

Public Joint Stock Company RPC UWC

**Interim Condensed Consolidated
Financial Statements for the six months ended
30 June 2016 (unaudited)**

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

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PJSC RPC UWC

INTERIM CONDENSED CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

(in thousands of Russian Rubles, unless otherwise indicated)

| | Note | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
|---|------|-------------------------------------|-------------------------------------|
| Revenue | 19 | 23 533 250 | 17 028 353 |
| Cost of sales | 20 | (20 394 802) | (15 456 078) |
| Gross profit | | 3 138 448 | 1 572 275 |
| Selling, general and administrative expenses | 21 | (668 530) | (1 270 824) |
| Share of profit/(loss) in associates and joint ventures | | 89 772 | (2 622) |
| Other operating income, net | | 187 021 | 31 302 |
| Operating profit | | 2 746 711 | 330 131 |
| Finance income | 23 | 448 202 | 585 927 |
| Finance costs | 22 | (5 448 202) | (4 626 139) |
| Foreign exchange gain/(loss), net | | 610 198 | (1 584 576) |
| Loss before income tax | | (1 643 091) | (5 294 657) |
| Income tax (expense)/benefit | 24 | (351 511) | 150 729 |
| Loss and comprehensive loss for the period | | (1 994 602) | (5 143 928) |
| Loss and comprehensive loss for the period attributable to: | | | |
| Shareholders of the Group | | (1 994 602) | (5 143 668) |
| Non-controlling interests | | - | (260) |
| Loss per share | | | |
| Weighted average number of ordinary shares outstanding | | 108 424 976 | 103 739 536 |
| Loss per share, RUB | | (18) | (93) |

Anton Saykin
 Financial Director of PJSC RPC UWC
 (under power of attorney No. 77 АБ 9304945)
29 August 2016

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2016 (UNAUDITED) (in thousands of Russian Rubles, unless otherwise indicated)

| | Note | 30 June 2016 | 31 December 2015 |
|--|------|--------------------|---------------------|
| ASSETS | | | |
| Non-current assets | | | |
| Property, plant and equipment | 7 | 71 428 023 | 71 428 836 |
| Prepayments for property, plant and equipment | | 1 538 752 | 1 029 400 |
| Intangible assets | | 5 282 076 | 5 021 518 |
| Goodwill | | 8 971 232 | 8 971 232 |
| Deferred tax assets | | 2 482 881 | 2 643 706 |
| Investments in associates and joint ventures | | 1 207 844 | 752 501 |
| Loans receivable | 11 | 2 365 202 | 1 353 829 |
| Finance lease receivables | | 233 961 | 243 665 |
| Deposited cash in the reserve bank account | 13 | 1 781 709 | 1 781 709 |
| Total non-current assets | | 95 291 680 | 93 226 396 |
| Current assets | | | |
| Inventories | 8 | 14 601 431 | 8 524 986 |
| Trade and other accounts receivable | 9 | 1 785 983 | 4 003 435 |
| Finance lease receivables | | 18 490 | 17 152 |
| Loans receivable | 11 | 81 642 | 5 187 614 |
| Bank deposits | 12 | 10 008 314 | - |
| Prepayments to suppliers and other assets | 10 | 1 426 802 | 1 566 070 |
| VAT receivable | | 5 146 158 | 4 150 385 |
| Cash and cash equivalents | 13 | 1 768 842 | 3 207 466 |
| Total current assets | | 34 837 662 | 26 657 108 |
| TOTAL ASSETS | | 130 129 342 | 119 883 504 |
| EQUITY AND LIABILITIES | | | |
| Equity and reserves | | | |
| Share capital issued | 14 | 113 424 | 105 556 |
| Additional paid-in capital | 14 | 21 178 905 | 16 158 720 |
| Accumulated deficit | | (16 639 419) | (14 644 817) |
| Total equity attributable to shareholders | | 4 652 910 | 1 619 459 |
| Non-controlling interests | | - | 652 |
| Total equity | | 4 652 910 | 1 620 111 |
| Non-current liabilities | | | |
| Long-term loans payable and borrowings | 15 | 50 693 073 | 55 835 462 |
| Bonds – non-current portion | 16 | 30 000 000 | 15 000 000 |
| Long-term finance lease liabilities | | 1 129 | 1 683 |
| Deferred tax liabilities | | 972 657 | 915 953 |
| Other payables | | 218 476 | 188 617 |
| Total non-current liabilities | | 81 885 335 | 71 941 715 |
| Current liabilities | | | |
| Short-term loans payable and borrowings | 15 | 20 311 994 | 15 286 129 |
| Trade and other accounts payable | 17 | 14 523 766 | 12 697 270 |
| Advances received and other current liabilities | 18 | 7 927 184 | 4 231 504 |
| Short-term finance lease liabilities | | 2 719 | 2 825 |
| Bonds – current portion | 16 | 825 434 | 14 103 950 |
| Total current liabilities | | 43 591 097 | 46 321 678 |
| TOTAL LIABILITIES | | 125 476 432 | 118 263 393 |
| TOTAL LIABILITIES AND EQUITY | | 130 129 342 | 119 883 504 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED) *(in thousands of Russian Rubles, unless otherwise indicated)*

