprise "Donetsk Railway" (SE "Donetsk Railway") operated. As a result of the Reorganisation the assets and liabilities of structural units of SE "Donetsk Railway" located on the temporary occupied territory of Donetsk and Luhansk regions were transferred to the Company at the carrying values as at 30 June 2014 and, for the most part, continued to be carried at these values as at 30 June 2019 and 31 December 2018 on the balance sheet of Regional branch "Donetsk Railway" (RB "Donetsk Railway"). The Group had only adjusted interest-bearing loans and borrowings, as well as lease liabilities of the uncontrolled territory as at 1 January 2016. No subsequent adjustments to the above financial liabilities were made after this date.

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

Despite the military aggression the Group was able to assure railway transportation involving the temporarily occupied territories of Donetsk and Luhansk by 15 March 2017. According to the Decree of the President of Ukraine No. 62/2017 of 15 March 2017, the decision of the National Security and Defense Council of Ukraine On Urgent Additional Measures to Counter Hybrid Threats to the National Security of Ukraine was enacted, which provides for the implementation of measures to stop the movement of goods through the collision line within Donetsk and Luhansk regions, with a few exceptions. As a result of the measures taken, the railroad cargo transportation with the temporarily occupied territory of Donetsk and Luhansk region was completely suspended.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

As at 31 December 2017, management performed the segregation of assets and liabilities of RB “Donetsk Railway” to a controlled and uncontrolled parts. Assets and liabilities of the uncontrolled territory were included in the following lines of the consolidated statement of financial position: assets of uncontrolled territories and liabilities of uncontrolled territories within non-current assets and long-term liabilities, respectively. Assets and liabilities associated with Autonomous Republic of Crimea were also included in the above lines. This approach provides more transparent presentation of the Group’s assets and liabilities. There were no changes in the composition of assets and liabilities of uncontrolled territories during the six months ended 30 June 2019.

The summarised financial information of Regional branch “Donetsk Railway” included into the interim condensed consolidated financial statements of the Group as at 30 June 2019 is presented below:

Assets and liabilities of RB “Donetsk Railway”

	30 June 2019	31 December 2018
Assets		
Non-current assets		
Property, plant and equipment	5,101,866	5,046,626
Financial assets	4,133	5,635
Prepaid income tax	1,260	1,402
Assets of uncontrolled territories	8,624,333	8,624,333
	<u>13,731,592</u>	<u>13,677,996</u>
Current assets		
Inventories	468,822	523,387
Trade and other receivables	48,299	27,839
Trade and other receivables from Group entities	4,074	1,584
Prepayments	4,714	5,299
Taxes receivable, other than income tax	12,662	14,734
Cash and cash equivalents	2,090	909
	<u>540,661</u>	<u>573,752</u>
Total assets	<u>14,272,253</u>	<u>14,251,748</u>
Non-current liabilities		
Defined benefit liability	188,730	189,295
Liabilities of uncontrolled territories	5,017,908	5,017,908
	<u>5,206,638</u>	<u>5,207,203</u>
Current liabilities		
Trade and other payables	447,394	541,956
Trade and other payables to Group entities	5,381,462	3,465,314
Contract liabilities	11,966	9,873
Taxes payable, other than income tax	57,678	35,163
Provisions	16,791	–
	<u>5,915,291</u>	<u>4,052,306</u>
Total liabilities	<u>11,121,929</u>	<u>9,259,509</u>
Net assets	<u>3,150,324</u>	<u>4,992,239</u>

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Comprehensive income of RB “Donetsk Railway”

	For the six months 2019	For the six months 2018
Revenues		
Cargo revenues	2,192,870	2,204,695
Passenger revenues	28,588	26,475
Other revenues	121,804	90,976
Total revenues	2,343,262	2,322,146
Operating expenses		
Staff costs	(1,543,062)	(1,598,353)
Fuel	(421,760)	(487,085)
Maintenance	(272,136)	(212,712)
Depreciation	(153,101)	(184,418)
Electricity	(190,528)	(212,151)
Taxes, other than income tax	(139,761)	(19,428)
Change in provisions	(16,791)	–
Social expenses	(12,304)	(15,001)
Other income	19,468	10,297
Other expenses	(15,149)	(14,244)
Total operating expenses	(2,745,124)	(2,733,095)
Operating loss	(401,862)	(410,949)
Finance income	181	153
Finance costs	(13,801)	(11,737)
Foreign exchange gain/(loss), net	5	(142)
Loss before income tax	(415,477)	(422,675)
Income tax expense	–	–
Loss for the period	(415,477)	(422,675)
Other comprehensive income for the period, net of tax	–	–
Total comprehensive loss for the period, net of tax	(415,477)	(422,675)

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Cash flows of RB “Donetsk Railway”

	For the six months 2019	For the six months 2018
Cash flows from operating activities		
Loss before income tax	(415,477)	(422,675)
<i>Adjustments to reconcile loss before income tax to net cash provided by operations</i>		
Depreciation	153,101	184,418
Finance costs, net	13,801	11,584
Movements in provisions and pensions	20,279	3,864
Unrealised foreign exchange (gain)/loss, net	(5)	153
Operating loss before working capital changes	(228,301)	(222,656)
<i>Changes in working capital</i>		
Trade and other receivables	(12,958)	(22,327)
Prepayments	585	3,010
Inventories	54,565	(6,043)
Taxes receivable and prepaid	2,214	8,144
Trade and other payables	402,054	604,200
Contract liabilities	2,093	1,237
Taxes payable, other than income tax	22,515	1,053
Cash generated from operating activity	242,767	366,618
Net cash flows from operating activities	242,767	366,618
Cash flows from investing activities		
Acquisition of property, plant and equipment	(241,767)	(366,199)
Interest received	181	–
Net cash flows used in investing activities	(241,586)	(366,199)
Net increase in cash and cash equivalents	1,181	419
Cash and cash equivalents at 1 January	909	1,807
Cash and cash equivalents at 30 June	2,090	2,226

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Ensuring sustainable operating activities of the Group in the foreseeable future

Management believes that the Group will continue its regular operating activities on a going concern basis being a key component of Ukraine's transport infrastructure and systemically important company for the whole economy of the country. For six months ended 30 June 2019 and 2018, rail cargo transportation turnover amounted to about 78.7% and 80.8% of the total cargo traffic in Ukraine (excluding pipelines); railway passenger transportation turnover amounted to 32.0% and 34.0% of the total passenger turnover, respectively. The Group counts on the Government support, if required, which may include, but not limited to, additional increase in tariffs, facilitation of granting the state guarantees for new loans, obtaining of loans from state-owned banks, additional cash contributions to the statutory capital of the Company, etc.

