

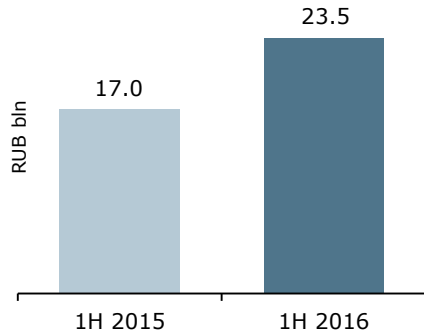
# Research and Production Corporation “United Wagon Company”

## 1H 2016 Financial Results

29 August 2016

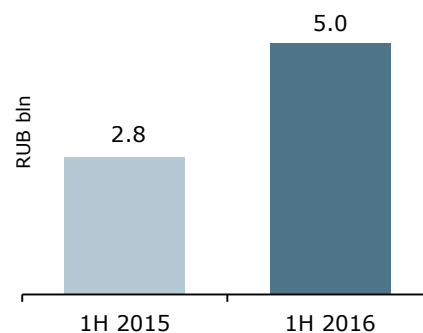
## UWC Revenue

▲ +38%



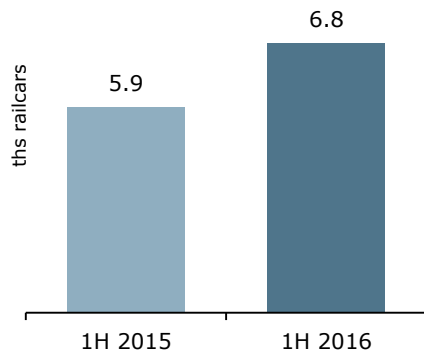
## UWC EBITDA

▲ +82%



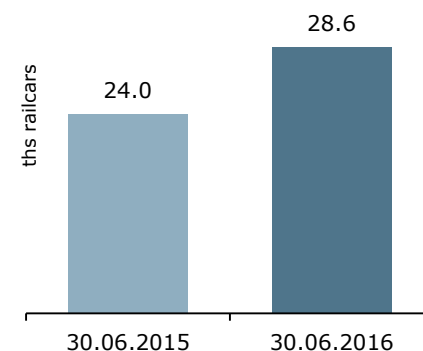
## Production volume

▲ +15%



## Railcar fleet<sup>1</sup>

▲ +19%



## Development of new products

- In the six months of 2016, UWC obtained certificates for the production of 4 new models of railcars. The total number of certified models reached 24

## Customer base diversification

- A number of railcar supply contracts were executed between UWC and the following companies: Russia's largest methanol manufacturer Metafrax, railway operators VM-Trans and Lokotrans, and leasing company BUSINESS ALLIANCE

## Operating efficiency increase

- The company continues to implement projects aimed to enhance the production capacities of its facilities and reduce the cost of production

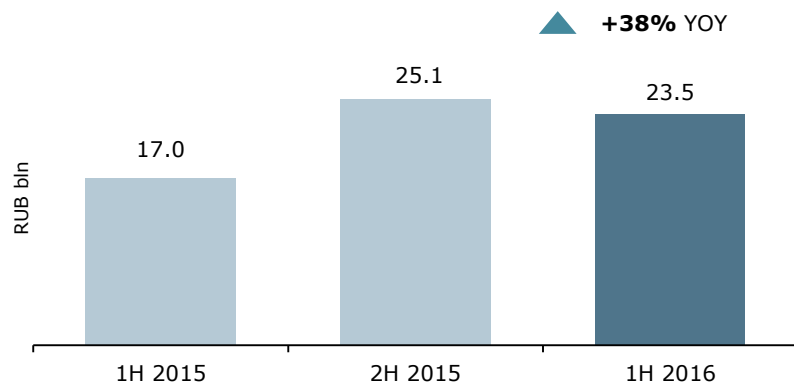
## Service centres network development

- UWC acquired Joint-stock company Tihvin Assembly Plant "Titan-Express", a railcar repair entity with an annual repair and upgrade capacity of more than 3,500 freight cars. "Titan-Express" is the core facility for maintenance of new generation freight cars through their entire life cycle
- Furthermore, the company opened 3 service centres in 1H, their total number reaching 54