| | Share capital issued | Share capital issued but not registered | Additional paid-in capital | Accumulated deficit | Total shareholders' equity | Non-controlling interests | Total equity |
|---|-------------------------|---|-------------------------------|------------------------|----------------------------------|------------------------------|------------------|
| Balance at 1 January 2015 | 10 | 99 990 | 12 428 965 | (4 969 137) | 7 559 828 | 668 | 7 560 496 |
| Loss and comprehensive loss for the period | - | - | - | (5 143 668) | (5 143 668) | (260) | (5 143 928) |
| Additional share issue as part of restructuring | 99 990 | (99 990) | - | - | - | - | - |
| Issue of additional ordinary shares during initial public offering, net of issuance costs (Note 14) | 5 556 | - | 3 729 755 | - | 3 735 311 | - | 3 735 311 |
| Increase in minority interest | - | - | - | - | - | 762 | 762 |
| Balance at 30 June 2015 | 105 556 | - | 16 158 720 | (10 112 805) | 6 151 471 | 1 170 | 6 152 641 |
| Balance at 1 January 2016 | 105 556 | - | 16 158 720 | (14 644 817) | 1 619 459 | 652 | 1 620 111 |
| Loss and 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 (Note 14) | 7 868 | - | 5 020 185 | - | 5 028 053 | - | 5 028 053 |
| Decrease in minority interest | - | - | - | - | - | (652) | (652) |
| Balance at 30 June 2016 | 113 424 | - | 21 178 905 | (16 639 419) | 4 652 910 | - | 4 652 910 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE SIX MONTHS ENDED 30 JUNE 2016 (UNAUDITED)

(in thousands of Russian Rubles, unless otherwise indicated)

| | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
|---|----------------------------------|----------------------------------|
| OPERATING ACTIVITIES | | |
| Loss before income tax | (1 643 091) | (5 294 657) |
| Adjustments for: | | |
| Depreciation and amortization | 2 298 887 | 2 521 256 |
| Reversal of provision for doubtful accounts | (223 613) | - |
| Loss from sale of accounts receivable under cession agreement | 33 734 | - |
| Change in impairment loss recognized on loans granted | (8 441) | - |
| Disposal of non-controlling interest | (652) | - |
| Loss on disposal of property, plant and equipment | 2 965 | - |
| Share of profit in associates and joint ventures | (89 772) | (1 860) |
| Non-operating foreign exchange (gain)/loss, net | (610 198) | 1 584 576 |
| Finance costs | 5 448 202 | 4 640 232 |
| Finance income | (448 202) | (585 927) |
| Operating profit before changes in working capital | 4 759 819 | 2 863 620 |
| Movements in working capital: | | |
| Decrease in trade and other accounts receivable | 2 397 327 | 6 335 083 |
| Increase in prepayments to suppliers and other current assets | (191 109) | (433 056) |
| Increase in VAT receivable | (995 772) | (454 568) |
| Increase in inventories | (5 742 282) | (1 520 789) |
| Increase in trade and other accounts payable | 2 266 712 | 1 463 831 |
| Increase in advances received and other current liabilities | 3 815 921 | 1 184 967 |
| Cash flows from operating activities | 6 310 616 | 9 439 088 |
| Income tax paid | (254 222) | (39 806) |
| Finance costs paid | (5 007 285) | (4 293 625) |
| Net cash from operating activities | 1 049 109 | 5 105 657 |
| INVESTING ACTIVITIES | | |
| Payments for property, plant and equipment, including advances | (3 578 346) | (3 901 405) |
| Proceeds from disposal of property, plant and equipment | - | 32 899 |
| Purchase of intangible assets | (306 821) | (332 318) |
| Loans granted | (1 093 983) | (14 151 247) |
| Short-term deposits | (10 000 000) | - |
| Cash proceeds from redemption of loans granted | 4 991 293 | 13 767 918 |
| Interest received | 531 363 | 583 832 |
| Cash paid on acquisition and increase of investments in associates | (365 571) | (199 010) |
| Net cash used in investing activities | (9 822 065) | (4 199 331) |
| FINANCING ACTIVITIES | | |
| Shareholders' capital contribution, net | 5 028 053 | 3 735 459 |
| Proceeds from loans and borrowings | 2 813 043 | 4 029 645 |
| Repayment of loans and borrowings | (2 081 892) | (5 163 879) |
| Purchase of own bonds | - | (2 748 991) |
| Proceeds from sale of repurchased bonds | 1 683 800 | - |
| Finance lease payments | (660) | (10 838) |
| Net cash used in financing activities | 7 442 344 | (158 604) |
| Net increase in cash and cash equivalents | (1 330 612) | 747 722 |
| Effect of foreign exchange changes | (108 012) | 43 |
| Cash and cash equivalents, beginning of the reporting period | 3 207 466 | 2 386 595 |
| Cash and cash equivalents, end of the reporting period | 1 768 842 | 3 134 360 |

The accompanying notes are an integral part of these interim condensed consolidated financial statements.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

(in thousands of Russian Rubles, unless otherwise indicated)

1. GENERAL INFORMATION

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

As at 30 June 2016, the Company is a holding entity for the group of companies (PJSC RPC UWC or the "Group") incorporated in the British Virgin Islands (the "BVI"), Cyprus, and the Russian Federation (the "RF").

Principal activities of the Group include:

- Production of railway cars at the manufacturing facility located in the town of Tikhvin, Leningrad Region, Russian Federation, and their sale within the Group and to external counterparties;
- Finance and operating lease of railway cars;
- Rail transportation services.

Before 2015 most of the railway cars manufactured at the facility located in the town of Tikhvin were used internally in the operating lease business unit. Since 2015 the Group significantly increased its sales of railcars to third parties making them the prevailing type of sales.

