

**Public Joint Stock Company
“Research and production
corporation “United Wagon
Company”**

Interim condensed consolidated financial statements
(unaudited)
for the six months ended 30 June 2017

**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"**


**INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS
AND OTHER COMPREHENSIVE INCOME**

FOR THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)

(in thousands of Russian rubles ("RUB thousand"), unless otherwise indicated)

	Note	Six months ended 30 June 2017	Six months ended 30 June 2016
Continuing operations			
Revenue	7	28 834 468	17 953 510
Cost of sales	8	<u>(23 219 582)</u>	<u>(15 461 586)</u>
Gross profit		5 614 886	2 491 924
Selling, general and administrative expenses	9	(1 133 363)	(581 926)
Share of profit of associates and joint ventures		176 164	89 772
Other operating income, net		<u>68 471</u>	<u>132 848</u>
Operating profit		4 726 158	2 132 618
Finance income	10	1 256 464	445 653
Finance costs	11	(7 086 141)	(5 447 954)
Foreign exchange (loss)/gain, net		<u>(208 300)</u>	<u>610 544</u>
Loss before income tax		(1 311 819)	(2 259 139)
Income tax expense	12	<u>(818 959)</u>	<u>(266 520)</u>
Loss and total comprehensive loss from continuing operations for the period		<u>(2 130 778)</u>	<u>(2 525 659)</u>
Discontinued operations			
Profit from discontinued operations for the period	6	<u>-</u>	<u>531 057</u>
LOSS AND TOTAL COMPREHENSIVE LOSS FOR THE PERIOD		<u>(2 130 778)</u>	<u>(1 994 602)</u>
Loss per share			
From continuing and discontinued operations			
Weighted average number of ordinary shares outstanding		114 224 356	108 424 976
Basic and diluted loss per share (in RUB)		<u>(19)</u>	<u>(18)</u>
From continuing operations			
Weighted average number of ordinary shares outstanding		114 224 356	108 424 976
Basic and diluted loss per share (in RUB)		<u>(19)</u>	<u>(23)</u>

The notes on pages 5-25 form an integral part of these interim condensed consolidated financial statements.


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 Deputy CEO,
 Finance and Economy, PJSC "RPC UWC"
 (under power of attorney 77 AB 2314631 of 24
 November 2016)


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

**INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30 JUNE 2017 (UNAUDITED)
(in thousands of Russian Rubles)**

	Notes	30 June 2017	31 December 2016
ASSETS			
Non-current assets			
Property, plant and equipment	13	82 754 284	83 629 661
Prepayments for property, plant and equipment		488 340	894 609
Intangible assets		6 159 302	5 853 020
Goodwill		8 041 720	8 041 720
Deferred tax assets	12	3 269 143	3 687 885
Investments in associates and joint ventures	14	2 754 968	1 288 403
Loans receivable	15	11 933 639	10 877 227
Finance lease receivables		212 554	223 775
Restricted cash	20	4 862	1 923 482
Other non-current assets		178 411	202 668
Total non-current assets		115 797 223	116 622 450
Current assets			
Inventories	16	13 411 597	10 959 629
Trade and other receivables	17	4 303 832	1 701 611
Finance lease receivables		21 407	19 888
VAT receivable		6 175 503	4 244 976
Prepayments to suppliers and other assets	18	4 463 629	3 892 981
Loans receivable	15	243 649	2 999 867
Short-term bank deposits	19	5 020 959	5 000 000
Cash and cash equivalents	20	2 741 615	2 647 752
Total current assets		36 382 191	31 466 704
TOTAL ASSETS		152 179 414	148 089 154
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital issued	21	115 997	113 424
Additional paid-in capital		22 984 777	21 168 572
Reserve on revaluation of property, plant and equipment		9 192 862	9 192 862
Accumulated deficit		(16 207 118)	(14 076 340)
Total equity and reserves		16 086 518	16 398 518
Non-current liabilities			
Long-term loans and borrowings	22	70 203 089	59 488 881
Bonds	23	29 699 430	29 869 430
Long-term finance lease liabilities		152 986	6 001
Deferred tax liabilities	12	1 646 058	2 422 937
Payables for acquisition of subsidiaries		-	4 104 000
Total non-current liabilities		101 701 563	95 891 249
Current liabilities			
Short-term loans and borrowings	22	8 918 978	12 609 341
Bonds	23	726 752	767 562
Trade and other payables	24	8 821 605	8 879 221
Advances received and other current liabilities	25	15 889 712	13 536 204
Short-term finance lease liabilities		34 286	7 059
Total current liabilities		34 391 333	35 799 387
Total liabilities		136 092 896	131 690 636
TOTAL EQUITY AND LIABILITIES		152 179 414	148 089 154

The notes on pages 5-25 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 2017 (UNAUDITED)
(in thousands of Russian Rubles)**

	Share capital issued	Additional paid-in capital	Reserve on revaluation of property, plant and equipment	Accumulated deficit	Total shareholders' equity	Non- controlling interests	Total equity
Balance at 1 January 2016	105 556	16 158 720	-	(14 644 817)	1 619 459	652	1 619 459
Loss and total comprehensive loss for the period	-	-	-	(1 994 602)	(1 994 602)	-	(1 994 602)
Issue of ordinary shares during additional public offering, net of issuance costs	7 868	5 009 852	-	-	5 017 720	-	5 017 520
Disposal of non-controlling interests	-	-	-	-	-	(652)	-
Balance at 30 June 2016 (unaudited)	113 424	21 168 572	-	(16 639 419)	4 642 577	-	4 642 577
Balance at 1 January 2017	113 424	21 168 572	9 192 862	(14 076 340)	16 398 518	-	16 398 518
Loss and total comprehensive loss for the period	-	-	-	(2 130 778)	(2 130 778)	-	(2 130 778)
Issue of ordinary shares during additional public offering, net of issuance costs (Note 21)	2 573	1 816 205	-	-	1 818 778	-	1 818 778
Balance at 30 June 2017 (unaudited)	115 997	22 984 777	9 192 862	(16 207 118)	16 086 518	-	16 086 518

The notes on pages 5-25 form an integral part of these interim condensed consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE SIX MONTHS ENDED 30 JUNE 2017 (UNAUDITED)
(in thousands of Russian Rubles)**