Source: Company' data, Company's IFRS statements

Notes: (1) Fleet owned and under operation

## UWC Revenue

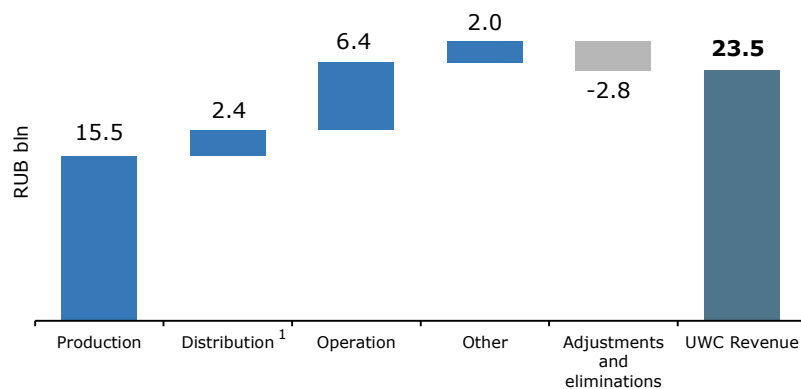


■ The 1H 2016 revenue was RUB 23.5 billion, an 38% increase compared to the same period in 2015

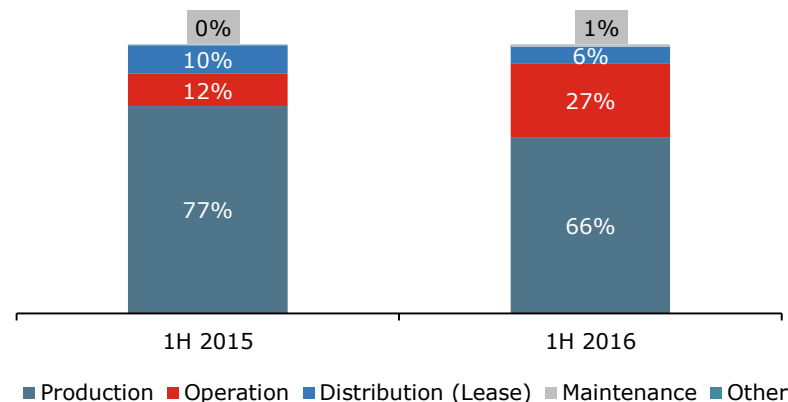
■ The annual growth was due to the following factors:

- More sales of railcars to third parties
- Growing market prices of the products
- Expanding fleet controlled by Vostok1520
- Increasing operation rates

## UWC Consolidated Revenue Reconciliation



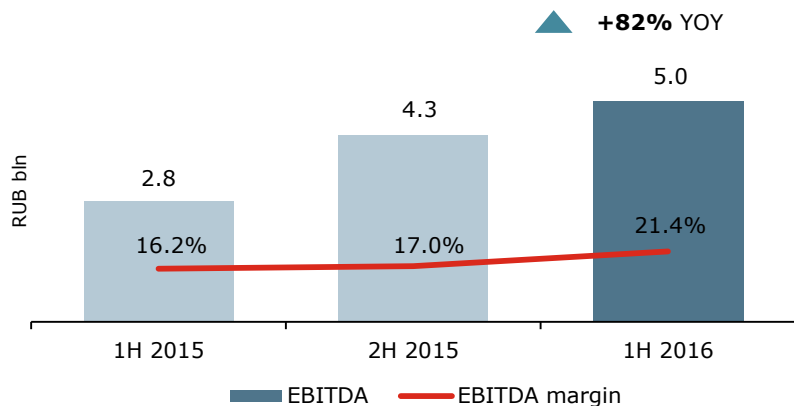
## UWC Revenue Breakdown By Segment<sup>2</sup>