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 2016 Ownership interest, % | At 31 December 2015 Ownership interest, % |
|--------------------------------------|--|--|
| United Wagon PLC | 35.99% | 49.98% |
| Open Joint Stock Company RONIN Trust | 12.29% | 13.10% |
| Other shareholders | 51.72% | 36.92% |

As at 30 June 2016 Alexander Nesis was the largest beneficiary shareholder of the Group.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

(in thousands of Russian Rubles, unless otherwise indicated)

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 2015 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 2016 are not necessarily indicative of the operating results for the entire fiscal year. This unaudited interim condensed consolidated financial statement should be read in conjunction with the Group's annual consolidated financial statements for the year ended 31 December 2015.

Going concern assumption

These interim 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.

As at 30 June 2016, the Group's current liabilities exceeded its current assets by RUB 8 753 436 thousand. During the first half of 2016 and 2015, the Group incurred losses before income tax.

As at 30 June 2016 the Group may use the available credit resources for the total amount of RUB 8 063 694 thousand.

Currently, the Group makes preparations for the implementation of a new credit deal with Gazprombank JSC. The project is to be implemented as a non-revolving credit line with a limit of RUB 5 billion and maturity until 2026.

As at 30 June 2016, the Group has outstanding accounts payable for acquisition of a subsidiary to a related party in the amount of RUB 4 227 120 thousand with maturity until 31 December 2016. The Group's management believes that there is high probability to sign an additional agreement for prolongation of the maturity period with a related party.

In 2016, sales prices for innovative railcars increased by 15% as compared to sales prices effective in 2015. During the first half of 2016 the Group sold over 5 600 railcars. The Group's management expects an increase in demand for innovative railcars in the second half of 2016. According to estimates of the Group's management, in 2016 the minimum production volume is to exceed 15 500 railcars.

In the first half of 2016 lease rates were at the same level as in 2015. In the second half of 2016 the Group's management intends to use options for increasing lease rates under lease agreements.

The management believes that the combination of the above actions will enable the Group to settle its current liabilities in the normal course of business and to get profit for 2016.

3. SIGNIFICANT ACCOUNTING POLICIES

The same accounting principles, presentation and calculation methodologies have been followed in these financial statements as were applied in the preparation of the Group's consolidated financial statements for the year ended 31 December 2015.

NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

(in thousands of Russian Rubles, unless otherwise indicated)

The Group has adopted all new and revised standards and interpretations that are mandatory for adoption in annual periods beginning on 1 January 2016. The adoption did not have a material impact on the Group's consolidated financial statements.

4. NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STATEMENTS ("IFRS") IN ISSUE BUT NOT YET EFFECTIVE

At the date of authorization of these consolidated financial statements, the following Standards and Interpretations were in issue but not yet effective, and have not been early adopted in preparation of these consolidated financial statements:

| New or revised standard and/or interpretation | Effective date¹ - For annual periods beginning on or after |
|---|---|
| IFRS 9 <i>Financial Instruments</i> | 1 January 2018 |
| IFRS 15 <i>Revenue from Contracts with Customers</i> | 1 January 2018 |
| IFRS 16 <i>Leases</i> | 1 January 2019 |
| Amendments to IFRS 11 <i>Accounting for Acquisition of Interests in Joint Operations</i> | 1 January 2016 |
| Amendments to IAS 1 <i>Disclosure Initiative</i> | 1 January 2016 |
| Amendments to IAS 16 and IAS 38 <i>Clarification of Acceptable Methods of Depreciation and Amortisation</i> | 1 January 2016 |
| Amendments to IAS 16 and IAS 41 <i>Agriculture: Bearer Plants</i> | 1 January 2016 |
| Amendments to IFRS 10 and IAS 28 <i>Sale or Contribution of Assets between an Investor and its Associate or Joint Venture</i> | Date to be determined by the IASB ² |
| Amendments to IFRS 10, IFRS 12 and IAS 28 <i>Investment entities: applying the consolidation exception</i> | 1 January 2016 |
| IFRS 14 <i>Regulatory Deferral Accounts</i> | 1 January 2016 |
| Amendments to IAS 27 <i>Equity Method in Separate Financial Statements</i> | 1 January 2016 |
| Annual Improvements to IFRSs 2012-2014 Cycle. | 1 January 2016 |
| Amendments to IAS 12 <i>Recognition of Deferred Tax Assets for Unrealised Losses</i> | 1 January 2017 |

¹ Early adoption is permitted for all new or amended standards and interpretations. IFRS 16 can be early adopted if IFRS 15 Revenue from Contracts with Customers has also been applied.

² The amendment was initially issued in September 2014 with the effective date on 1 January 2016. In December 2015 the IASB deferred the effective date of the amendments indefinitely until the research project on the equity method has been concluded.

The Group is currently assessing the impact of adoption of these standards in the preparation of the consolidated financial statements and plans to adopt them when they become effective or earlier, where permitted. This will ensure a more reliable presentation of the consolidated financial statements.

The impact of the adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is being assessed by the Management.

5. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Critical accounting judgments and key sources of estimation uncertainty used in preparation of these financial statements correspond with the same accounting judgments and sources of estimation uncertainty used in preparation of the Group's consolidated financial statements for the year ended 31 December 2015.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

(in thousands of Russian Rubles, unless otherwise indicated)

6. SEGMENT INFORMATION

For manageability purposes the Group is divided into business units on the basis of goods manufactured and services rendered, and incorporates three 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 provides rail-based freight transportation services (the segment was designated as a reporting segment in 2015 due to growth in operating activities).

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.