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

In view of this, management points out that as at 30 June 2019, the Group's current liabilities exceeded current assets by UAH 18,339,225 thousand (31 December 2018: UAH 19,399,804 thousand). This was due to the upcoming maturity of long-term loans and borrowings. As at 30 June 2019 and 31 December 2018, the carrying amount of current interest-bearing loans and borrowings amounted to UAH 16,360,928 thousand and UAH 17,086,982 thousand, respectively.

In March 2019, the Group repaid timely and in full the first portion in the amount of USD 150 million of outstanding principal amount of Eurobonds issued in 2013 together with the related coupon payment. Bridge-financing to repay the debt was attracted, with the support of the Government, in the domestic market from a state-owned bank and the State Agency for Infrastructure Projects of Ukraine (Ukrinfraproekt). The bridge-financing was short-term, therefore, there was no significant improvement in the Group's liquidity position as at 30 June 2019.

After the reporting period, the Group placed new notes (of USD 500 mln and USD 95 mln) on the Irish Stock Exchange and repaid timely and in full its current obligations under the above mentioned bridge-financing and Eurobonds issued in 2013. Due to the successful debt management operations, the Group has significantly improved its liquidity position. Details of transactions performed are reported in the note on events after the reporting date (Note 16).

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

Management has also initiated the introduction of automatic indexation of tariffs for rail cargo transportation for a producer price index. Respective changes in the tariff setting system are currently discussed among key market players.

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

Successful placement of loan participation notes and other debt management operations completed after the reporting period as well as measures to improve operating performance will further contribute to timely repayment of obligations, financing capital expenditures and continuing sustainable operating activities of the Group in the foreseeable future.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

3. Basis of preparation of financial statements

The interim condensed consolidated financial statements for the six months ended 30 June 2019 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 consolidated financial statements as at 31 December 2018 prepared in accordance with International Financial Reporting Standards (“IFRS”).

Functional and presentation currencies

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

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

Basis of consolidation and combination

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

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

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

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2018, except for the adoption of new standards effective as of 1 January 2019. 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 2019, 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 16 Leases

IFRS 16 supersedes IAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

Lessor accounting under IFRS 16 is substantially unchanged from IAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in IAS 17. Therefore, IFRS 16 did not have an impact for leases where the Group is the lessor.

Leases previously classified as finance leases

The Group did not change the initial carrying amounts of recognised assets and liabilities at the date of initial application for leases previously classified as finance leases (i.e., the right-of-use assets and lease liabilities equal the lease assets and liabilities recognised under IAS 17). The requirements of IFRS 16 was applied to these leases from 1 January 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Leases previously accounted for as operating leases

The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets'). The accounting rules for these types of leases remain similar to existing ones, that is, Group will continue to classify such lease as operating lease.

The adoption of IFRS 16 have no material impact on the financial statements of the Group.

IFRIC Interpretation 23 Uncertainty over Income Tax Treatment

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

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

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

The Group applies significant judgement in identifying uncertainties over income tax treatments. Since the Group operates in a complex tax environment, it assessed whether the Interpretation had an impact on its consolidated financial statements.

Upon adoption of the Interpretation, the Group considered whether it has any uncertain tax positions, particularly those relating to transfer pricing. The Company's and the subsidiaries' tax filings include deductions related to transfer pricing and the taxation authorities may challenge those tax treatments. The Group determined, based on its tax compliance and transfer pricing study, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The interpretation did not have an impact on the consolidated financial statements of the Group

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument can be measured at amortised cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to IFRS 9 clarify that a financial asset passes the SPPI criterion regardless of an event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. These amendments had no impact on the consolidated financial statements of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to determine the current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event.

An entity is also required to determine the net interest for the remainder of the period after the plan amendment, curtailment or settlement using the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event, and the discount rate used to remeasure that net defined benefit liability (asset).

These amendments had no impact on the consolidated financial statements of the Group as it did not have any plan amendments, curtailments, or settlements during the period.

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

The amendments clarify that an entity applies IFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in IFRS 9 applies to such long-term interests.

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

These amendments had no impact on the consolidated financial statements as the Group does not have long-term interests in its associate and joint venture.

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

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IFRS 11 Joint Arrangements

A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in IFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

An entity applies those amendments to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after 1 January 2019, with early application permitted.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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

These amendments had no impact on the consolidated financial statements of the Group as there is no transaction where a joint control is obtained.

IAS 12 Income Taxes

The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where it originally recognised those past transactions or events.

An entity applies the amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted. When the entity first applies those amendments, it applies them to the income tax consequences of dividends recognized on or after the beginning of the earliest comparative period.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

IAS 23 Borrowing Costs

The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete. The entity applies the amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

An entity applies those amendments for annual reporting periods beginning on or after 1 January 2019, with early application permitted.

