

RPC UWC Investor Presentation

VTB Capital Investment Forum
"RUSSIA CALLING!"

October 14, 2015

UWC is the leader of innovative railcar manufacturing in the 1520 gauge area



Production of railcars and components



- **No.1** in railcar manufacturing
- Production capacity - **22 ths** railcars per year and **90 ths tonnes** of railcar castings per year
- **The exclusive rights** for production of Barber and Motion Control bogies

- **90 patents** in the CIS
- **> 100** designers and technologists
- **More than 60** railcar modifications by 2018



Operating leasing services



- **TOP 3** in operating leasing
- **No.1** by innovative railcars fleet
- **RUB 18.7 bln** leasing portfolio
- **16.4 ths** railcars owned¹
- **100%** utilization ratio

CLIENT



Cargo transportation services



Service centers



- **>50** service centers in CIS
- Maintenance services
- Maintaining minimal idle time during repair

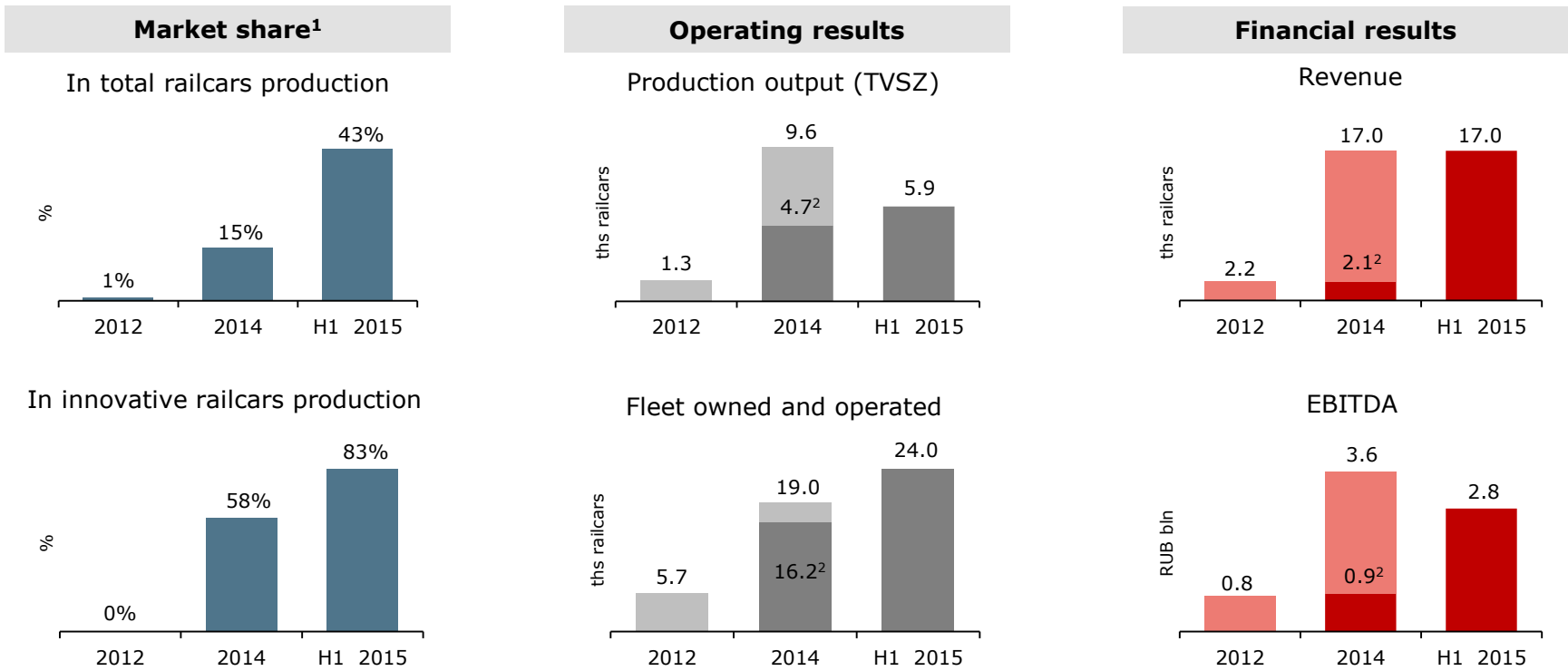
- **№1** by innovative railcars fleet
- **13.3 ths** railcars under operation¹
- The most effective railcar operator²