Accounting principles of the reportable segments are consistent with the Group accounting policies described in Note 2. 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

(in thousands of Russian Rubles, unless otherwise indicated)

Segment information for the six months ended 30 June 2016 and 2015 is presented as follows:

| | Production segment | Sales segment | Operation segment | Other segments | Total segments | Adjustments and exemptions | Consolidated |
|-----------------------------------|---------------------|--------------------|--------------------|--------------------|---------------------|----------------------------|---------------------|
| 30 June 2016 | | | | | | | |
| Revenue | 15 528 117 | 2 354 295 | 6 420 548 | 1 998 327 | 26 301 287 | (2 768 038) | 23 533 250 |
| including inter-segment revenue | - | 830 391 | 6 773 | 1 831 450 | 2 668 614 | (2 668 614) | - |
| Cost of sales, including: | (13 953 725) | (1 395 262) | (5 714 050) | (1 857 631) | (22 920 668) | 2 525 866 | (20 394 802) |
| - Inventories | (10 132 968) | - | (1 150) | - | - | - | - |
| - Payroll | (2 010 524) | - | - | - | - | - | - |
| - Property tax | - | (281 184) | - | - | - | - | - |
| - Maintenance and repairs | - | (197 699) | (59 698) | - | - | - | - |
| - Freight costs | - | - | (3 173 304) | - | - | - | - |
| - Operating lease of railway cars | - | - | (2,479 898) | - | - | - | - |
| - Depreciation and amortization | (1 317 129) | (900 768) | - | - | - | - | - |
| - Other | (493 104) | (15 611) | - | - | - | - | - |
| EBITDA | 2 460 682 | 2 026 502 | 502 754 | 200 381 | 5 190 319 | (144 722) | 5 045 597 |
| Finance income | 7 637 | 1 362 935 | 2 549 | 2 294 594 | 3 667 715 | (3 219 513) | 448 202 |
| Finance costs | (1 727 736) | (4 360 634) | (248) | (2 579 880) | (8 668 499) | 3 220 296 | (5 448 202) |
| Depreciation and amortization | (1 317 129) | (900 768) | - | (206 968) | (2 424 866) | 125 979 | (2 298 887) |
| Foreign exchange gain/(loss) | - | - | - | - | - | - | 610 198 |
| Loss before income tax | | | | | | | (1 643 091) |
| 30 June 2015 | | | | | | | |
| Revenue | 15 015 234 | 2 194 945 | 2 063 073 | 1 547 877 | 20 821 129 | (3 792 776) | 17 028 353 |
| including inter-segment revenue | 1 858 264 | 407 469 | 1 027 | 1 439 203 | 3 704 937 | (3 704 937) | - |
| Cost of sales, including: | (14 221 174) | (1 357 197) | (2 035 048) | (1 292 603) | (18 906 022) | 3 449 944 | (15 456 078) |
| - Inventories | (9 619 775) | - | (993) | - | - | - | - |
| - Payroll | (1 910 875) | - | - | - | - | - | - |
| - Property tax | - | (321 853) | - | - | - | - | - |
| - Maintenance and repairs | - | (121 741) | (51 912) | - | - | - | - |
| - Freight costs | - | - | (924 158) | - | - | - | - |
| - Operating lease of railway cars | - | - | (1 057 985) | - | - | - | - |
| - Depreciation and amortization | (1 726 489) | (860 053) | - | - | - | - | - |
| - Other | (964 035) | (53 550) | - | - | - | - | - |
| EBITDA | 1 639 948 | 1 560 715 | (82 082) | (71 520) | 3 047 061 | (280 361) | 2 766 699 |
| Finance income | 8 769 | 976 116 | 1 280 | 2 224 358 | 3 210 522 | (2 624 595) | 585 927 |
| Finance costs | (1 013 547) | (3 996 549) | (6 803) | (2 235 195) | (7 252 095) | 2 625 956 | (4 626 139) |
| Depreciation and amortization | (1 726 489) | (860 053) | - | (65 418) | (2 651 959) | 215 389 | (2 436 570) |
| Foreign exchange (loss)/gain | - | - | - | - | - | - | (1 584 576) |
| Loss before income tax | | | | | | | (5 294 659) |

Breakdown of the Group's revenue by types of goods and services is presented in Note 19. In the first half of 2016, key external customers of the Production segment were VM-Trans LLC and Business Alliance JSC, which accounted for more than 93% of the segment's external sales. In the first half of 2016, the key external customer of the Sales segment was SUEK OJSC, which accounted for about 46% of the segment's external sales. In the first half of 2016, the key external customer of the Operation segment was UGMK-Trans LLC, which accounted for about 53% 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.

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

(in thousands of Russian Rubles, unless otherwise indicated)

7. PROPERTY, PLANT AND EQUIPMENT

During the reporting period the Group continued constructing the railway tank manufacturing plant in the city of Tikhvin (TikhvinChemMash CJSC), expanding the existing production facilities and implementing other capital projects (Heavy Engineering Works JSC, TVSZ JSC and Transmashenergo LLC). During the reporting period the total amount of capital investments was RUB 1 806 211 thousand, net of capitalized interest expense of RUB 746 322 thousand (Note 22).