	Six months ended 30 June 2017	Six months ended 30 June 2016
OPERATING ACTIVITIES		
LOSS FOR THE PERIOD	(2 130 778)	(1 994 602)
Adjustments for:		
Income tax expense	818 959	351 511
Depreciation and amortization	2 578 871	2 298 887
Finance costs	7 086 141	5 448 202
Finance income	(1 256 464)	(448 202)
Non-operating foreign exchange loss/(gain), net	208 300	(610 198)
Share of profit of associates and joint ventures	(176 164)	(89 772)
Income from sale of railcars under the old railcar fleet renewal program (Notes 7, 8)	(1 085 800)	-
Write-off of inventories to net realizable value	60 164	-
Loss on disposal of property, plant and equipment and intangible assets	21 471	2 965
Change in provision for doubtful receivables	2 010	(223 613)
Loss from sale of accounts receivable under cession agreement	-	33 734
Movement in allowance for loans receivable	-	(8 441)
Disposal of non-controlling interests	-	(652)
Movements in working capital:		
(Increase)/decrease in trade and other receivables	(1 933 677)	2 397 327
Increase in prepayments to suppliers and other current assets	(746 714)	(191 109)
Increase in VAT receivable	(1 930 922)	(995 772)
Increase in inventories	(1 922 760)	(5 742 282)
Increase in trade and other payables	149 042	2 266 712
Increase in advances received and other current liabilities	3 027 020	3 815 921
Cash flows from operating activities	2 768 699	6 310 616
Cash paid for purchase of railcars (Notes 7, 13)	(7 798 346)	-
Cash received from sale of railcars (Note 7)	7 983 334	-
Income tax paid	(1 868 142)	(254 222)
Finance costs paid	(7 336 509)	(5 007 285)
Net cash (used in)/generated from operating activities	(6 250 964)	1 049 109
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, including prepayments	(1 394 269)	(3 578 346)
Purchase of intangible assets	(486 320)	(306 821)
Loans receivable	(3 745 920)	(1 093 983)
Placement of short-term deposits	(5 000 000)	(10 000 000)
Proceeds from redemption of short-term deposits	5 000 000	-
Proceeds from repayment of loans granted	5 989 487	4 991 293
Interest received	657 851	531 363
Net cash outflow on acquisition of subsidiaries	(4 104 000)	-
Cash paid on acquisition and increase of investments in associates	(1 290 337)	(365 571)
Net cash used in investing activities	(4 373 508)	(9 822 065)
FINANCING ACTIVITIES		
Shareholders' capital contribution, net	1 818 778	5 028 053
Proceeds from loans and borrowings	15 771 271	2 813 043
Repayment of loans and borrowings	(8 780 077)	(2 081 892)
Purchase of own bonds	(172 500)	-
Proceeds from issuance and sale of bonds	-	1 683 800
Finance lease proceeds/(payments), net	187 565	(660)
Redemption of restricted cash	1 918 620	-
Net cash from financing activities	10 743 657	7 442 344
Net increase/(decrease) in cash and cash equivalents	119 185	(1 330 612)
Effect of foreign exchange changes	(25 322)	(108 012)
Cash and cash equivalents, beginning of period	2 647 752	3 207 466
Cash and cash equivalents, end of period	2 741 615	1 768 842

The notes on pages 5-25 form an integral part of these interim condensed consolidated financial statements.

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

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2017 (in thousands of Russian Rubles, unless otherwise indicated)

1. GENERAL INFORMATION

Public Joint Stock Company "Research and 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., Bldg. 1, Moscow.

As at 30 June 2017, the Company is a holding entity for the group of companies (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 sale;
- Finance and operating lease of railway cars;
- Rail transportation services (before disposal of a subsidiary – "Vostok1520" LLC (Note 6)).

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 2017 Ownership interest, %	At 30 June 2016 Ownership interest, %
ICT GROUP LTD	25.05%	35.99%
RONIN Trust OJSC	8.81%	12.29%
Management Company Sever Asset Management LLC	7.55%	-
EFG Assets Management JSC	7.50%	-
Savings Management LLC (trust management of private pension scheme funds of NPF RGS OJSC)	6.81%	-
Other shareholders	44.28%	51.72%

As at 30 June 2017, there were no shareholders who held a controlling interest in the Company.

2. BASIS OF PREPARATION

Statement of compliance

These interim condensed consolidated financial statements 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. The Group omitted disclosures which would substantially duplicate the information contained in its audited annual consolidated financial statements for 2016 prepared in accordance with International Financial Reporting Standards ("IFRS"), such as accounting policies and details of accounts, which have not been changed significantly in amount or composition.

The financial results of operations for the six months ended 30 June 2017 are not necessarily indicative of the operating results for the full year.

These unaudited interim condensed consolidated financial statements should be read in conjunction with the Group's audited annual consolidated financial statements for the year ended 31 December 2016.

**PUBLIC JOINT STOCK COMPANY "RESEARCH AND PRODUCTION CORPORATION
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(in thousands of Russian Rubles, unless otherwise indicated)**

Income tax

Income tax in the interim periods is accrued using the effective tax rate that would be applicable to expected total annual earnings.

Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The functional currency of the Group is the Russian Ruble ("RUB"). The presentation currency of these interim condensed consolidated financial statements is the Russian Ruble. These interim condensed consolidated financial statements are presented in thousands of Russian Rubles, unless otherwise indicated.

Foreign currency transactions

Exchange rates for currencies in which the Group transacted were as follows:

	<u>30 June 2017</u>	<u>31 December 2016</u>
Exchange rate at the end of the period (to RUB)		
1 US Dollar ("USD")	59.09	60.66
1 Euro	67.50	63.81
	<u>30 June 2017</u>	<u>30 June 2016</u>
Average exchange rate for the period (to RUB)		
1 USD	57.97	70.10
1 EUR	62.69	78.25

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.

After the reporting date the Group completed the refinancing of the syndicated loan from Vnesheconombank and Eurasian Development Bank totaling RUB 14 979 915 thousand as at 30 June 2017 and four credit facilities totaling RUB 4 304 792 thousand as at 30 June 2017 opened by Otkritie FC Bank PJSC, by entering into a new loan agreement with Otkritie FC Bank PJSC with the maximum available credit facility of RUB 20 000 000 thousand maturing in 2024 (Notes 22 and 28). Therefore, the Group recognized the syndicated loan in long-term liabilities despite of the breach of certain financial covenants (Note 22). The refinancing also allowed the Group to reduce the interest burden.

As at 30 June 2017, the Group may use the available credit facilities for the total amount of RUB 5 692 067 thousand.

During the six months ended 30 June 2017 and 2016, the Group incurred a loss before income tax of RUB 1 311 818 thousand and RUB 2 259 139 thousand, respectively. Negative operating cash flow for the six months ended 30 June 2017 amounted to RUB 6 038 630 thousand and resulted from material payments for interest expenses on loans and borrowings.