Notes: (1) As of 30.09.2015 r.; (2) according to H1 2015 results, by ths tkm per 1 car

The history of company development began from designing of railcars. For now UWC is a provider of integrated railcar solutions



Since its launch in 2012, UWC has been maintaining its high rates of growth. Based on the results of 2014 UWC was recognized as the most fast-growing company according to RAEX



Notes: (1) According to "Industrial cargoes", among railcar manufacturers in CIS; (2) H1 2014 results

Superior technical and economic characteristics of UWC's innovative railcars

UWC's innovative railcars equipped with Barber bogies have a number of operational advantages in comparison with analogues and this creates significant economic effect for users and owners of railcars

Technical specifications

Axle load increased
from 23.5 to 25 tons per axle (+6%)
Freight capacity increased
from 69-71 to 75-77 tons (+8-10%)

15% less effect on the railway bed

Scheduled service life increased to
32 years (by 1.5 times)

Scheduled intervals between repairs
doubled

Service life of abrasion-resistant components increased to
1 000 000 km



Economic specifications

Carriage duty reduced by **10%-15%** per tonne of freight

Special empty run tariff system, offering savings up to **30%**

Frequency of fleet overhaul reduced

Life-cycle costs reduced by **50%**

Frequency of breakdowns reduced by **30 times**



Cumulative effect

875 RUB/day

savings
(+180% premium to the current market rate)

New generation railcars earn their owners and lessors an extra 875 RUB/day benefit compared to standard railcars

RUB 2.8 mln

Additional saving made over a railcar's lifecycle based on a discount rate of 12%

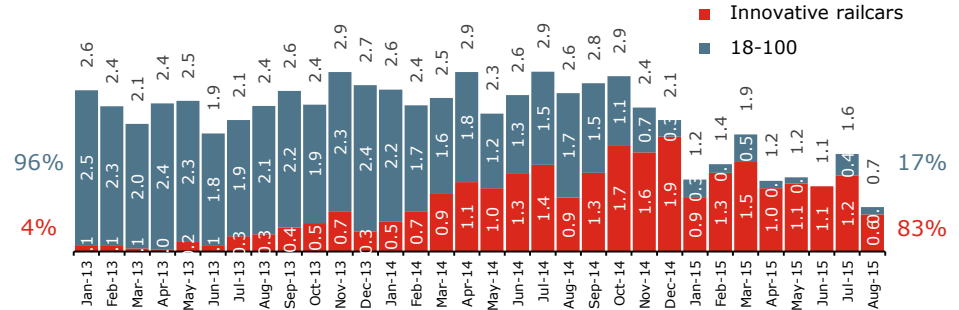


Comments

- In spite of overall railcar production slowdown, production of innovative railcars continues to grow, their share in the Russian plants' output structure exceeded 80% in the third quarter. The UWC's share in production of innovative railcars is about 70%
- The reason for the strong demand is high operating efficiency - two times higher cargo turnover in comparison with old generation railcars
- Economic benefits and technological advantages of innovative railcars are highly appreciated in the market, which is evidenced by a higher lease rate offered by the rolling stocks operators

Innovative railcars are replacing old generation railcars in production structure

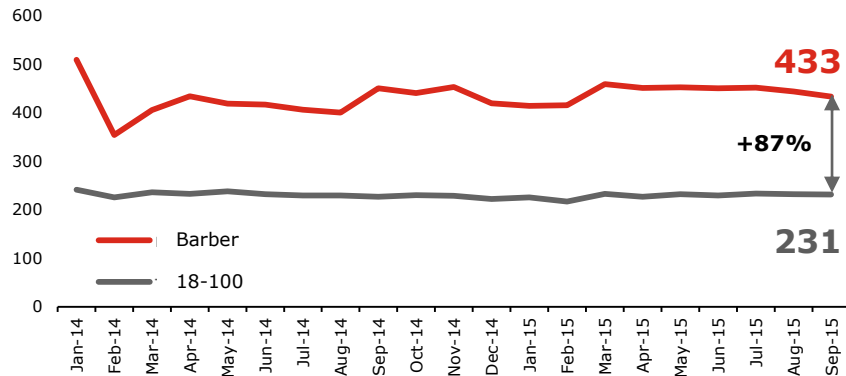
Gondola sales by the CIS plants (ths units)