8. INVENTORIES

Inventories comprised:

| | 30 June 2016 | 31 December 2015 |
|---|-------------------------|-----------------------------|
| Raw materials and components for railcar production | 8 158 706 | 7 081 812 |
| Finished goods (railcars) | 6 177 220 | 958 781 |
| Other inventories | 265 505 | 484 393 |
| Total inventories | 14 601 431 | 8 524 986 |

9. TRADE AND OTHER ACCOUNTS RECEIVABLE

Trade and other accounts receivable comprised the following:

| | 30 June 2016 | 31 December 2015 |
|--|-------------------------|-----------------------------|
| Accounts receivable from sale of railcars | 1 100 553 | 3 621 497 |
| Operation service accounts receivable | 443 259 | 658 913 |
| Accounts receivable under cession agreement | 307 863 | - |
| Other accounts receivable | 16 325 | 18 652 |
| Provision for doubtful accounts receivable | (82 017) | (295 627) |
| Total trade and other accounts receivable | 1 785 983 | 4 003 435 |

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

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NOTES TO THE INTERIM CONDENSED CONSOLIDATED FINANCIAL STATEMENTS FOR THE SIX MONTHS ENDED 30 JUNE 2016

(in thousands of Russian Rubles, unless otherwise indicated)

10. PREPAYMENTS TO SUPPLIERS AND OTHER ASSETS

Prepayments to suppliers and other assets comprised:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|--|-------------------------|-----------------------------|
| Prepayments to suppliers | 1 144 367 | 1 077 908 |
| Government grants receivable | - | 347 766 |
| Prepaid expenses | 238 330 | 208 899 |
| Prepayment to customs | 85 969 | 49 677 |
| Taxes receivable | 78 726 | 12 413 |
| Provision for doubtful prepayments | (120 590) | (130 593) |
| Total prepayments to suppliers and other assets | <u>1 426 802</u> | <u>1 566 070</u> |

11. LOANS RECEIVABLE

Loans granted including interest accrued were as follows:

| | <u>Currency</u> | <u>Interest rate, %</u> | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---|-----------------|-----------------------------|-------------------------|-----------------------------|
| Loans granted to related parties | | | | |
| United Wagon PLC | USD | 6.4-7% | 461 052 | 507 248 |
| Rail 1520 Test Cyprus LTD | USD | 6.4% | 351 588 | 286 061 |
| TH RCC LLC | USD | 6.6% | 79 784 | 88 226 |
| Test Center Holding LTD | USD | 6.4% | 30 677 | 33 275 |
| Rail 1520 Test LTD | USD | 6.4% | 3 467 | 3 479 |
| TTC RT LLC | RUB | 7.5% | 1 883 | 6 777 |
| Loans granted to third parties | | | | |
| SZIZhK CJSC | RUB | 11% | 1 039 713 | 390 370 |
| Business Engineering CJSC | RUB | 11% | 302 346 | 127 039 |
| SZIPK CJSC | RUB | 9-15% | 225 367 | 31 200 |
| BLK-Proekt LLC | RUB | 10% | 27 318 | 26 905 |
| Doland Business Ltd | RUB | 11% | 3 433 | 5 129 065 |
| Other | | | - | 24 |
| Impairment loss | | | (79 784) | (88 226) |
| Total loans receivable | | | <u>2 446 844</u> | <u>6 541 443</u> |
| Short-term loans | | | 81 642 | 5 187 614 |
| Long-term loans | | | <u>2 365 202</u> | <u>1 353 829</u> |
| Total loans receivable | | | <u>2 446 844</u> | <u>6 541 443</u> |

As at 30 June 2016 and 31 December 2015, the Group recognized an impairment loss on a loan receivable from TH RCC LLC, a related party, in the amount of RUB 79 784 thousand and RUB 88 226 thousand, respectively, due to the uncertainty regarding the recoverability of the loan.

12. SHORT-TERM DEPOSITS WITH BANKS

Short-term deposits with banks including accrued interest comprised:

| | <u>Currency</u> | <u>Interest rate, %</u> | <u>30 June 2016</u> | <u>31 December 2015</u> |
|----------------------------------|-----------------|-----------------------------|--------------------------|-----------------------------|
| MDM Bank PJSC | RUB | 10% | 5 000 000 | - |
| Rigensis Bank (Latvia) | RUB | 10.65% | 5 008 314 | - |
| Total short-term deposits | | | <u>10 008 314</u> | <u>-</u> |

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As at 30 June 2016 the Group deposited available cash of RUB 10 000 000 thousand with two banks - MDM Bank PJSC and Rigensis Bank (Latvia) - in order to get interest income, with annual interest rates of 10% and 10.65% and maturity on 16 January 2017 and 22 June 2017, respectively.

Credit risk associated with liquid funds represented by short-term deposits is limited, as counterparty banks are assigned high credit ratings by rating agencies.

13. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

| | 30 June 2016 | 31 December 2015 |
|--|-------------------------|-----------------------------|
| Short-term deposits in RUB | 1 076 322 | 978 767 |
| Current accounts in RUB | 584 082 | 190 274 |
| Current accounts in EUR | 89 152 | 2 032 723 |
| Current accounts in USD | 19 247 | 5 701 |
| Cash in transit | 39 | 1 |
| Total cash and cash equivalents | 1 768 842 | 3 207 466 |

As at 30 June 2016 and 31 December 2015 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 of the syndicated loan agreement with Vnesheconombank and European Bank for Reconstruction and Development, in July 2015 one of the Group's companies signed an agreement on depositing cash in a reserve account until December 23, 2025. According to the loan agreement, the use of the deposited cash is not possible without the consent of creditors. At the same time, the amount of cash in the reserve account should be sufficient to cover a short-term portion of the principal and interest accrued over the next 6 months. As at 30 June 2016, the deposited funds in the amount of RUB 1 781 709 thousand were included in non-current assets in the line item "Deposited cash in reserve bank account"

14. SHARE CAPITAL AND ADDITIONAL PAID-IN CAPITAL

As at 30 June 2016, the Company's issued and registered share capital amounted to RUB 113 424 thousand, divided into 113 424 000 ordinary non-certificated registered shares with par value of RUB 1 each. The share capital was fully paid for as at the reporting date.