The Group's management expects a significant decrease in interest payable during the second half of 2017, as the majority of loan agreements stipulate variable interest rates that tend to decline at the end of the first half of 2017.

**PUBLIC JOINT STOCK COMPANY "RESEARCH AND PRODUCTION CORPORATION
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FOR THE SIX MONTHS ENDED 30 JUNE 2017**

(in thousands of Russian Rubles, unless otherwise indicated)

In 2017, sales prices for innovative railcars increased as compared to prices effective in 2016. During the six months ended 30 June 2017, the Group sold over 5 200 railway cars. The Group's management expects an increase in demand for innovative railway cars in the second half of 2017 and in 2018.

During the six months ended 30 June 2017, lease rates were the same as in 2016. However, in June 2017 stabilization of the railcar fleet in Russia resulting from increase of freight turnover and a high level of write-offs of railcars has led to an increase in the average lease rate to RUB 1 350, which will result in operating lease revenue growth and higher profitability of this operating segment.

The management believes that these factors taken together will allow the Group to generate profit and positive cash flows from operating activities in the medium term.

3. SIGNIFICANT ACCOUNTING POLICIES

These interim condensed consolidated financial statements of the Group have been prepared on the historical cost basis except for certain property, plant and equipment that are measured at revalued amounts.

Accounting policies, presentation and calculation methods applied to these interim condensed consolidated financial statements are the same as those applied to the Group's financial statements for the year ended 31 December 2016, except for the effects from the application of the amended standards effective from 1 January 2017:

- Amendments to IAS 12 *Recognition of Deferred Tax Assets for Unrealised Losses*
- Annual Improvements to IFRSs 2014-2016 Cycle.

The adoption of these standards and interpretations has not had a significant impact on interim condensed consolidated financial statements of the Group for the six months ended 30 June 2017.

4. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

Critical accounting judgments and key sources of estimation uncertainty used in preparation of these interim condensed consolidated financial information 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 2016.

**PUBLIC JOINT STOCK COMPANY "RESEARCH AND PRODUCTION CORPORATION
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017
(in thousands of Russian Rubles, unless otherwise indicated)**

5. SEGMENT REPORTING

For manageability purposes 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 with improved technical and economic characteristics and fitted with innovation trucks;
- The Sales segment provides operating and finance lease of freight railcars;
- The Operation segment (rail transportation services) was disposed of in 2016 and retrospectively excluded from reporting segments.

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 category.

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"). Segment income is used by the chief operating decision maker for the purposes of resource allocation and evaluation of segment results.

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

Segment information for the six months ended 30 June 2017 and 2016 is presented as follows:

30 June 2017	Production segment	Sales segment	Other segments	Total segment	Adjustments and eliminations	Consolidated
Revenue	25 709 021	3 248 486	3 367 097	32 324 604	(3 490 136)	28 834 468
including inter-segment revenue	9 092 137	1 680	2 992 829	12 086 646	(12 086 646)	-
Cost of sales, including:	(22 592 898)	(1 015 242)	(3 082 384)	(26 690 524)	3 470 942	(23 219 582)
- Inventories	(15 640 025)	-	-	-	-	-
- Payroll	(3 241 899)	-	-	-	-	-
- Property tax	-	(87 597)	-	-	-	-
- Maintenance and repairs of railcars	(189 016)	(170 681)	-	-	-	-
- Depreciation and amortization	(1 829 125)	(710 234)	-	-	-	-
- Other	(1 632 696)	(46 730)	-	-	-	-
- Impairment	(60 137)	-	-	-	-	-
EBITDA	4 505 632	2 490 835	657 169	7 653 636	(348 607)	7 305 029
Finance income	10 800	2 669 893	3 924 533	6 605 226	(5 348 762)	1 256 464
Finance costs	(2 807 517)	(5 226 213)	(4 597 034)	(12 630 764)	5 544 623	(7 086 141)
Depreciation and amortization	(1 829 125)	(710 234)	(529 864)	(3 069 223)	490 352	(2 578 871)
Foreign exchange gain	-	-	-	-	-	-
Impairment loss	-	-	-	-	-	(208 300)
Loss before income tax from continuing operations						(1 311 819)

During the six months ended 30 June 2017, the Group's management decided to replace the old railway car fleet used for operating lease purposes with newly produced railcars. The sales revenue amounted to RUB 8 604 885 thousand, the cost of sale of the retired railcars amounted to RUB 7 519 085 thousand (Notes 7, 8), and EBITDA amounted to RUB 1 085 800 thousand. These amounts were included in Adjustments and eliminations.

**PUBLIC JOINT STOCK COMPANY "RESEARCH AND PRODUCTION CORPORATION
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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED 30 JUNE 2017**

(in thousands of Russian Rubles, unless otherwise indicated)

30 June 2016	Production segment	Sales segment	Other segments	Total segment	Adjustments and eliminations	Consolidated
Revenue	15 528 117	2 354 295	1 998 327	19 880 739	(1 927 229)	17 953 510
including inter-segment revenue	-	34 758	1 793 156	1 827 914	(1 827 914)	-
Cost of sales, including:	(13 953 725)	(1 395 262)	(1 857 631)	(17 206 618)	1 745 032	(15 461 586)
- Inventories	(10 132 968)	-	-	-	-	-
- Payroll	(2 010 524)	-	-	-	-	-
- Property tax	-	(281 184)	-	-	-	-
- Maintenance and repairs of railcars	-	(197 699)	-	-	-	-
- Depreciation and amortization	(1 317 129)	(900 768)	-	-	-	-
- Other	(493 104)	(15 611)	-	-	-	-
EBITDA	2 460 682	2 026 502	200 381	4 687 565	(112 825)	4 574 740
Finance income	7 637	1 362 935	2 294 594	3 665 165	(3 219 512)	445 653
Finance costs	(1 727 736)	(4 360 634)	(2 579 880)	(8 668 250)	3 220 296	(5 447 954)
Depreciation and amortization	(1 317 129)	(900 768)	(206 968)	(2 424 866)	131 423	(2 293 443)
Foreign exchange gain	-	-	-	-	-	610 544
Loss before income tax from continuing operations						<u>(2 259 139)</u>

Breakdown of the Group's revenue by types of property, plant and equipment and services is presented in Note 7.