Since the Group's current practice is in line with these amendments, they had no impact on the consolidated financial statements of the Group.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)**for the six months ended 30 June 2019***(in thousands of Ukrainian Hryvnia, unless otherwise indicated)***5. Segment reporting**

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

<i>For the six months 2019</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	36,686,765	4,077,816	332,931	3,532,679	179,597	–	–	(602,377)	44,207,411
Inter-segment sales	–	–	–	682,359	4,379,385	–	(5,061,744)	–	–
Total revenues	36,686,765	4,077,816	332,931	4,215,038	4,558,982	–	(5,061,744)	(602,377)	44,207,411
Staff costs	(11,627,234)	(3,818,436)	(1,773,145)	(2,963,230)	(299,349)	(493,711)	341,894	(1,029,957)	(21,663,168)
Depreciation	(4,147,828)	(723,723)	(336,062)	(462,060)	(25,716)	(92,823)	187	58,694	(5,729,331)
Electricity	(2,956,076)	(873,846)	(426,101)	(502,359)	(3,920,944)	–	4,134,502	48,831	(4,495,993)
Fuel	(2,942,024)	(620,185)	(369,523)	(493,026)	(16,971)	(159)	–	64,118	(4,377,770)
Maintenance	(1,695,488)	(622,746)	(322,598)	(197,730)	(350,641)	(8,128)	603,919	(162,889)	(2,756,301)
Other expenses	(3,266,210)	(1,053,562)	(436,056)	(968,815)	(70,126)	(1,773,751)	2,421,268	3,731,850	(1,415,402)
Expenses allocated to other segments	–	–	–	2,440,026	–	–	(2,440,026)	–	–
Segment result	10,051,905	(3,634,682)	(3,330,554)	1,067,844	(124,765)	(2,368,572)	–	2,108,270	3,769,446
<i>For the six months 2018</i>	<i>Cargo</i>	<i>Long-distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Unallocated</i>	<i>Eliminations (A)</i>	<i>Adjustments (B)</i>	<i>Total</i>
Sales to third parties	34,205,093	3,451,083	284,767	2,530,631	4,793	–	–	(507,085)	39,969,282
Inter-segment sales	–	–	–	5,196,484	909,537	–	(6,106,021)	–	–
Total revenues	34,205,093	3,451,083	284,767	7,727,115	914,330	–	(6,106,021)	(507,085)	39,969,282
Staff costs	(10,540,113)	(3,369,708)	(1,572,028)	(2,742,985)	(366,743)	(1,425,178)	–	38,333	(19,978,422)
Depreciation	(5,250,669)	(781,924)	(403,012)	(586,654)	(17,630)	(18,480)	–	106,707	(6,951,662)
Electricity	(2,919,643)	(757,774)	(430,688)	(4,578,443)	(31,753)	(1,929)	4,179,099	53,908	(4,487,223)
Fuel	(2,932,223)	(608,969)	(361,754)	(505,746)	(29,185)	(6,332)	–	31,044	(4,413,165)
Maintenance	(2,215,694)	(423,171)	(336,337)	(215,836)	(593,213)	(264,495)	1,072,844	(523,380)	(3,499,282)
Other expenses	(3,389,798)	(769,891)	(329,929)	(874,872)	(54,346)	(112,873)	3,138,299	2,095,874	(297,536)
Expenses allocated to other segments	–	–	–	2,284,221	–	–	(2,284,221)	–	–
Segment result	6,956,953	(3,260,354)	(3,148,981)	506,800	(178,540)	(1,829,287)	–	1,295,401	341,992

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

5. Segment reporting (continued)

- (A) Inter-segment revenue are eliminated on consolidation.
 (B) For the six months ended 30 June 2019 and 2018, the operating results of each operating segment did not include adjustments representing differences between the basis of preparation of management accounts and the Group's IFRS accounting policies.

Reconciliation of profit

	For the six months 2019	For the six months 2018
Segment results	4,029,748	875,878
Total adjustments due to differences in accounting policies adopted for management accounts and IFRS	2,108,270	1,295,401
Total unallocated amounts	(2,368,572)	(1,829,287)
Items not included in segment expenses		
Taxes, other than income tax	(2,146,275)	(500,829)
Change in provisions	(96,102)	(13,811)
Social expenses	(351,150)	(248,350)
Other income	481,182	520,680
Finance income	74,081	140,349
Finance costs	(1,869,418)	(1,831,599)
Foreign exchange gain, net	1,677,242	2,298,942
Share of profit of associates	52,862	29,224
Group loss before tax	1,591,868	736,598

During the six months ended 30 June 2019, other expenses were included in segment expenses, which resulted in changes in presentation of comparative information for the six months ended 30 June 2018.

6. Property, plant and equipment

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 94,185,568 thousand as at 30 June 2019 (31 December 2018: UAH 96,035,916 thousand).

Acquisitions and disposals

During the six months ended 30 June 2019, the Group acquired assets with a cost of UAH 4,301,535 thousand (for the six months ended 30 June 2018: UAH 6,668,976 thousand). There were disposals of assets in the amount of UAH 15,858 thousand during the six months ended 30 June 2019 and there were no disposals during the six months ended 30 June 2018.

Capitalised depreciation charge

For the six months ended 30 June 2019, the Group capitalised UAH 120,421 thousand of depreciation charge into construction in progress (for the six months ended 30 June 2018: UAH 108,206 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

7. Equity

Charter capital

Since the date of registration of the Company to 30 June 2019 the charter capital of the Company 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.

Dividends to the State

Distribution of dividends by a joint stock company is declared based on the annual results of operations as approved by the general shareholders meeting (the sole shareholder of JSC “Ukrainian railways” is the State of Ukraine represented by the Cabinet of Ministers of Ukraine). Dividends were paid during the six months ended 30 June 2019 in the amount of UAH 103,101 thousand (six months ended 30 June 2018 the amount of UAH 33,159 thousand).

For the six months ended 30 June 2019 the subsidiaries of JSC “Ukrainian railways” paid a portion of their net profit (dividends) in the amount of UAH 8,585 thousand directly to the state budget (the six months ended 30 June 2018: UAH 12,063 thousand).