On 29 March 2016, the Group's shareholders approved a decision to increase the share capital of the Group by an additional issue of 8 500 000 ordinary shares.

In May 2016 the Group held an additional public offering of 7 867 948 ordinary non-certificated registered shares by listing on the Moscow stock exchange. The issuance price was RUB 640 per share with a par value of RUB 1). The difference between the par value and the issuance price was recorded in additional paid-in capital of the Company less issuance costs in the amount of RUB 7 434 thousand.

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15. LOANS AND BORROWINGS

Long-term loans and borrowings comprised:

| | <u>Maturity</u> | | <u>Interest rate (at 30 June 2016)</u> | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---------------------------------------|-----------------|----------|--|-------------------------|-----------------------------|
| At amortized cost, including: | | | | | |
| RUB-denominated | | | | | |
| Sberbank PJSC | 2021-2023 | Fixed | 10.2%-10.95% | 18 654 575 | 18 530 229 |
| Vnesheconombank and EDB | 2022 | Fixed | 11.8% | 16 719 419 | 17 542 200 |
| Otkritie FC Bank PJSC | 2017 | Floating | MosPrime 3m + 4% | 9 112 922 | 9 280 646 |
| Khanty-Mansiysk Bank Otkritie PJSC | 2018-2020 | Floating | MosPrime 3m + 2.5% | 6 401 360 | 5 304 487 |
| Otkritie FC Bank PJSC | 2017-2022 | Fixed | 10.5%-14% | 6 013 150 | 5 480 327 |
| Gasprombank (JSC) | 2022 | Fixed | 12.15% | 2 081 953 | 2 166 160 |
| TM-Energo Finance LLC | 2019 | Fixed | 9% | 1 946 400 | 1 899 773 |
| Otkritie FC Bank PJSC | 2020 | Floating | MosPrime 3m + 1.5% | 1 350 000 | 1 350 000 |
| ROSNANO Group | 2017 | Fixed | 14% | 827 379 | 799 548 |
| | | | Key rate of the CBR | | |
| Otkritie FC Bank PJSC | 2020 | Floating | +1.5% | 513 384 | 500 000 |
| Vetrezio Investments | 2016 | Fixed | 8.5% | 338 372 | - |
| Inbank LLC | 2021 | Fixed | 15% | 175 000 | - |
| Khanty-Mansiysk Bank Otkritie PJSC | 2017 | Fixed | 13.5% | 161 209 | 161 203 |
| Otkritie FC Bank PJSC | 2024 | Fixed | 10.5% | 105 292 | - |
| United Wagon PLC | 2018 | Fixed | 6.5% | 8 012 | 7 792 |
| Railways Development LTD | 2016 | Fixed | 8.5% | - | 584 275 |
| EUR-denominated | | | | | |
| Otkritie FC Bank PJSC | 2022 | Fixed | 10% | 5 364 559 | 6 467 016 |
| Khanty-Mansiysk Bank Otkritie PJSC | 2016 | Floating | Euribor + 5.7% | 1 232 082 | 1 047 935 |
| Total loans and borrowings | | | | 71 005 067 | 71 121 591 |
| Less: current portion | | | | 20 311 994 | 15 286 129 |
| Long-term loans and borrowings | | | | 50 693 073 | 55 835 462 |

* Effective from 17 August 2018 the maximum rate - MosPrime 3m+6%

The schedule of debt repayment (excluding future interest) for five years ending June 30, 2021 and thereafter is as follows:

Year ended 30 June

| | |
|--------------|-------------------|
| 2017 | 20 311 994 |
| 2018 | 7 404 421 |
| 2019 | 7 363 920 |
| 2020 | 12 868 799 |
| 2021 | 6 577 714 |
| Thereafter | 16 478 219 |
| Total | 71 005 067 |

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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 non-compliance with these covenants may result in negative consequences for the Group, including default. As at 30 June 2016, the Group complied with these covenants.

Available credit facilities

As at 30 June 2016, the Group's total available unused credit facilities amounted to RUB 8 063 694 thousand and related to the following credit lines:

| | <u>Maturity</u> | <u>Interest rate (at 30 June 2016)</u> | <u>Available till</u> | <u>Amount</u> |
|--|-----------------|--|-----------------------|-------------------------|
| Otkritie FC Bank PJSC | 2024 | 10.5% | 30.10.2017 | 5 634 322 |
| Khanty-Mansiysk Bank Otkritie PJSC | 2020 | MosPrime 3M + 2.5 % | 26.12.2016 | 1 195 655 |
| Otkritie FC Bank PJSC | 2022 | 10.5% | 25.05.2017 | 1 233 717 |
| Total available credit facilities | | | | <u>8 063 694</u> |

16. BONDS

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

| | <u>Maturity</u> | <u>Effective interest rate for the first half of 2016</u> | <u>30 June 2016</u> | <u>31 December 2015</u> |
|--------------|-----------------|---|--------------------------|-----------------------------|
| Series 01 | 24.11.2021 | 9.41% | 15 000 000 | 13 316 200 |
| Series BO 01 | 10.09.2019 | 15.5% | 15 000 000 | 15 000 000 |
| Total | | | <u>30 000 000</u> | <u>28 316 200</u> |

As at 30 June 2016, all bonds issued by the Group are being traded. As at 31 December 2015, subsidiaries of the Group held 1 683 800 bonds (Series 01) for RUB 1 683 800 thousand for the 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 once in 182 days. In the first half of 2016 the following coupon rates were used:
 - 9.08% from 01.01.2016 to 31.05.2016;
 - 11.16% from 01.06.2016 to 30.06.2016.
- 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 2016 the following rates were used:
 - 15.5% from 01.01.2016 to 30.06.2016.