During the six months ended 30 June 2017, the key external customer of the Production segment was PJSC "GTLK", which accounted for about 48% of the segment's external sales. During the six months ended 30 June 2017, the key external customer of the Sales segment was "Vostok1520" LLC, which accounted for about 51% of the segment's external sales.

Segment assets and liabilities are not disclosed, as this information is not provided to the Management for decision-making purposes.

6. DISCONTINUED OPERATIONS AND DISPOSAL OF A SUBSIDIARY

On 17 November 2016, the Group entered into a sale agreement to dispose of its subsidiary "Vostok1520" LLC, which provided rail transportation services.

The Group classified the disposed subsidiary as a component of the Group in accordance with IAS 5 *Long-term assets held for sale and discontinued operations* as "Vostok1520" LLC was a separate segment. Respectively, operations of "Vostok1520" LLC were presented as discontinued operations in the consolidated financial statements for the year ended 31 December 2016. Comparative information for the six months ended 30 June 2016 was have been also re-presented.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of Russian Rubles, unless otherwise indicated)**

Profit from discontinued operations for the six months ended 30 June 2016 was as follows:

	Six months ended 30 June 2016
Revenue	6 420 548
Other operating income	54 053
	6 474 601
Expenses, including:	(5 858 554)
- Cost of sales	(5 735 572)
- Selling, general and administrative expenses	(124 938)
- Finance income	2 549
- Finance costs and foreign exchange loss	(593)
Profit before income tax	616 047
Income tax expense	(84 990)
	531 057

Cash flows from discontinued operations comprised:

	Six months ended 30 June 2016
Net cash	
- used in operating activities	(8 086)
- generated from investing activities	2 039
Net cash outflows	(6 047)

7. REVENUE

Revenue of the Group from continuing operations (excluding finance income – Note 10) comprised the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Continuing operations		
Sales of finished goods (railcars and casting components)	25 443 776	15 435 480
Operating lease of railcars	3 275 598	2 318 571
Revenue from repair services	26 991	119 858
Other revenue	88 103	79 601
Total revenue	28 834 468	17 953 510

During the six months ended 30 June 2017, the Group's management decided to replace the old railway car fleet used for operating lease purposes with newly produced railcars. As part of the project, 5 238 railcars with residual value of RUB 7 519 085 thousand (Note 8) were reclassified from property, plant and equipment to inventories and sold to third parties, the largest of which was Federal Freight JSC. For the six months ended 30 June 2017, total revenue received from sale of the above railcars presented in the Sales of finished goods (railcars and castings) line amounted to RUB 8 604 885 thousand.

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**NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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(in thousands of Russian Rubles, unless otherwise indicated)**

8. COST OF SALES

Cost of sales of the Group from continuing operations comprised the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Continuing operations		
Raw materials used in production	9 373 568	9 991 968
Railcars sold under the old railcar fleet renewal program (Note 7)	7 519 085	-
Depreciation and amortization	2 561 572	2 278 980
Payroll and social contributions	2 195 863	2 072 831
Property tax	107 778	328 042
Railcar repairs and maintenance	78 628	112 765
Other	1 383 088	677 000
Total cost of sales	<u>23 219 582</u>	<u>15 461 586</u>

Raw materials used in production includes government grants received by several subsidiaries of the Group for compensation of costs associated with production and purchase of innovative freight railcars fleet in the amount of RUB 488 700 thousand and RUB 0 for the six months ended 30 June 2017 and 2016, respectively.

9. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses of the Group from continuing operations comprised the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Continuing operations		
Payroll, social contributions and other staff costs	345 582	236 362
Leases	170 663	176 298
Information, consulting and audit services	147 004	121 272
Transportation costs for the delivery of railcars to the buyer	100 576	20 754
Railcar sales-related costs	78 309	-
Other taxes	46 469	-
Advertising and marketing expenses	36 640	30 912
Railcar monitoring costs	24 808	14 938
Travel expenses	23 394	27 521
Depreciation and amortization	17 299	14 463
Disposal and write-off of property, plant and equipment	15 268	2 965
Loss on sale of inventories	14 586	22 834
Charge/(reversal) of allowance for doubtful debts	2 010	(193 099)
Other	110 755	106 706
Total selling, general and administrative expenses	<u>1 133 363</u>	<u>581 926</u>

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10. FINANCE INCOME

Finance income of the Group from continuing operations comprised the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Continuing operations		
Interest income on loans granted	791 458	407 574
Interest income on deposits, cash and equivalents	465 006	38 079
Total finance income	1 256 464	445 653

11. FINANCE COSTS

Finance costs of the Group from continuing operations comprised the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Continuing operations		
Interest expense on loans and borrowings	4 847 820	4 360 008
Interest expense on bonds	1 596 601	1 841 925
Interest expense on liabilities for acquisition of subsidiaries	183 904	183 671
Cost of guarantees and sureties	542 519	230 000
Bank commissions	58 963	124 101
Government grants	(8 074)	(545 429)
Less: amounts included in the cost of qualified assets: Capitalized interest expense	(135 592)	(746 322)
Total finance costs	7 086 141	5 447 954

Before 2017, the Group received subsidies from the Ministry of Industry and Trade of the Russian Federation granted within the state-run program on partial compensation of the interest payable on bank loans used for modernization of the equipment to the extent that such equipment is compliant with established requirements.

12. INCOME TAX

Income tax expense attributable to continuing operations recognized in the statement of profit or loss and other comprehensive income comprised the following:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Continuing operations		
Current income tax	1 177 096	122 036
Deferred income tax (benefit)/expense	(358 137)	144 484
Total income tax expense	818 959	266 520

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The following amounts determined after appropriate offsetting are presented in the interim condensed consolidated statement of financial position as at 30 June 2017 and 31 December 2016:

	30 June 2017	31 December 2016
Deferred tax asset	3 269 143	3 687 885
Deferred tax liability	<u>(1 646 058)</u>	<u>(2 422 937)</u>
Deferred tax asset, net	<u>1 623 085</u>	<u>1 264 948</u>

13. PROPERTY, PLANT AND EQUIPMENT

During the reporting period, the Group continued to expand its current production facilities (JSC "TikhvinChemMash", JSC "Heavy Engineering Works", JSC "TikhvinSpetsMash") and other capital projects. For the six months ended 30 June 2017, the total capital investments to purchase equipment and expand the existing production facilities amounted to RUB 1 695 217 thousand, excluding capitalized interest expense of RUB 135 592 thousand (Note 11). For the six months ended 30 June 2016, capital expenditures amounted to RUB 1 806 211 thousand, excluding capitalized interest expense of RUB 746 322 thousand.