Source: Industrial Cargoes

Innovative railcars are twice as efficient as old generation railcars

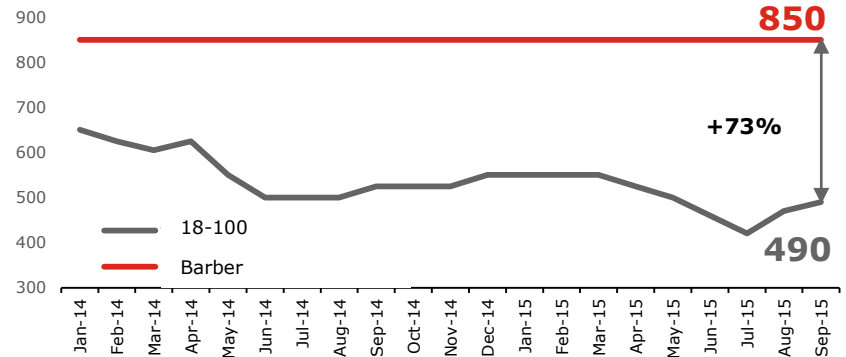
Gondola car operating efficiency on the RZD railway network, ths tkm/month



Source: Company's data

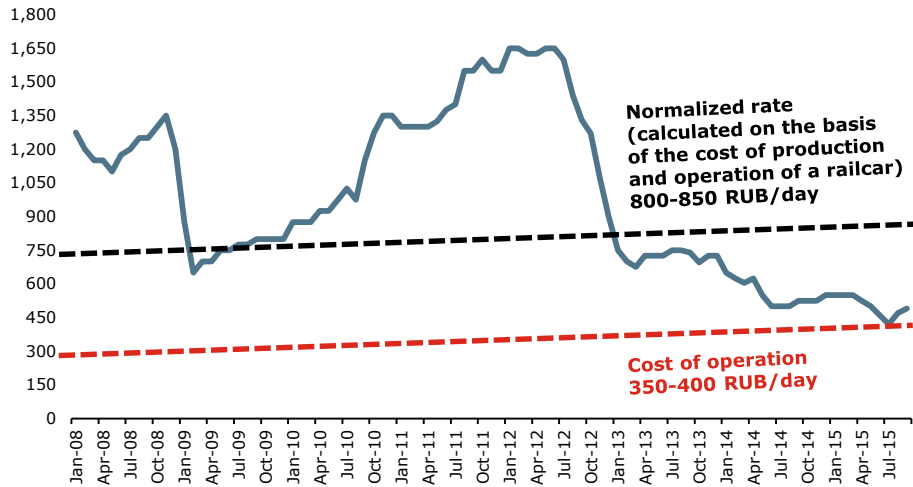
Market daily rate for Barber railcars is above old generation railcars' rate by 50-75%

Lease rate for the innovative gondola car vs market rate



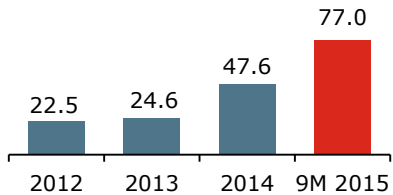
Source: Industrial cargoes, Company's data