The amounts of interest accrued as at 30 June 2016 and 31 December 2015 of RUB 825 435 thousand and RUB 787 750 thousand, respectively, are included in the consolidated statement of financial position in current portion of bonds.

Bonds are secured by guarantees of certain entities of the Group.

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17. TRADE AND OTHER ACCOUNTS PAYABLE

Trade and other accounts payable comprised:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|--|--------------------------|-----------------------------|
| Trade accounts payable | 9 597 406 | 7 399 814 |
| Accounts payable for acquisition of subsidiaries | 4 227 120 | 4 118 251 |
| Accounts payable for property, plant and equipment | 699 240 | 1 179 205 |
| Total trade and other payables | <u>14 523 766</u> | <u>12 697 270</u> |

As at the reporting date the Group's accounts payable for acquisition of subsidiaries represent outstanding amount payable for the acquired interest in Transmashenergo LLC in form of a commercial loan granted by the seller at interest rate of 9% per annum with maturity until 31 December 2016. Interest accrued for the period of loan are included in profit or loss.

18. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

Advances received and other current liabilities comprised:

| | <u>30 June 2016</u> | <u>31 December 2015</u> |
|---|-------------------------|-----------------------------|
| Advances received from customers, including: | 5 251 338 | 1 280 449 |
| <i>Advances received for sale of railcars</i> | 5 006 016 | 864 523 |
| <i>Operating lease prepayments</i> | 55 495 | 183 499 |
| <i>Prepayments for rail-based freight transportation services</i> | 175 200 | 210 480 |
| Taxes payable | 1 860 302 | 2 046 044 |
| Provisions and accrued expenses | 430 302 | 555 672 |
| Payables for acquisition of intangible assets | 212 050 | 183 069 |
| Other short-term payables to employees | 173 192 | 166 270 |
| Total advances received and other current liabilities | <u>7 927 184</u> | <u>4 231 504</u> |

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19. REVENUE

Revenue for the six months ended 30 June 2016 and 2015 comprised:

| | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
|--|--|--|
| Sales of railcars | 15 435 480 | 13 119 448 |
| Rail-based freight transportation services | 6 413 775 | 2 061 861 |
| Operating lease services | 1 522 938 | 1 787 476 |
| Repair and maintenance services | 119 859 | - |
| Other revenue | 41 198 | 59 568 |
| Total revenue | 23 533 250 | 17 028 353 |

20. COST OF SALES

Cost of sales for the six months ended 30 June 2016 and 2015 comprised:

| | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
|----------------------------------|--|--|
| Raw materials used in production | 9 991 968 | 8 473 007 |
| Freight costs | 3 173 304 | 924 158 |
| Depreciation and amortization | 2 282 473 | 2 413 735 |
| Payroll and social contributions | 2 094 337 | 1 665 043 |
| Operating lease of railcars | 1 684 266 | 651 132 |
| Property tax | 328 057 | 321 863 |
| Railcar repair and maintenance | 172 600 | 144 869 |
| Other | 667 797 | 862 271 |
| Total cost of sales | 20 394 802 | 15 456 078 |

21. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses for the six months ended 30 June 2016 and 2015 comprised the following:

| | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
|---|--|--|
| Payroll and social contributions | 265 246 | 356 428 |
| Operating lease expense | 176 399 | 338 409 |
| Information, consulting and audit services | 138 670 | 47 800 |
| Other staff costs | 84 302 | 90 259 |
| Travel expenses | 29 070 | 21 860 |
| Loss on sale of inventories | 22 671 | 31 930 |
| Transportation costs for delivery of railcars to buyer | 20 754 | 99 038 |
| Depreciation and amortization | 16 414 | 22 835 |
| Advertising expenses | 13 124 | 11 751 |
| Write-off of property, plant and equipment | 2 965 | 3 235 |
| Reversal of provision for doubtful accounts receivable | (223 613) | - |
| Other | 122 528 | 247 279 |
| Total selling, general and administrative expenses | 668 530 | 1 270 824 |

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22. FINANCE COSTS

Finance costs for the six months ended 30 June 2016 and 2015 comprised the following:

| | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
|--|--|--|
| Interest expense on loans and borrowings | 4 360 008 | 3 806 589 |
| Interest expense on bonds | 1 841 925 | 1 840 749 |
| Interest expense on accounts payable for acquisition of subsidiaries | 183 671 | - |
| Guarantee costs | 230 000 | - |
| Bank commissions | 124 350 | 98 486 |
| Government grants | (545 429) | (863 123) |
| Less: amounts included in the cost of qualified assets: | | |
| Capitalized interest expense | (746 323) | (258 897) |
| Capitalized government grants | - | 2 335 |
| Total finance costs | <u>5 448 202</u> | <u>4 626 139</u> |

The Group receives 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 certain requirements. From 2014 onwards the Group also receives subsidies for partial compensation of the interest payable on bank loans used for acquisition of innovative railcars.

23. FINANCE INCOME

Finance income for the six months ended 30 June 2016 and 2015 comprised:

| | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
|---|--|--|
| Interest income from financial assets | 407 574 | 516 673 |
| Interest income on cash and equivalents | 40 628 | 69 254 |
| Total finance income | <u>448 202</u> | <u>585 927</u> |

24. INCOME TAX

During the reporting period the income tax rates applicable to the entities of the Group were as follows: Russian companies – 20%; Cyprus companies – 12.5%. The Group's entities incorporated in the BVI were exempt from taxes.