During the six months ended 30 June 2017, the Group sold railcars with residual value of RUB 7 519 085 thousand under the old car fleet renewal program, and expenses incurred by JSC "TVSZ" attributable to railcar production for internal purposes of the Group (operating leases) amounted to RUB 7 798 346 thousand, including government grants, which offset the cost of production (Note 18).

Depreciation charged for the six months ended 30 June 2017 and 2016 amounted to RUB 2 968 128 thousand and RUB 2 586 786 thousand, respectively.

14. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Group's significant associates and joint ventures include:

Name	Type of investment	Place of incorporation	Ownership and voting interest of the Group	
			30 June 2017	31 December 2016
"MRC 1520" LLC	Joint venture	Moscow, Russia	50%	50%
"Timken UWC" LLC	Associate	Tikhvin, Russia	49%	49%
"JV "Wabtec-UWC" LLC	Associate	Tikhvin, Russia	49%	49%
JSC "PTK Holding"	Associate	Moscow, Russia	19.9%	-

"MRC 1520" LLC

The Group's share in profit of the joint venture for the six months ended 30 June 2017 and 2016 recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 8 867 thousand and RUB 7 702 thousand, respectively.

Summarized financial information in respect of the Group's joint venture and its reconciliation to the carrying amount of the interest in the joint venture are set out below. The summarized financial information below represents amounts shown in the joint venture's consolidated financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

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	30 June 2017	31 December 2016
Net assets of the joint venture	669 698	651 964
Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	334 849	325 982
	Six months ended 30 June 2017	Six months ended 30 June 2016
Profit and total comprehensive income for the period	17 734	15 404
Group's share in profit of the joint venture	8 867	7 702

"Timken UWC" LLC

The Group's share in financial result of the associate for the six months ended 30 June 2017 and 2016 recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 61 756 thousand (loss) and RUB 82 070 thousand (profit), respectively.

Summarized financial information in respect of the Group's joint venture and its reconciliation to the carrying amount of the interest in the joint venture are set out below. The summarized financial information below represents amounts shown in the joint venture's interim condensed consolidated financial statements prepared in accordance with IFRSs adjusted by the Group for equity accounting purposes.

	30 June 2017	31 December 2016
Net assets of the associate	1 837 276	1 963 308
Group's ownership interest in the associate	49%	49%
Carrying amount of the Group's interest in the associate	900 265	962 021
	Six months ended 30 June 2017	Six months ended 30 June 2016
(Loss)/profit and total comprehensive (loss)/income for the period	(126 033)	167 490
Group's share in (loss)/profit of the associate	(61 756)	82 070

"JV "Wabtec-UWC" LLC

At 30 June 2017 and 31 December 2016, the carrying value of the Group's non-controlling interest in the associate amounted to RUB 5 801 thousand and RUB 400 thousand.

JSC "PTK Holding"

In April 2017, the Group acquired a 19.9% share in the associate JSC "PTK Holding" for RUB 1 285 000 thousand and obtained the right to appoint two representatives out of six in the Board of Directors of JSC "PTK Holding" in accordance with the deal reached in 2016 between the Group and Industrial Investors Group.

The Group's share in profit of the associate for the six months ended 30 June 2017 recognized in the interim condensed consolidated statement of profit or loss and other comprehensive income amounted to RUB 229 053 thousand. At 30 June 2017, the carrying amount of the Group's interest in JSC "PTK Holding" amounted to RUB 1 514 053 thousand.

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15. LOANS RECEIVABLE

Loans receivable including interest accrued were as follows:

	<u>Currency</u>	<u>Interest rate, %</u>	<u>30 June 2017</u>	<u>31 December 2016</u>
Loans to related parties				
Secured				
SZIZhK CJSC	RUB	11.00%	2 363 311	1 914 757
Unsecured				
NitroChemProm LLC	RUB	10.00%	5 788 525	5 516 530
SZIPK LLC	RUB	15.00%	1 284 748	1 195 800
ICT-Capital LLC	RUB	11.50%	1 249 179	1 183 750
Re Test Cyprus LTD	USD	6.40%	393 603	392 092
United Wagon PLC	USD	6.40%	202 772	202 786
Doland Business Ltd	USD	8.00%	159 699	2 929 018
PTK Holding JSC	RUB	1-10.75%	30 434	-
Re Test LTD	USD	6.40%	3 701	3 978
TTC RT LLC	RUB	7.50%	1 901	1 892
Doland Business Ltd	RUB	11.00%	-	3 621
Loans to third parties				
Business Engineering CJSC	RUB	11.00%	669 607	510 845
BLK-Proekt LLC	RUB	10.00%	25 884	21 342
Other	RUB	9-11.00%	3 924	683
Total loans receivable			<u>12 177 288</u>	<u>13 877,094</u>
Short-term loans			243 649	2 999 867
Long-term loans			<u>11 933 639</u>	<u>10 877 227</u>
Total loans receivable			<u>12 177 288</u>	<u>13 877 094</u>

In March 2016, ICT Finance Ltd guaranteed the repayment of the loan granted to SZIZhK CJSC. According to the guarantee agreement, company-guarantor is obliged to make payments prescribed in the loan agreement with SZIZhK CJSC, in case SZIZhK CJSC fails to meet its obligations in regards to the loan repayment.

In 2016, as part of the acquisition of a stake in PTK Holding JSC (Note 14), the Group also agreed that it would support NitroChemProm LLC in refinancing of its borrowings. Within the framework of that agreement, the Group acquired a promissory note from NitroChemProm LLC for the amount of RUB 5 500 0000 thousand.

16. INVENTORIES

Inventories comprised:

	<u>30 June 2017</u>	<u>31 December 2016</u>
Raw materials and components for railcar production	10 659 529	8 151 029
Finished goods (railcars)	2 485 709	2 563 085
Other inventories	<u>266 359</u>	<u>245 515</u>
Total inventories	<u>13 411 597</u>	<u>10 959 629</u>

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17. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following:

	30 June 2017	31 December 2016
Trade receivables from sale of railcars	2 548 540	894 447
Trade receivables from operating lease and other services	1 736 924	710 660
Trade receivables from repair of railcars and wheelsets	44 210	82 690
Other receivables	64 278	104 103
Allowance for doubtful trade and other receivables	(90 120)	(90 289)
Total trade and other receivables	4 303 832	1 701 611

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

18. PREPAYMENTS TO SUPPLIERS AND OTHER ASSETS

Prepayments to suppliers and other assets comprised:

	30 June 2017	31 December 2016
Prepayments to suppliers	2 202 205	3 302 009
Government grants receivable	1 108 450	-
Prepaid taxes	983 034	274 910
Prepaid expenses	249 376	186 718
Bank guarantee expenses	-	166 422
Prepayment to customs	50 440	91 071
Allowance for doubtful prepayments	(129 876)	(128 149)
Total prepayments to suppliers and other assets	4 463 629	3 892 981

Government grants receivable include government grants related to assets that is the compensation of costs associated with production and purchase of innovative freight railcars. The Group expects to receive the compensation of RUB 1 108 450 thousand in the second half of 2017. A portion of government grants in the amount of RUB 596 950 thousand is recognized as decrease in the Group's property, plant and equipment (railway cars); RUB 22 800 thousand of government grants are recognized as decrease in finished goods; and RUB 488 700 thousand are recognized as decrease of cost of sales (Note 8).