8. Interest-bearing loans and borrowings

As at 30 June 2019 and 31 December 2018 interest-bearing loans and borrowings comprised:

	30 June 2019	31 December 2018
Interest-bearing bank loans	16,690,963	17,185,655
Eurobonds issued	9,464,176	14,319,614
Other borrowings	2,001,173	500,000
	<u>28,156,312</u>	<u>32,005,269</u>

Eurobonds pertain to the loan participation notes of USD 500,000 thousand placed on Irish Stock Exchange in May 2013. In March 2016 the Group has reprofiled the notes, the maturity was extended to 15 September 2021, annual interest rate increased from 9.5% to 9.875% starting from 21 November 2015 and the principal repayment schedule changed as follows: 60% to be paid in 2019 (30% - in the second half of 2019), 20% - in 2020 and 20% in 2021.

As disclosed in Note 2 the Group recorded the liabilities of State Enterprise “Donetsk Railway” on its balance sheet with further division of the balances to controlled and uncontrolled parts. In 2016, majority of lenders of SE “Donetsk Railway” filed court suits with the purpose to recognise JSC “Ukrainian railways” as a legal successor of the enterprise and recover the debt. In February 2017, some changes to the legislation on the Reorganisation were enacted providing moratorium on foreclosure of assets and enforcement of liabilities of SE “Donetsk Railway” until cessation of united forces operation and completion of legal succession proceedings (inventory of underlying assets and liabilities, their valuation and formal transfer and acceptance by the Company). The court decisions subsequent to the changes in the legislation ruled for non-recognition of the Group as a legal successor for loans and borrowings of State Enterprise “Donetsk Railway” based on the above considerations.

Since 1 January 2016, the Group ceased to recognise finance costs and foreign exchange losses related to the above loans and borrowings and as at 31 December 2017, reclassified them into liabilities of uncontrolled territories (Note 2). As such, as at 30 June 2019 (and 31 December 2018), the liabilities of uncontrolled territories comprised interest-bearing loans and borrowings denominated in the United States dollars in the amount of USD 116,340 thousand with a fixed interest rate of 10.65% - 12.0% per annum, and interest-bearing loans and borrowings denominated in Hryvnia in the amount of UAH 871,725 thousand with a fixed interest rate of 11% - 18.0%.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

8. Interest-bearing loans and borrowings (continued)

As at 30 June 2019 and 31 December 2018, effective interest rates and currency split for borrowings were as follows:

	<i>Interest rate</i>	<i>30 June 2019</i>	<i>Interest rate</i>	<i>31 December 2018</i>
USD				
Floating rate	LIBOR 6m + 1% - 6%	1,892,983	LIBOR 6m + 1% - 6%	2,694,048
Fixed rate	9.9%-12%	22,413,894	9.9%-12%	26,549,292
		<u>24,306,877</u>		<u>29,243,340</u>
EUR				
Floating rate	EURIBOR 6m + 0.3%	1,629,026	EURIBOR 6m + 0.3%	1,554,639
		<u>1,629,026</u>		<u>1,554,639</u>
UAH				
Fixed rate	18.9%-20.75%	2,220,409	18.9%-20.75%	1,207,290
		<u>2,220,409</u>		<u>1,207,290</u>
Total interest-bearing loans and borrowings		28,156,312		32,005,269
Less: current portion		<u>(16,360,928)</u>		<u>(17,086,982)</u>
Interest-bearing loans and borrowings, non-current		<u>11,795,384</u>		<u>14,918,287</u>

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

As at 30 June 2019 and 31 December 2018, a breach of undertakings was continuing under long-term loan agreements that the Group was not able to timely restructure for an outstanding amount of UAH 4,844,780 thousand and UAH 4,895,629 thousand, respectively. In prior periods the breach caused a cross-default under certain other borrowings. During 2018, the cross-default was rectified before the end of the year as respective lenders provided written letters waiving the right for accelerated repayment of debt and accrual of fines related to the breach. Management undertakes measures to rectify the breach and expects to rectify the breach by 31 December 2019.

As at 30 June 2019, undrawn loan facilities available to the Group were of UAH 5,431,944 thousand (31 December 2018: UAH 5,361,694 thousand).

As at 30 June 2019 and 31 December 2018 interest-bearing loans and borrowings were secured as follows:

	<i>30 June 2019</i>	<i>31 December 2018</i>
Type of collateral		
Property, plant and equipment	217,455	221,149
Inventories	111,251	111,251
Proceeds from future revenue	24,942,411	19,692,411
Guarantees issued by the State of Ukraine	3,258,914	3,900,859

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

9. Lease liability

Lease liability is represented by amounts due under agreements for lease of diesel locomotives, electric multiple unit train, equipment and car. Some of lease payments are pegged to USD; the average lease term is 7 years. As at 30 June 2019 and 31 December 2018 the interest rates implicit in the lease were within the range of 12% - 21% per annum.

In February 2018, the Company signed a finance lease agreement with the Ukrainian state bank JSC “Ukreximbank” for the supply of 30 diesel locomotives manufactured General Electric Company (USA) with a maturity date until February 2026. In the second half of 2018, the Group has received 15 locomotives, another 15 locomotives have been received during the first half of 2019.