Source: Company's IFRS statements

**Note:** (1) The Distribution division deals with operating lease of railcars; (2) Including adjustments and eliminations

## UWC's EBITDA

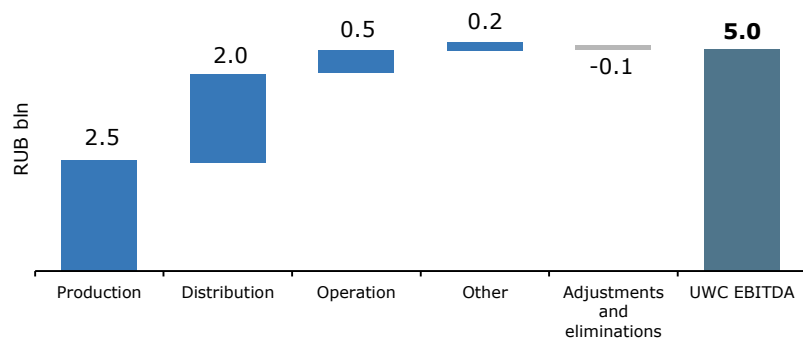


■ In 1H 2016, the Company's EBITDA was RUB 5.0 billion, gaining 82% over the year

■ EBITDA was largely contributed by the Production and Sales divisions. The indicator showed growth in the reporting period due to the growing EBITDAs in the Production and Sales divisions

■ The EBITDA margin gained 5.2 pp to 21.4% boosted by higher operation efficiency in all business segments

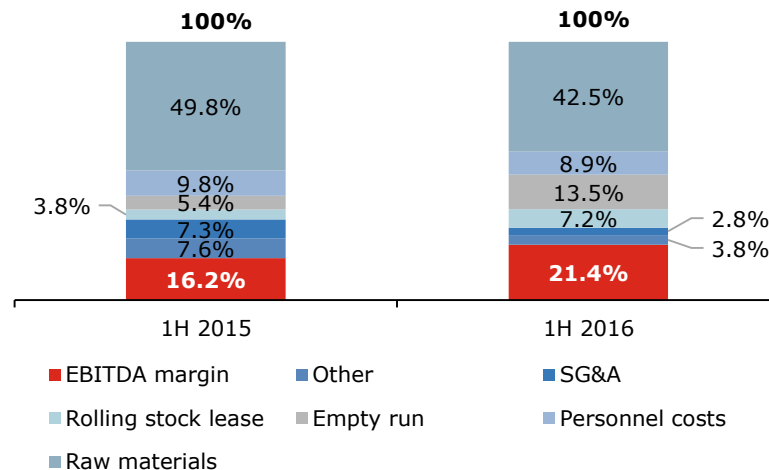
## UWC's Consolidated EBITDA Reconciliation