19. SHORT-TERM BANK DEPOSITS

Short-term deposits with banks including accrued interest comprised:

	Currency	Interest rate, %	30 June 2017	31 December 2016
Promsvyazbank PJSC	RUB	9%	5 020 959	-
Rigensis Bank (Latvia)	RUB	10.65%	-	5 000 000
Total short-term bank deposits			5 020 959	5 000 000

As at 30 June 2017 and 31 December 2016, the Group deposited available cash of RUB 5 000 000 thousand with Promsvyazbank PJSC and Rigensis Bank (Latvia) with annual interest rates of 9% and 10.65%, respectively. The deposit with Promsvyazbank PJSC matures on 13 June 2018. Interests accrued for the six months ended 30 June 2017, which had not been repaid at the reporting date, totaled RUB 20 959 thousand.

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20. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

	30 June 2017	31 December 2016
Bank deposits in RUB	1 760 539	1 707 383
Current accounts in RUB	942 325	919 716
Current accounts in USD	25 376	11 335
Current accounts in EUR	13 375	9 318
Total cash and cash equivalent	2 741 615	2 647 752

As at 30 June 2017 and 31 December 2016, the Group placed cash in overnight deposits to gain interest income. The interest rate on these deposits ranges from 5% to 15.5%.

In accordance with covenants imposed by the syndicated loan agreement with Vnesheconombank and Eurasian Development Bank one of the Group's subsidiaries deposited cash to the reserve bank account until 23 December 2025. Under the terms of the loan agreement, the use of deposited funds is possible only with the consent of the creditors, and the amount of funds should be sufficient to cover a short-term portion of the principal and interest accrued in the next six months.

As at 30 June 2017 and 31 December 2016, the deposited funds were recorded in non-current assets in the line item Restricted cash in the amount of RUB 4 862 thousand and RUB 1 923 482 thousand, respectively.

At the end of June 2017, the Group withdrew RUB 1 918 620 thousand from the reserve bank account to repay the short-term portion of the syndicated loan in accordance with the arrangements on subsequent refinancing of the syndicated loan, which in turn led to a formal violation of one of the covenants provided for by this loan agreement (Note 22).

21. SHARE AND ADDITIONAL PAID-IN CAPITAL

As at 30 June 2017 and 31 December 2016, the Group's issued and registered share capital consisted of 115 997 and 113 424 000 ordinary non-certificated registered shares, respectively, with par value of RUB 1 each amounting to RUB 115 997 thousand and RUB 113 424 thousand, respectively. As at 30 June 2017 and 31 December 2016, the share capital was fully paid.

On 19 December 2016, the Group's shareholders approved a decision to make an increase of the share capital of the Group by means of additional issue of 7 500 000 ordinary shares. During the period from 26 April to 5 May 2017 the Group held a secondary public offering of 2 572 741 ordinary non-certificated registered shares by listing its shares on the Moscow stock exchange, based on the issuance price of RUB 720 per share with a par value of RUB 1. The difference between the par value and the issuance price less issuance costs was recorded in additional paid-in capital of the Company. Issuance costs comprised RUB 33 596 thousand.

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22. LOANS AND BORROWINGS

Loans and borrowings comprised:

	Maturity		Interest rate (at 30 June 2017)	30 June 2017	31 December 2016
At amortized cost, including:					
RUB-denominated					
Alfa-Bank JSC	2023	Fixed	12.70%	19 168 524	19 171 557
Otkritie FC Bank PJSC	2021-2024	Fixed	10-15%	16 013 967	10 401 935
Vnesheconombank and EDB	2022	Fixed	11.8%	14 979 915	16 027 097
			Key rate of the CBR		
Otkritie FC Bank PJSC	2021	Floating	+3.5%	8 939 150	532 500
Khanty-Mansiysk Bank Otkritie PJSC	2018-2020	Floating	MosPrime 3m + 2.5%	7 528 376	7 303 806
TM-Energo Finance LLC	2019	Fixed	11.75%	1 967 931	1 972 671
			MosPrime 3m +		
Otkritie FC Bank PJSC	2020	Floating	1.5%	1 389 413	1 390 959
Gazprombank JSC	2017	Fixed	12.15%	1 303 583	1 997 781
ROSEXIMBANK JSC	2019-2021	Fixed	7.5-9%	1 265 463	125 458
ROSNANO Group	2017	Fixed	14.00%	799 547	799 548
Inbank LLC	2021	Fixed	15.00%	175 000	175 000
Fund of industry development	2021	Fixed	5.00%	62 460	62 460
Khanty-Mansiysk Bank Otkritie PJSC	2017	Fixed	13.50%	49 947	49 947
Khanty-Mansiysk Bank Otkritie PJSC	2017	Floating	Key rate of the CBR +3.5%	29 255	29 255
United Wagon PLC	2018	Fixed	6.5%	8 457	8 236
Otkritie FC Bank PJSC	2017	Floating	MosPrime 3m + 4%	-	5 703 911
Moscow Credit Bank PJSC	2017	Fixed	14.00%	-	782 698
EUR-denominated					
Otkritie FC Bank PJSC	2022	Fixed	10%	4 304 792	4 436 700
Khanty-Mansiysk Bank Otkritie PJSC	2017	Floating	Euribor + 5.7%	1 136 287	1 107 426
USD-denominated					
Doland Business Ltd	2017	Fixed	8%	-	19 277
Total loans and borrowings				79 122 067	72 098 222
Less: current portion				8 918 978	12 609 341
Long-term loans and borrowings				70 203 089	59 488 881

The schedule of debt repayment (excluding future interest) for five years ending 30 June 2022 and thereafter is as follows:

Year ended 30 June	
2018	8 918 978
2019	11 525 723
2020	13 483 625
2021	11 423 507
2022	16 130 102
Thereafter	17 640 132
Total	79 122 067

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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 Group's loan agreements contain various provisions that come into force in case of non-compliance by one of the parties with certain restrictive conditions. In particular, creditor banks may raise the interest rate on loans, demand additional security or immediate repayment of the corresponding amount of debt, which in turn may lead to a declaration of default.