The difference between theoretical and effective income tax rates is due to deductibility of foreign exchange differences for the purposes of taxation of foreign entities and a resulting loss with respect to companies incorporated in the BVI.

25. RELATED PARTY TRANSACTIONS

Parties are generally considered to be related if one party has the ability to control the other party or can exercise significant influence over the other party in making financial or operational decisions, as defined by IAS 24 "Related Party Disclosures". In considering each possible related party relationship, attention is directed to the substance of the relationship not merely the legal form. Related parties may

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enter into transactions which unrelated parties might not, and transactions between related parties may not be effected on the same terms, conditions and amounts as transactions between unrelated parties.

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

The related parties, who the Group entered into significant transactions with or had significant balances outstanding at 30 June 2016, include the parent, entities under common control with the Group, joint ventures and associates.

As at 30 June 2016 and 31 December 2015 the Group had the following balances with its related parties:

| | 30 June 2016 | 31 December 2015 |
|---|-------------------------|-----------------------------|
| Trade and other accounts receivable | | |
| Entities under common control | 37 746 | 22 415 |
| Loans receivable | | |
| Parent company | 461 052 | 507 248 |
| Entities under common control | 467 400 | 417 817 |
| Short-term deposits | | |
| Entities under common control | 5 008 314 | - |
| Advances paid | | |
| Entities under common control | 6 950 | 11 951 |
| TOTAL ASSETS | 5 981 462 | 959 431 |
| Loans and borrowings | | |
| Parent company | 8 013 | 7 792 |
| Entities under common control | 2 121 400 | 1 899 773 |
| Trade and other accounts payable | | |
| Entities under common control | 40 399 | 16 337 |
| Accounts payable for acquisition of subsidiaries | | |
| Entities under common control | 4 227 120 | 4 118 251 |
| TOTAL LIABILITIES | 6 396 932 | 6 042 153 |

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

| | Six months ended 30 June 2016 | Six months ended 30 June 2015 |
|---|--|--|
| Sales of railcars and inventories | | |
| Entities under common control | 1 687 | 89 862 |
| Sales of electric power | | |
| Entities under common control | - | 426 |
| Income from consulting activities | | |
| Joint venture | 14 439 | 11 087 |
| Entities under common control | 111 | 86 |
| Purchase of inventories for railcar production | | |
| Entities under common control | - | (342 850) |
| Operating lease income/(expense) | | |
| Entities under common control | 678 | (40) |
| Cost of goods sold - other | | |
| Entities under common control | (115) | (97 146) |
| Other income | | |
| Entities under common control | 381 | - |
| Interest income | | |
| Parent company | 14 195 | 218 526 |
| Entities under common control | 23 293 | 10 639 |
| Interest expense | | |
| Parent company | (221) | (220) |
| Entities under common control | (192 744) | - |
| Guarantee costs | | |
| Parent company | (230 000) | - |
| Foreign exchange (loss)/gain | | |
| Parent company | (60 425) | 34 402 |
| Entities under common control | (53 570) | - |

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 2016 equaled to RUB 48 028 thousand (30 June 2015: RUB 41 348 thousand), including RUB 8 685 thousand of social insurance contributions (30 June 2015: RUB 7 961 thousand).

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26. CONTINGENCIES

Capital expenditure commitments

As at 30 June 2016 the Group had contractual capital expenditure commitments in respect of property, plant and equipment totaling RUB 1 862 862 thousand (31 December 2015: RUB 1 774 005 thousand).

Operating leases

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 2016 | 31 December 2015 |
|---|-------------------------|-----------------------------|
| Less than one year | 2 966 214 | 3 066 940 |
| Later than 1 year and not longer than 5 years | 7 024 922 | 8 342 379 |
| Over 5 years | 2 474 819 | 3 114 361 |
| | 12 465 955 | 14 523 680 |

Operating Environment

Emerging markets such as Russia are subject to different risks than more developed markets, including economic, political and social, and legal and legislative risks. Laws and regulations affecting businesses in Russia continue to change rapidly, tax and regulatory frameworks are subject to varying interpretations. The future economic direction of Russia is heavily influenced by the fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

Because Russia produces and exports large volumes of oil and gas, its economy is particularly sensitive to the price of oil and gas on the world market. During 2014-2015 and then in the first quarter of 2016, the oil price decreased significantly, which led to substantial decrease of the Russian Ruble exchange rate.

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.

In the first quarter of 2015 two international credit agencies downgraded Russia's long-term foreign currency sovereign rating to the speculative level with the negative outlook.

The above mentioned events have led to reduced access of the Russian businesses to international capital markets, increased inflation, economic recession and other negative economic consequences. The impact of further economic developments on future operations and financial position of the Group is at this stage difficult to determine.

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Taxation

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

In 2014, amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group foreign subsidiaries, recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Group is formulating its tax planning strategy with regard to the foreign subsidiaries.

Litigation

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.

27. SUBSEQUENT EVENTS

In August 2016, the Group announced that due to various share transfers, including those under REPO transactions, the ownership interest of United Wagon PLC in the Company decreased to 25.05%, and, therefore, United Wagon PLC, being a controlling entity of the Group, had no longer any grounds to exercise control.

As at the date of authorization of these financial statements the structure of the Company's share capital is as follows:

| Shareholders | <u>At 29 August 2016</u> <u>Ownership interest, %</u> |
|---------------------|--|
| United Wagon PLC | 25.05% |
| Shares outstanding | 19.83% |
| Other shareholders | 55.12% |