Source: Company's IFRS statements

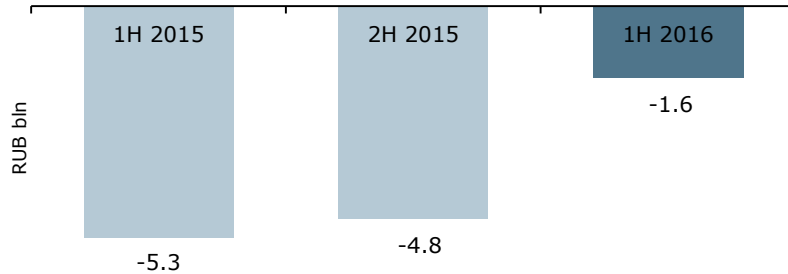
## EBITDA margin factor analysis

As % of revenue



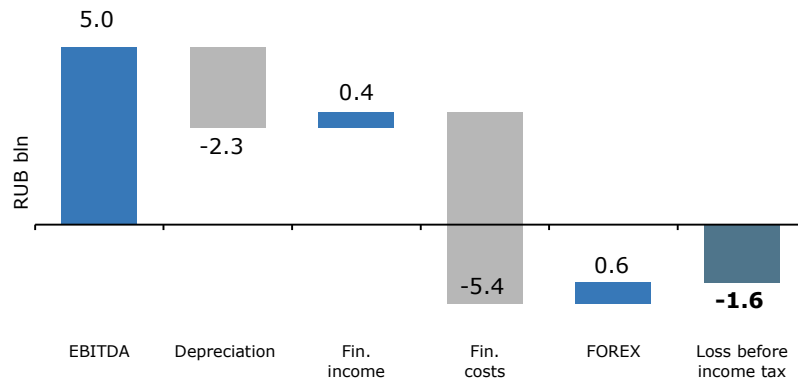
# UWC Financial Results: Loss Before Income Tax

## UWC's Loss Before Income Tax

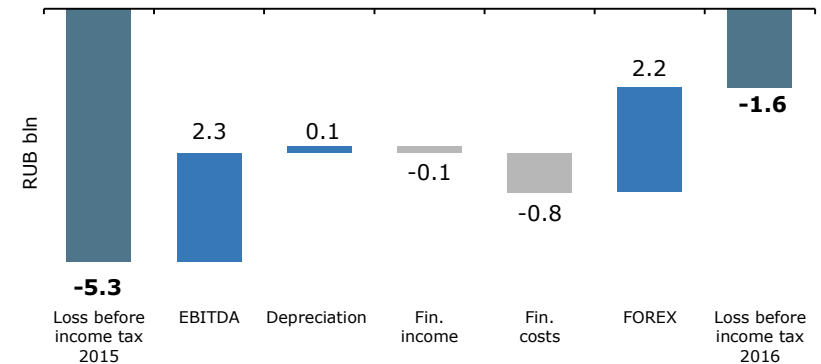


- In the reporting period, UWC had a much smaller loss before tax than in the preceding periods
- The positive dynamics was due to the consolidated EBITDA gains. Furthermore, 2015 loss was materially contributed by exchange differences, which was not the case in 2016
- The loss before tax mostly included non-monetary amortization expenses and interest expenses on borrowings and bonds

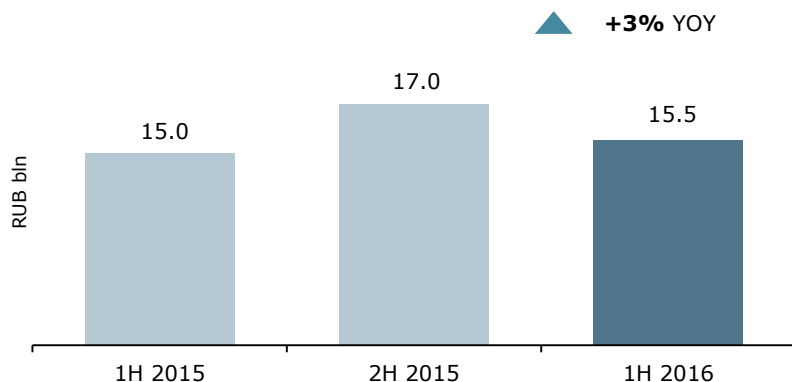
## UWC's Loss Before Income Tax Reconciliation