As at 30 June 2017 and 31 December 2016, one of the Group's subsidiaries breached a number of financial and non-financial covenants set out in the syndicated loan agreement with Vnesheconombank ("VEB") and Eurasian Bank of Development ("EABR"). During 2016 and the first half of 2017 through a series of negotiations with the representatives of the creditors the Group's management negotiated the refinancing of the syndicated loan in another bank. Therefore, as at 30 June 2017 and 31 December 2016 the Group recognized the syndicated loan as a long-term loan. After the reporting date, the Group completed the refinancing process and entered into a loan agreement with Otkritie FC Bank PJSC. The loan agreement provides for maturity in 2024 and the maximum credit facility of RUB 20 000 000 thousand (Note 28).

As at 30 June 2017, one of the Group subsidiaries breached a Debt Service Cover Ratio (DSCR) covenant set out by Gazprombank JSC. Thus, the creditor bank was entitled to demand early repayment of the entire loan amount under this loan agreement. As at 30 June 2017, the Group reclassified this loan in the amount of RUB 1 099 486 thousand from long-term to short-term debt. Management of the Group is in the process of negotiations to receive the waiver from the bank as regards an early repayment of the loan.

Available credit facilities

As at 30 June 2017, the Group's total available unused credit facilities amounted to RUB 5 692 067 thousand and related to the following credit lines:

	Maturity	Interest rate (at 30 June 2017)	Available till	Amount
Otkritie FC Bank PJSC	2024	10.5%	30 October 2017 28 February	4 923 820
ROSEXIMBANK JSC	2019	7.5%	2019	600 000
Khanty-Mansiysk Bank Otkritie PJSC	2020	MosPrime 3M + 2.5%	27 December 2017	168 247
Total available credit facilities				5 692 067

23. 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 (currently Moscow Exchange PJSC). As at 30 June 2017 and 31 December 2016, subsidiaries of the Group held bonds for RUB 300 570 thousand and RUB 130 570 thousand, 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 2017 the following coupon rates were used:
 - 6.86% from 01/01/2017 to 30/05/2017;
 - 7.04% from 31/05/2017 to 30/06/2017.

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- 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 2017 the following rates were used:
 - 15.0% from 01/01/2017 to 13/03/2017;
 - 14.5% from 14/03/2017 to 30/06/2017.

The bonds are secured by guarantees of certain entities of the Group.

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

	Maturity	Effective interest rate for 2017	30 June 2017	31 December 2016
Series 01	24 November 2021	6.89%	14 699 430	14 869 430
Series BO 01	10 September 2019	14.70%	<u>15 000 000</u>	<u>15 000 000</u>
Total			<u>29 699 430</u>	<u>29 869 430</u>

The amount of interest accrued as at 30 June 2017 and 31 December 2016 in the amount of RUB 726 752 thousand and RUB 767 562 thousand, respectively, is included in the consolidated statement of financial position as the short-term portion of the bonds.

24. TRADE AND OTHER PAYABLES

Trade and other payables comprised:

	30 June 2017	31 December 2016
Trade payables	8 444 844	8 352 361
Payables for property, plant and equipment	376 761	403 740
Payables for acquisition of subsidiaries	-	<u>123 120</u>
Total trade and other payables	<u>8 821 605</u>	<u>8 879 221</u>

At 31 December 2016, the Group's payables for acquisition of interest in "TM-Energo" LLC (the acquisition was in 2015) comprised RUB 4 227 120 thousand of which RUB 123 120 thousand were presented as trade and other payables and RUB 4 104 000 thousand were presented as long-term payables of the Group maturing 28 August 2019.

On 23 June 2017, the Group early repaid the full amount of the outstanding balance, including interest accrued on that liability.

Interest accrued for the period of the commercial loan is recognized in profit or loss of the interim condensed consolidated statement of profit or loss and other comprehensive income.

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25. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

Advances received and other current liabilities comprised:

	30 June 2017	31 December 2016
Advances received from customers, including:	11 244 529	9 241 931
<i>Advances received for sale of goods (railcars)</i>	<i>10 791 872</i>	<i>8 811 231</i>
<i>Operating lease prepayments</i>	<i>339 326</i>	<i>361 255</i>
<i>Other advances received</i>	<i>113 331</i>	<i>69 445</i>
Taxes payable	3 866 437	3 275 740
Allowance and accrued expenses	547 595	639 845
Payables for acquisition of intangible assets	-	204 212
Other short-term payables to employees	231 151	174 476
Total advances received and other current liabilities	<u>15 889 712</u>	<u>13 536 204</u>

26. 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 operating lease, sale and purchase of railcars spare parts or financing and investing transactions.

The related parties, with whom the Group entered into significant transactions for the six months ended 30 June 2017 and 2016 or had significant balances outstanding as at 30 June 2017 and 31 December 2016 are the parent, entities with significant influence over RPC UWC, associates and joint ventures and other related parties.

Balances with other related parties as at 31 December 2016 included balances with "PTK-Holding" Group, which consolidates "NitroChemProm" LLC and "Vostok 1520" LLC (a subsidiary of the Group, which was disposed in November 2016 (Note 6)). In 2017, for the purposes of this disclosure, in connection with the acquisition of a 19.9% stake in PTK Holding (Note 14), the transactions and balances with "NitroChemProm" LLC and "Vostok 1520" LLC were presented as transactions and balances with associates and joint ventures.