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

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

	<i>Right-of-use assets</i>				<i>Lease liabilities</i>
	<i>Railway cars</i>	<i>Locomotives</i>	<i>Vehicles</i>	<i>Total</i>	
As at 1 January 2019	368,775	1,829,683	5,948	2,204,406	1,445,305
Addition/(transfer), net	(364,751)	1,824,611	(5,019)	1,454,841	1,317,225
Depreciation	(4,024)	(38,035)	(59)	(42,118)	–
Interest expense	–	–	–	–	190,215
Foreign exchange difference	–	–	–	–	(2,517)
Payments	–	–	–	–	(384,290)
As at 30 June 2019	–	3,616,259	870	3,617,129	2,565,938

10. Provisions

Movement in the provisions was as follows:

At 31 December 2018	1,732,270
Accrued during the period	96,102
Amounts used	(3,278)
Foreign exchange difference	(42,302)
At 30 June 2019	1,782,792

The Group’s provisions mostly consists of provision for litigations. 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.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

11. Revenues

Revenue from contracts with customers for the six months ended 30 June 2019 comprised the following:

<i>Segments</i>	<i>Cargo</i>	<i>Long-distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Total</i>
Cargo revenues	36,065,647	–	–	–	–	36,065,647
Passenger revenues	–	4,063,055	332,931	–	–	4,395,986
Other revenues	–	–	–	3,566,181	179,597	3,745,778
Total revenue from contracts with customers	36,065,647	4,063,055	332,931	3,566,181	179,597	44,207,411
Timing of revenue recognition						
At a point in time	–	–	–	1,702,101	–	1,702,101
Over time	36,065,647	4,063,055	332,931	1,864,080	179,597	42,505,310
Total revenue from contracts with customers	36,065,647	4,063,055	332,931	3,566,181	179,597	44,207,411

Revenue from contracts with customers for the six months ended 30 June 2018 comprised the following:

<i>Segments</i>	<i>Cargo</i>	<i>Long-distance passenger</i>	<i>Suburban passenger</i>	<i>Auxiliary activity</i>	<i>All other segments</i>	<i>Total</i>
Cargo revenues	32,730,991	–	–	–	–	32,730,991
Passenger revenues	–	3,440,246	284,767	–	–	3,725,013
Other revenues	–	–	–	3,508,485	4,793	3,513,278
Total revenue from contracts with customers	32,730,991	3,440,246	284,767	3,508,485	4,793	39,969,282
Timing of revenue recognition						
At a point in time	–	–	–	1,191,880	–	1,191,880
Over time	32,730,991	3,440,246	284,767	2,316,605	4,793	38,777,402
Total revenue from contracts with customers	32,730,991	3,440,246	284,767	3,508,485	4,793	39,969,282

12. Income tax

The components of income tax expense were as follows:

	<i>For the six months 2019</i>	<i>For the six months 2018</i>
Current income tax charge	676,785	271,804
Adjustments in respect of current income tax charges	–	280
Deferred income tax expense/(benefit)	(149,954)	(3,848)
Income tax expense	526,831	268,236

During the six months ended 30 June 2019, the statutory income tax rate in Ukraine was 18% (during the six months ended 30 June 2018: 18%).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

13. Contingencies and commitments

Tax matters

The Group carries out most of its transactions in Ukraine and therefore has to comply with the requirements of Ukrainian tax law. Ukrainian legislation and regulations regarding taxation and other operational matters, including currency exchange control and custom regulations, continue to evolve. Legislation and regulations are not always clearly written and are subject to varying interpretations by local and national authorities, and other governmental bodies. Instances of inconsistent interpretations are not unusual. Management believes that its interpretation of the relevant legislation is appropriate and that the Group has complied with all regulations, and paid or accrued all taxes and withholdings that are applicable.

Management believes that there are strong arguments to successfully defend any such challenge and does not believe that the risk is any more significant than those of similar enterprises in Ukraine. When it is not considered probable that a material claim will arise, no provision has been established in these financial statements.

Litigations

In the normal course of business, the Group is subject to various routine litigation and arbitration related matters. As at 30 June 2019 the Group was involved in litigations with tax authorities with respect to additional accrual of tax liabilities for corporate income tax, VAT and other taxes in total amount of UAH 1,665,870 thousand, including additional charges and penalties (31 December 2018: UAH 1,705,099 thousand). As at 30 June 2019 the Group's possible exposure to the ascertained third parties' claims was UAH 3,062,367 thousand (31 December 2018: UAH 1,649,675 thousand).

Management believes that the Group's position in the litigations stated above has sustainable legal merits, and therefore the ultimate resolution of these litigations will not have an adverse effect on the Group's financial position, or the results of its future operations, accordingly, no corresponding provisions were recognised in these interim condensed consolidated financial statements. Provisions were recognised for obligations with probable outflow of resources embodying economic benefits (Note 10).

Capital commitments

As at 30 June 2019 the Group's outstanding commitment in respect of purchase of property and equipment amounted to UAH 1,728,424 thousand (31 December 2018: UAH 4,722,655 thousand).

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

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 2019</i>	<i>31 December 2018</i>	<i>30 June 2019</i>	<i>31 December 2018</i>
Financial assets				
Trade and other receivables	1,000,502	1,002,401	1,000,502	1,002,401
Other financial assets	97,084	91,247	97,084	91,247
Cash and cash equivalents	2,201,464	1,251,826	2,201,464	1,251,826
Financial liabilities				
Interest-bearing loans and borrowings	27,972,464	31,271,041	28,156,312	32,005,269
Lease liability	2,539,281	1,427,632	2,565,938	1,445,305
Trade and other payables	7,502,440	9,351,190	7,507,351	9,358,892

In assessing the fair value of financial instruments, the Group uses a variety of methods and makes assumptions based on market conditions existing at the end of the reporting period. Quoted market prices or dealer quotes for the specific or similar instruments or the discounted value of future cash flows are used for financial assets. The fair value of unquoted instruments, other financial assets, interest bearing loans and borrowings, lease liability is estimated by discounting the future contractual cash flows at the current market interest rate available to the Group for similar financial instruments.