## Loss Before Income Tax Dynamics Factor Analysis

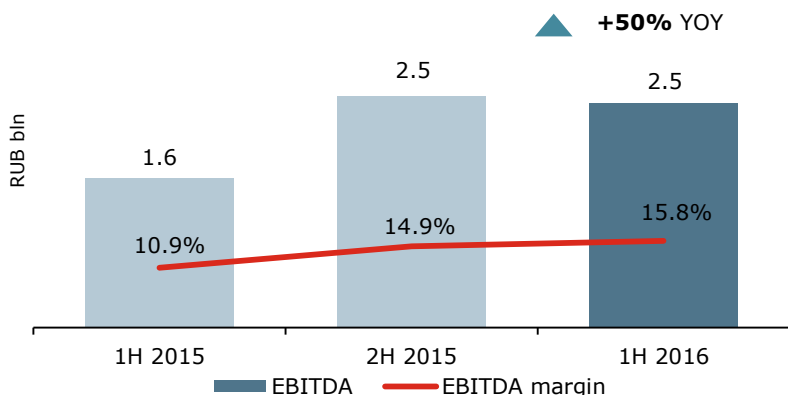


## Production Division Revenue



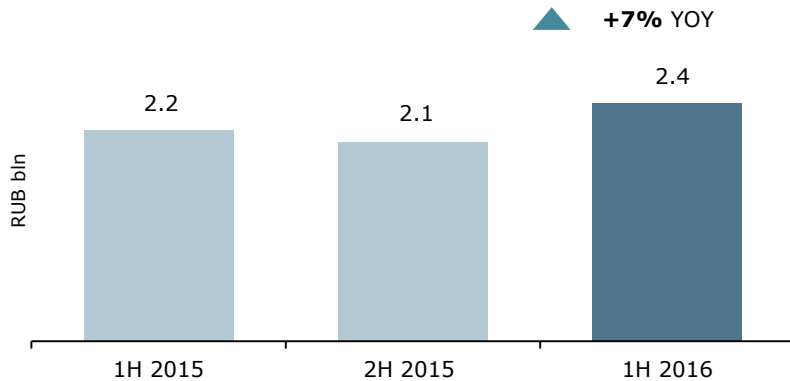
- The 1H 2016 Production revenue showed an annual growth of 3% to RUB 15.5 billion
- Low revenue growth rates against the railcar production output was due to the fact that in 1H 2015 TVSZ sold 1,207 railcars to TH "UWC" for selling them further to customers, which is to take place in 3Q 2016. Therefore, the revenue from the sale of these railcars will only be recognised after they have been actually sold by TH "UWC"
- Smaller revenue in the reporting period compared to the previous six months was due to the fact that in 2H 2015 some extra revenue was received from selling RAIL1520 railcars to third parties, due to the growing demand for new generation railcars

## Production Division EBITDA



- The production EBITDA grew 50% to RUB 2.5 billion
- The segment's EBITDA margin gained 4.9 pp to 15.8% owing to:
  - Enhanced production capacity
  - Measures taken to reduce the cost of production

## Distribution Division Revenue



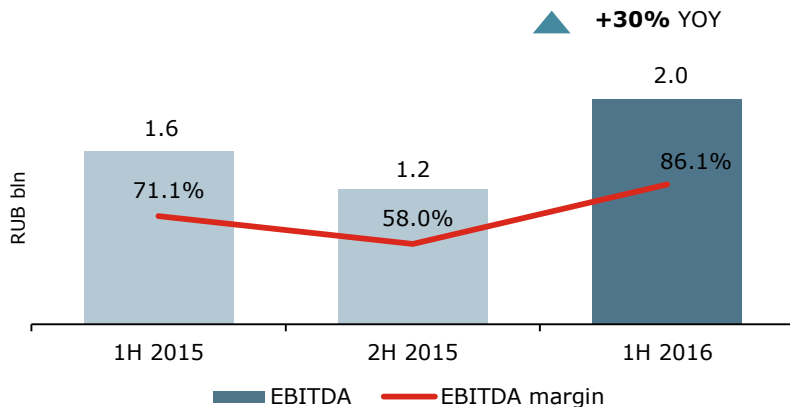
- The the Sales revenue for railcar operating lease grew 7% YOY to RUB 2.4 billion as UWC’s leasing companies expanded their fleet