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As at 30 June 2017 and 31 December 2016, the Group had the following balances with its related parties:

	30 June 2017	31 December 2016
Trade and other receivables		
Entities with significant influence over PJSC "RPC UWC"	8 655	61 563
Associates and joint ventures	1 523 592	46 620
Other related parties	-	561 048
Loans issued and short-term deposits		
Parent company	202 772	202 786
Entities with significant influence over PJSC "RPC UWC"	5 456 142	12 624 908
Associates and joint ventures	5 818 959	-
Other related parties	-	5 516 530
Prepayments to suppliers and other assets		
Parent company	11 454	-
Entities with significant influence over PJSC "RPC UWC"	355 320	20 434
Associates and joint ventures	727 776	-
Other related parties	-	1 989 542
TOTAL ASSETS	14 104 670	21 023 431
Loans and borrowings		
Parent company	8 456	8 236
Entities with significant influence over PJSC "RPC UWC"	2 142 931	2 166 948
Trade and other payables		
Parent company	-	267 490
Entities with significant influence over PJSC "RPC UWC"	814 851	472 612
Associates and joint ventures	234 729	-
Other related parties	-	155 126
Advances received and other current liabilities		
Associates and joint ventures	3 222 561	-
Other related parties	-	256 363
Payables for acquisition of subsidiaries		
Entities with significant influence over PJSC "RPC UWC"	-	4 227 120
TOTAL LIABILITIES	6 423 528	7 553 895

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The Group's transactions with related parties are disclosed below:

	Six months ended 30 June 2017	Six months ended 30 June 2016
Operating lease of railcars		
Associates and joint ventures	1 671 320	-
Sales of railcars and inventories		
Entities with significant influence over PJSC "RPC UWC"	2 976	2 826
Associates and joint ventures	16 043	-
Income from consulting services		
Associates and joint ventures	5 553	14 439
Entities with significant influence over PJSC "RPC UWC"	-	111
Sublease income		
Associates and joint ventures	48 644	-
Entities with significant influence over PJSC "RPC UWC"	1 575	2 818
Other income		
Entities with significant influence over PJSC "RPC UWC"	8 909	37 221
Associates and joint ventures	18 976	-
Purchase of inventories for railcar building		
Entities with significant influence over PJSC "RPC UWC"	(46 347)	(103 840)
Cost of goods sold (other) and maintenance		
Entities with significant influence over PJSC "RPC UWC"	(118 166)	(129 871)
Associates and joint ventures	(24 607)	-
Interest income		
Parent company	5 120	14 195
Entities with significant influence over PJSC "RPC UWC"	483 879	351 411
Associates and joint ventures	272 429	-
Interest expense		
Parent company	(356 564)	(230 221)
Entities with significant influence over PJSC "RPC UWC"	(307 425)	(192 744)
Foreign exchange (loss)/gain		
Parent company	(5 136)	(60 425)
Entities with significant influence over PJSC "RPC UWC"	(28 567)	(53 570)
Associates and joint ventures	914	-
Other expenses		
Entities with significant influence over PJSC "RPC UWC"	(201 110)	(163 883)
Purchase of property, plant and equipment		
Entities with significant influence over PJSC "RPC UWC"	(1 773)	(1 674)
Repurchase of railway cars		
Associates and joint ventures	(1 481 500)	-

Compensation to key management personnel

Compensation to key management personnel for their services in full or part time executive management positions is made up of a contractual salary and a performance bonus depending on operating results. The total amount of the Groups' key management personnel compensation accrued for the six months ended 30 June 2017 equaled to RUB 55 255 thousand (for the six months ended 30 June 2016: RUB 48 028 thousand), including RUB 8 158 thousand of social insurance contributions (for the six months ended 30 June 2016: RUB 8 685 thousand).

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27. CONTINGENCIES

Capital expenditure commitments

As at 30 June 2017, the Group had contractual capital expenditure commitments in respect of property, plant and equipment totaling RUB 887 080 thousand (31 December 2016: RUB 1 150 491 thousand).

Guarantees issued

As at 30 June 2017, PJSC "RPC UWC" issued guarantees of RUB 52 744 435 thousand in favor of "Vostok 1520" LLC, the Group's associate.

Operating lease

The Group as a lessor

Operating leases relate to the railcars owned by the Group with lease terms of between 5 to 10 years, with an option to extend at the discretion of the lessee. All operating lease contracts contain market review clauses in the event of changes in market conditions. The lease contracts do not contain step up rent increases during the lease period. The lessee does not have an option to purchase the railcar at the expiry of the lease period.

Non-cancellable operating lease payments are presented as follows:

	30 June 2017	31 December 2016
Less than 1 year	4 545 804	5 190 873
From 1 year to 5 years	13 083 910	14 252 964
Later than 5 years	3 125 914	4 559 319
	20 755 628	24 003 156

Operating environment

As Russia produces and exports large volumes of oil and gas, the country's economy is particularly sensitive to the prices of oil and gas in the world market.

During 2017, the oil and gas prices remained low. Management is unable to estimate reliably further price movements and the impact that 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 2017. 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 these events on the Group's future performance and financial position is currently difficult to determine.

Taxation

Russian business legislation is subject to frequent changes. Management's interpretation of such legislation as applied to the activities of the Bank may be challenged by the relevant regional and federal authorities. Recently, tax authorities have been taking a more assertive position in their interpretation of the tax legislation. As a result, previously applied tax calculation methods may be challenged in the process of future tax reviews. Tax audits generally cover three years preceding the reporting year. Under some circumstances, reviews may be extended to longer periods.

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In 2014, amendments were introduced into the Russian tax legislation with respect to taxation of CFC profits. According to these changes, the 2016 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increased tax base of the controlling entities in 2016. Presently, the Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

Management believes that it has accrued for all taxes that are applicable based on its interpretations of the tax legislation. However, tax authorities may interpret the applicable tax laws differently, which may have a significant effect on the Company's financial statements. Where uncertainty exists, the Group has accrued tax liabilities as management's best estimate of the probable outflow of resources which will be required to settle such liabilities. Management also assesses the maximum exposure to tax risks, which are considered to be less than probable but more than remote, and believes that the exposure is only material with respect to income tax and will not exceed the amount of unrecognized deferred tax assets related to tax losses in previous years. No provisions were recorded with respect to these tax risks. Management continues to monitor closely any developments related to tax risks and regularly reassesses the risk and related liabilities, provisions and disclosures.

Legal proceedings

The Group has been and continues to be the subject of legal proceedings and adjudications from time to time, none of which has had, individually or in the aggregate, a material adverse impact on the Group. Management believes that the resolution of such matters will not have a material impact on the Group's financial position or operating results

Environmental issues

The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognized immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage. The Group undertook monitoring of the environment at the construction site and within the limits of its impact on the natural environment at an environmental survey stage. No adverse impact of the dump operations on the environment has been found.

28. SUBSEQUENT EVENTS

In July 2017, the Group announced changes in the structure of the Company's shareholders. As a result of these changes the share of ICT GROUP LTD decreased from 25.05% to 14.33%.

As specified in Note 22, in August 2017 the Group refinanced a portion of its loans by entering into a loan agreement for a non-revolving credit facility with Otkritie FC Bank PJSC maturing in 2024 and having the maximum available credit facility of RUB 20 000 000 thousand.