Fair value hierarchy

All financial instruments for which fair value is recognised or disclosed are categorised within the fair value hierarchy, based on the lowest level input that is significant to the fair value measurement as a whole, as follows:

- Level 1 – quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 – valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable;
- Level 3 – valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

Fair value of financial assets and liabilities as at 30 June 2019 and 31 December 2018 as follows:

<i>30 June 2019</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets carried at amortised cost				
Trade and other receivables	–	–	1,000,502	1,000,502
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	9,315,809	1,965,692	16,690,963	27,972,464
Lease liability	–	–	2,539,281	2,539,281
Trade and other payables	–	–	7,502,440	7,502,440
<i>31 December 2018</i>	<i>Level 1</i>	<i>Level 2</i>	<i>Level 3</i>	<i>Total</i>
Financial assets carried at amortised cost				
Trade and other receivables	–	–	1,002,401	1,002,401
Financial liabilities carried at amortised cost				
Interest-bearing loans and borrowings	13,585,386	–	17,685,655	31,271,041
Lease liability	–	–	1,427,632	1,427,632
Trade and other payables	–	–	9,351,190	9,351,190

There were no transfers between Level 1 and Level 2 fair value measurements during the period, and no transfers into or out of Level 3 fair value measurements during the six-month period ended 30 June 2019.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

15. Related party disclosure

The outstanding balances and transaction with related parties comprised:

	30 June 2019	31 December 2018
Entities under common control of the State		
Prepayments for property, plant and equipment	–	5
Trade and other receivables	455,451	196,335
Prepayments, other than dividends	6,298	20,522
Cash and cash equivalents	824,041	1,182,968
Trade and other payables, other than dividends	19,292	93,074
Contract liabilities	6,000	15,579
Interest-bearing loans and borrowings and lease	6,240,563	2,362,019
	For the six months 2019	For the six months 2018
Entities under common control of the State		
Cargo revenues	1,021,359	2,320,313
Electricity	4,495,993	4,487,223
Maintenance	108,336	40,390
Finance income	23,886	137,717
Finance costs	105,956	27,628
Other expenses	26,735	36,002

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.

Guarantees issued by the State of Ukraine

As at 30 June 2019, the Group's interest bearing loans with carrying value of UAH 3,258,914 thousand (31 December 2018: UAH 3,900,859 thousand) were guaranteed by the State of Ukraine.

Compensation of key management personnel

Key management personnel is considered to be the Management Board of JSC “Ukrainian Railways” comprising 7 members and the Supervisory Board comprising 6 members as at 30 June 2019.

For the six months ended 30 June 2019 and 2018, total compensation to the Management Board mostly included payroll, payroll related taxes and bonuses amounted to UAH 31,220 thousand and UAH 21,148 thousand, respectively. For the six months ended 30 June 2019 total compensation to the members of the Supervisory Board was UAH 21,225 thousand. For the six months ended 30 June 2018 the members of the Supervisory Board were not entitled to compensation.

Dividends to the State

The information on dividends to the State is provided in Note 7.

Government subsidies

The Group receives subsidies from the State for carriage of certain categories of preferential passengers. During the six months ended 30 June 2019 such subsidies of UAH 43,973 thousand (six months ended 30 June 2018: UAH 31,630 thousand) were included into passenger revenues.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (continued)

for the six months ended 30 June 2019

(in thousands of Ukrainian Hryvnia, unless otherwise indicated)

16. Events after reporting period

At the beginning of July 2019, the Group attracted a debt facility from international capital market by placing loan participation notes on the Irish Stock Exchange in the amount of USD 500 million (equivalent to UAH 12,801 million at the NBU exchange rate at the date of placement) due in 2024 with nominal interest rate of 8.68422% per annum.

The proceeds from the placement of the notes were used to repay the bridge financing received in March 2019 to repay the first principal instalment of USD 150 million and corresponding coupon payment of Eurobonds issued in 2013 (Note 2). In September 2019, the proceeds were used to repay another principal instalment of USD 150 million and corresponding coupon payment of Eurobonds issued in 2013. Thus, during 2019, the Group repaid USD 300 million of Eurobonds issued in 2013, accounting for 60% of their principal amount. The remaining USD 200 million are for the settlement during the next two years.

In September 2019, the Group made an additional placement of notes of nearly USD 95 million (equivalent to UAH 2,351 million at the NBU exchange rate at the date of placement) designated for the modernization of the railway infrastructure of TEN-T international transport corridors. The Group received premium on the placement of approximately USD 3.6 million as the market value of the notes exceeded their nominal value. The offering was structured as an additional issue to the original notes placement completed in July 2019. Accordingly, the terms of the additional placement correspond to the original ones.

Supplementary financial information

CONSOLIDATED BALANCE SHEET (CONSOLIDATED STATEMENT OF FINANCIAL POSITION)
as at 30 June 2019

Entity: JSC "Ukrainian railways"
Location: Ukraine
Ownership: Joint Stock Company
Type of activity: Freight railroad transport
Average quantity of employees: 259,729
Address, telephone: 03150, Kyiv, Jerzy Giedroyc St., phone 465-05-52

Date (year month date)	2019 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-c Per DKUD 1801007

Assets	Line code	As at 31 December 2018	As at 30 June 2019
1	2	3	4
I. Non-current assets			
Intangible assets:	1000	45,837,219	45,839,245
historical cost	1001	46,036,803	46,062,473
accumulated amortization	1002	199,584	223,228
Capital investments in progress	1005	7,121,243	6,945,457
Property, plant and equipment:	1010	184,742,767	183,324,943
historical cost	1011	462,883,950	467,326,487
accumulated depreciation	1012	278,141,183	284,001,544
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	691,759	737,056
other financial investments	1035	73,546	74,951
Non-current receivables	1040	17,701	15,313
Deferred tax assets	1045	58,745	177,179
Other non-current assets	1090	14,947,486	14,200,873
Total section I	1095	253,490,466	251,315,017
II. Current assets			
Inventories:	1100	8,881,521	7,826,869
production inventories	1101	8,047,863	6,857,686
work in progress	1102	314,872	546,354
finished goods	1103	507,344	414,222
Commodities	1104	11,442	8,607
Current biological assets	1110	10	29
Accounts receivable for goods, works and services	1125	527,476	614,853
Accounts receivable on settlements:			
on prepayments made	1130	136,842	68,498
with budget	1135	164,482	375,279
including income tax	1136	12,280	12,203
Accounts receivable on intercompany settlements	1145	–	–
Other current accounts receivable	1155	453,269	325,879
Current financial investments	1160	–	–
Cash and cash equivalents:	1165	1,251,826	2,201,464
cash in hand	1166	721	1,508
cash at banks	1167	1,193,931	1,998,476
Deferred expenses	1170	21,156	26,980
Other current assets	1190	581,419	255,059
Total section II	1195	12,018,001	11,694,910
III. Assets classified as held for distribution	1200	–	–
Balance	1300	265,508,467	263,009,927