Gondola car's rate of return has started growing due to a number of factors

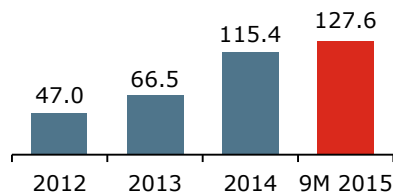


Source: Industrial Cargoes

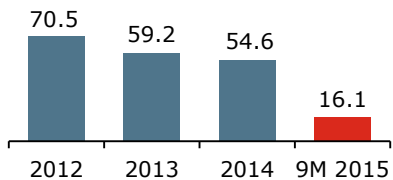
Write-offs, ths units



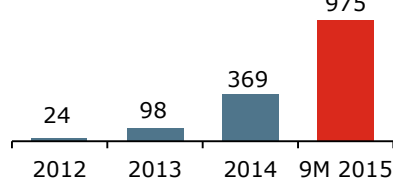
Non-repaired fleet, ths units



Railcars output in Russia, ths units



Coal suppliers' margin, RUB/tonne



Source: INFOline, Industrial Cargoes, RZD, Company`s estimates

- Gondola car market turns to recovery stage due to 4 key factors:
 - Peak old railcars write-offs – around 80 ths per 9 months of 2015 (30-40 ths per year before)
 - Significant amount of non-repaired railcars on the railway network – about 130 ths units
 - Historically minimum railcar output – about 16 ths units, which is less than monthly August 2015 scrapping
 - High coal suppliers' margin due to ruble devaluation – which justifies the option to increase railcar component of the transportation price
- Due to peak write-offs and cargo turnover growth, the local railcar deficit arose in September:
 - RZD announced 15-20 ths railcars deficit in September and expected increase in lease rates for railcars - <http://www.kommersant.ru/doc/2816654>
 - Freight One Company announced railcars deficit in August. The situation became worse in September-October because of seasonal coal transportation growth and laying in winter stocks of iron ore, coal, pellets, dolomite and other cargos at metals&mining companies- <http://www.rzd-partner.ru/news/podvizhnoi-sostav/pgk--defitsit-universalnykh-poluvagonov-prodlitsia-2-3-mesiatsa/>
 - GlobalTrans is experiencing sustainable growth of demand for gondola cars - www.kommersant.ru/doc/2820994
 - UVZ-Logistics raised gondola car rates for construction cargos by 1.5 – 2 times in August 2015 due to the increased demand for rolling stock - <http://www.rzd-partner.ru/news/zheleznodorozhnye-gruzoperevozki/uvz-logistik-v-avguste-2015-g--podniala-stavki-na-predostavlenie-poluvagonov-pod-stroigruzy/>

Government support of the innovative railcar production

Tariff discount for empty run

- Due to reduced impact on railroad infrastructure of innovative railcars, Federal Tariff Service introduced a special tariff scheme for empty run of innovative railcars (including produced by TVSZ)
- Specifically, empty run tariff for innovative gondolas by TVSZ is **10-30% lower** vs old generation railcars

Subsidy for purchase of innovative rolling stock

- The Russian Government established a subsidy for purchase of innovative railcars via indemnifying the interest payments on the loans for purchase of the innovative railcars in the amount of 90% of the discount rate
- The subsidy currently makes **about 200,000 rubles per railcar**

Limitation of railcar lifetime extension




- In August 2014 there were introduced technical regulations requiring the prolongation of railcar life to be mandatorily certified
- Such procedure cost amounts to approximately 875,000 rubles¹, which renders railcar life prolongation economically inefficient
- This resulted in a greater number of old railcars being written off, which triggered growth in demand for innovative rolling stock to replace the old one

Development of heavy haulage traffic in the Eastern Polygon

- RZD is implementing a large-scale project related to increasing the working capacity of the Baikal-Amur mainline and the Trans-Siberian Railway (investment amount of 560 bn rubles)
- One of the priorities is increasing train tonnage, which can be achieved only through operating the "new generation" rolling stock
- The innovative railcar fleet required to implement heavy-haulage transportation in the Eastern Polygon amounts to **175,000 railcars**

Innovations and flexibility at every stage of business provide technical and economic base for UWC's competitive advantages, which support leading positions of the company in production and sales

Production competitive advantages

			
Specializing in production of railcars	✓✓	✓	✓
In-house bogies	✓✓	✓✓	✗
Diversified portfolio of railcars	✓✓	✓✓	✓✓
Own foundry	✓✓	✓✓	✓
State-of-the-art and highly efficient production	✓✓	✗	✗
Own integrated engineering bureau	✓✓	✓✓	✓
Specializing in production of railcars	✓✓	✓✓	✗

Distribution competitive advantages

			
Fleet growth potential	✓✓	✓	✗
Specializing in operational leasing	✓✓	✗	✓✓
Fleet diversification	✓✓	✓	✓✓
Focus on innovative railcars	✓✓	✓	✗

UWC's product offer

- Product development according to client's needs
- Innovative technologies of railcars and components production
- The most effective product¹ with unique technical and economic specifications
- Sales volume guaranty
- Flexible contract terms
- Service and maintenance cost economy
- Broad service centers chain

Notes: (1) according to H1 2015 results, by tkm per 1 car

Key aims

New products design with high value added

Customer base diversification

Operation efficiency increase

Service center chain development

Further expertise in operation services

Initiatives

- Refining existing modifications
- Increasing specialization of rolling stock
- Expanding the range of railcar types manufactured

- Focused work with "growth areas" in the market
- Replacing inefficient railcars
- New routes expansion with Vostok1520 transportation company
- Developing railcars for specific client

- Increasing production flexibility
- Realizing production capacity increase projects
- Realizing cost reduction projects