Supplementary financial information

Liabilities and equity	Line code	As at 31 December 2018	As at 30 June 2019
1	2	3	4
I. Equity			
Share capital	1400	229,879,115	229,879,115
Capital in revaluation	1405	–	–
Additional capital	1410	18,894,521	18,894,426
Reserve fund	1415	–	–
Retained earnings (accumulated deficit)	1420	(38,660,688)	(37,620,727)
Unpaid capital	1425	–	–
Treasury shares	1430	–	–
Non-controlling interests	1490	4,978	30,697
Total section I	1495	210,117,926	211,183,511
II. Non-current liabilities and provisions			
Deferred tax liabilities	1500	34,105	20,640
Non-current bank loans	1510	9,310,210	7,834,914
Other non-current liabilities	1515	11,978,749	11,305,670
Other non-current provisions	1520	2,654,105	2,639,539
Non-current provisions for staff expenses	1521	2,654,105	2,639,539
Special purpose financing	1525	12,392	13,395
Total section II	1595	23,989,561	21,814,158
III. Current liabilities and provisions			
Short-term bank loans	1600	–	3,156,863
Current liabilities for:			
current portion of non-current liabilities	1610	16,197,406	12,390,788
for goods, works and services	1615	4,942,853	2,385,443
with budget	1620	612,481	1,973,089
with Income tax	1621	68,773	529,116
social insurance	1625	411,108	425,344
wages	1630	1,538,144	1,617,900
Current liabilities on advances received	1635	2,324,462	1,947,843
Current payables to settlements with participants	1640	108,194	1,740
Current liabilities on intercompany settlements	1645	–	–
Other provisions	1660	3,641,450	4,326,937
Deferred income	1665	43,437	112,574
Other current liabilities	1690	1,581,445	1,673,737
Total section III	1695	31,400,980	30,012,258
IV. Liabilities directly associated with the assets classified as held for distribution			
Balance	1700	–	–
Balance	1900	265,508,467	263,009,927

Supplementary financial information

Entity: JSC "Ukrainian railways"

Date (year, month, date)
per EDRPOU

CODE		
2019	06	30
40075815		

**CONSOLIDATED STATEMENT OF FINANCIAL RESULTS
(STATEMENT OF COMPREHENSIVE INCOME)
FOR THE SIX MONTHS ENDED 30 JUNE 2019**

Form # 2-c Per DKUD

1801008

I. FINANCIAL RESULTS

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Net revenue from sales of goods (merchandise, works, services)	2000	44,207,411	39,969,282
Cost of goods (merchandise, works, services) sold	2050	(39,649,457)	(38,544,528)
Gross:			
Profit	2090	4,557,954	1,424,754
Loss	2095	–	–
Other operating income	2120	2,133,283	2,740,506
Administrative expenses	2130	(433,106)	(362,601)
Selling expenses	2150	(48,039)	(64,551)
Other operating expenses	2180	(2,800,006)	(1,336,220)
Financial results from operating activities:			
Profit	2190	3,410,086	2,401,888
Loss	2195	–	–
Income from investments accounted for under the equity method	2200	52,862	31,859
Other finance income	2220	74,081	140,349
Other income	2240	41,253	81,023
Finance costs	2250	(1,869,418)	(1,831,599)
Losses from investments accounted for under the equity method	2255	–	(2,635)
Other expenses	2270	(116,996)	(84,287)
Financial results before taxation:			
Profit	2290	1,591,868	736,598
Loss	2295	–	–
Income tax expense	2300	(526,831)	(268,236)
Income (loss) from discontinued operations after tax	2305	–	–
Net financial result:			
Profit	2350	1,065,037	468,362
Loss	2355	–	–

II. COMPREHENSIVE INCOME

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Revaluation of non-current assets	2400	–	–
Revaluation of financial instruments	2405	–	–
Accumulated foreign exchange rate differences	2410	–	–
Share of other comprehensive loss of associates and joint ventures	2415	–	–
Other comprehensive loss	2445	–	–
Other comprehensive loss before tax	2450	–	–
Income tax related to other comprehensive income	2455	(18,055)	–
Other comprehensive loss after tax	2460	(18,055)	–
Comprehensive loss (sum lines 2350, 2355 and 2460)	2465	1,046,982	468,362
Net financial result attributable to:			
Equity holder of the parent	2470	1,065,046	468,437
Non-controlling interests	2475	(9)	(75)
Comprehensive (loss)/income attributable to:			
Equity holder of the parent	2480	1,046,991	468,437
Non-controlling interests	2485	(9)	(75)

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	11,306,251	11,778,305
Labour costs	2505	17,933,826	16,534,514
Social security charges	2510	3,851,409	3,443,908
Depreciation and amortization	2515	5,737,137	6,951,662
Other operating expenses	2520	3,841,065	1,090,576
Total	2550	42,669,688	39,798,965

IV. CALCULATION OF EARNINGS PER SHARE

Description	Line code	For the reporting period	For the previous period
1	2	3	4
Annual average number of ordinary shares	2600	229,879,115	229,879,115
Adjusted annual average number of ordinary shares	2605	229,879,115	229,879,115
Net income per ordinary share	2610	4.63	2.04
Adjusted net income per ordinary share	2615	4.63	2.04
Dividends per ordinary share	2650	–	–