- Expanding service centers network
- Expanding geographical spread of service centers network
- Raising service centers' competence

- Increasing operation services' share of the economic effect
- Maximizing railcars utilization efficiency
- Modernizing 18-100 railcars cars by their shift to innovative bogies

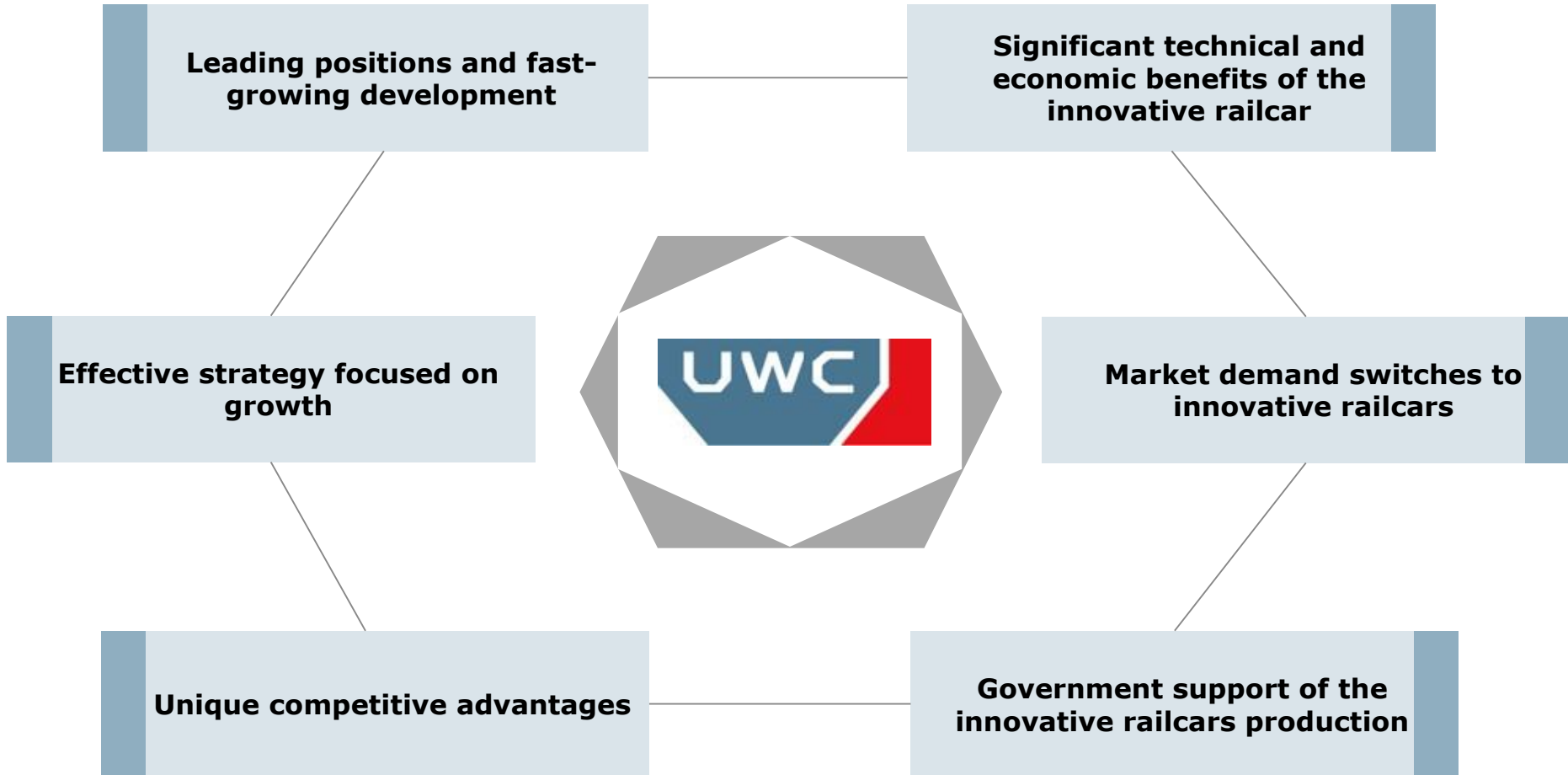
Key numbers

up to 60
railcar modifications by 2018

60,000
railcars – fleet owned and operated in the mid-term

up to 22 ths
railcars per year – production capacity by 2016

55
service centers by 2016



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