Supplementary financial information

Entity: JSC "Ukrainian railways"

Date (year, month, date)
per EDRPOU

CODE		
2019	06	30
40075815		

CONSOLIDATED STATEMENT OF CASH FLOWS (indirect method) FOR THE SIX MONTHS ENDED 30 JUNE 2019

Form # 3-ci

DKUD code

1801010

Description 1	Line code 2	For the reporting period		For the previous period	
		proceeds 3	expense 4	proceeds 3	expense 4
I. Cash flows from operating activities					
Profit (loss) from ordinary activities before tax	3500	1,591,868	–	736,598	–
Corrections on:					
depreciation of fixed assets	3505	5,737,137	–	6,951,662	–
increase (decrease) in provisions	3510	776,293	–	–	150,614
loss (profit) on unrealized exchange differences	3515	–	1,688,274	–	2,273,168
loss (profit) from non-operating activities and other non-cash transactions	3520	1,663,875	–	–	11,871
Financial expenses	3540	1,795,337	–	1,691,250	–
Decrease (increase) in current assets	3550	714,048	–	–	247,575
increase (decrease) in inventories	3551	1,019,329	–	–	273,875
decrease (increase) in accounts receivable for products, goods, works, services	3553	–	614,447	–	34,808
decrease (increase) in other current receivables	3554	–	11,972	–	12,893
decrease (increase) in deferred expenses	3556	–	5,222	–	4,373
decrease (increase) in other current assets	3557	326,360	–	78,374	–
Increase (decrease) in current liabilities, including:	3560	–	1,472,320	–	793,699
increase (decrease) in current accounts payable for goods and services	3561	–	1,901,006	–	1,302,623
increase (decrease) in current budget settlements	3562	900,227	–	222,951	–
increase (decrease) in current insurance settlements	3563	14,176	–	14,900	–
increase (decrease) in current salary settlements	3564	79,495	–	52,079	–
increase (decrease) in deferred income	3566	69,137	–	24,227	–
Increase (decrease) in other current payables	3567	–	634,349	194,767	–
Cash from operating activities	3570	9,117,964	–	5,902,583	–
Income tax paid	3580	–	216,714	–	149,736
Borrowings interest paid	3585	–	–	–	–
Net cash flow from operating activities	3195	8,901,250	–	5,752,847	–
II. Cash flows from investing activities					
Proceeds from sale of:					
financial investments	3200	–	–	–	–
Fixed assets	3205	–	–	–	–
Proceeds from received:					
interests	3215	–	–	–	–
dividends	3220	–	–	–	–
proceeds from derivatives	3225	–	–	–	–
other proceeds	3250	71,984	–	136,276	–
Payments on acquisition:					
financial investments	3255	–	–	–	–
fixed assets	3260	–	847,797	–	3,304,400
payments for derivatives	3270	–	–	–	–
other payments	3290	–	3,004,869	–	3,868,583
Net cash flows from investing activities	3295	–	3,780,682	–	7,036,707
III. Cash flows from financing activities					
Proceeds from share capital	3300	–	–	–	–
Proceeds from borrowings	3305	15,373,600	–	5,250,474	–
Other proceeds	3340	–	–	–	–
Payments for:					
own securities	3345	–	–	–	–
repayment of borrowings	3350	–	17,639,795	–	5,901,763
dividends paid	3355	–	111,738	–	45,315
Borrowings interest paid	3360	–	1,323,217	–	1,227,333
Finance lease interests paid	3365	–	384,290	–	219,977
Other payments	3390	–	80,380	–	207,760
Net cash flows from financing activities	3395	–	4,165,820	–	2,351,674
Net (decrease)/increase in cash and cash equivalents	3400	954,748	–	–	3,635,534
Cash balance at the beginning of the year	3405	1,251,826	–	5,188,988	–
Net foreign exchange difference	3410	–	5,110	–	14,371
Cash balance at the end of the year	3415	2,201,464	–	1,539,083	–

Entity: JSC "Ukrainian railways"

Date (year, month, date)
per EDRPOU

CODE		
2019	06	30
40075815		

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2019

Form # 4-c

DKUD code

1801011

Description	Line code	Share capital	Capital in revaluation	Additional capital	Reserve fund	Retained earnings (accumulated deficit)	Unpaid capital	Treasury capital	Total	Non-controlling interests	Total changes in equity
1	2	3	4	5	6	7	8	9	10	11	12
Balance at the beginning of the year	4000	229,879,115	–	18,894,521	–	(38,660,688)	–	–	210,112,948	4,978	210,117,926
Adjustments:											
Changes in accounting policies	4005	–	–	–	–	–	–	–	–	–	–
Correction of errors	4010	–	–	–	–	–	–	–	–	–	–
Other adjustments	4090	–	–	–	–	–	–	–	–	–	–
Adjusted balance at the beginning of the year	4095	229,879,115	–	18,894,521	–	(38,660,688)	–	–	210,112,948	4,978	210,117,926
Net profit (loss) for the reporting period	4100	–	–	–	–	1,065,046	–	–	1,065,046	(9)	1,065,037
Other comprehensive income for the current period including:	4110	–	–	–	–	(18,055)	–	–	(18,055)	–	(18,055)
Revaluation (disposal) of fixed assets	4111	–	–	–	–	–	–	–	–	–	–
Other comprehensive income	4116	–	–	–	–	(18,055)	–	–	(18,055)	–	(18,055)
Distribution of profit:											
Payments to shareholders (dividends)	4200	–	–	–	–	(3,548)	–	–	(3,548)	(65)	(3,613)
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	–	–	(95)	–	(3,482)	–	–	(3,577)	25,793	22,216
Total changes in equity	4295	–	–	(95)	–	1,039,961	–	–	1,039,866	25,719	1,065,585
Balance at the end of the period	4300	229,879,115	–	18,894,426	–	(37,620,727)	–	–	211,152,814	30,697	211,183,511