- The segment’s EBITDA grew 30% to RUB 2 billion

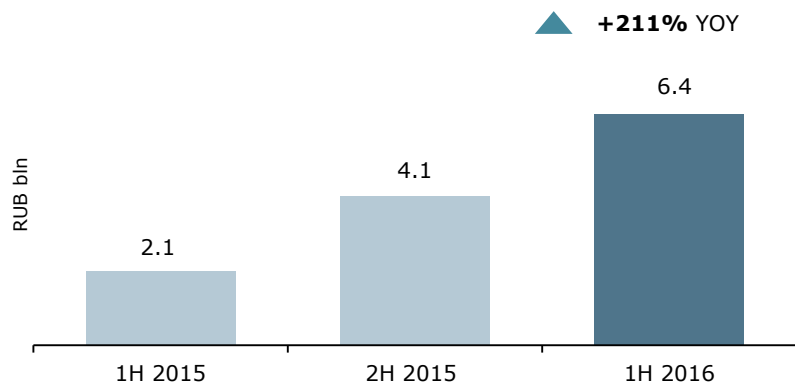
- The EBITDA margin gained 15 pp to 86.1% compared to 1H 2015

- In 2H 2015, the Company recorded an allowance for doubtful accounts, which affected the EBITDA dynamics and the margin. In 1H 2016, the Company reversed RUB 193 million from the allowance

## Distribution Division EBITDA

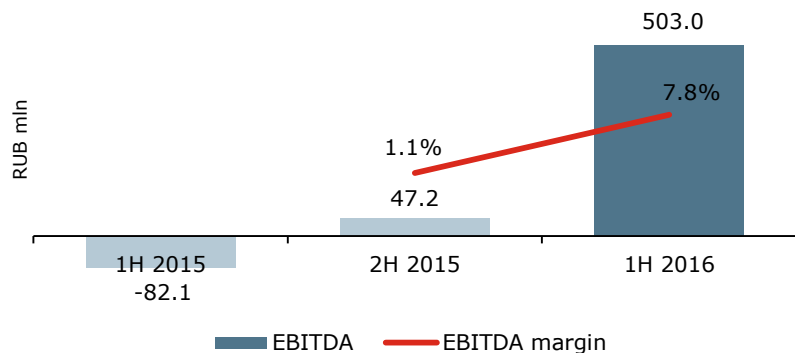


## Operation Division Revenue



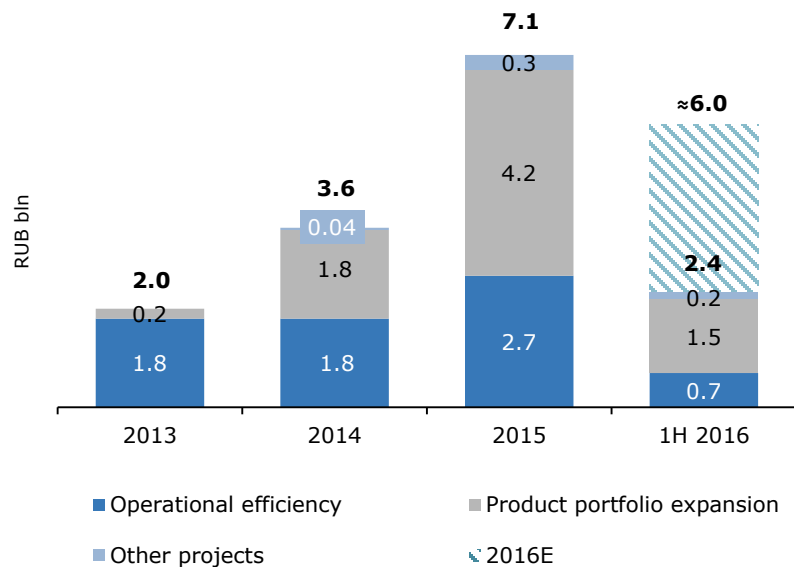
- The revenue for the Operation division represented by transportation company Vostok1520 increased 211% YOY, brought on by a significant growth of the average size of the fleet under control (+148% YOY), higher railcar efficiency and operation rates
- The segment showed positive EBITDA in the reporting period, a contrast to the last year's negative performance, the margin growing to 7.8%. The positive dynamics was due to a higher yield per railcar and more turnaround of rolling stock

## Operation Division EBITDA





## CAPEX Structure and Dynamics<sup>2,3</sup>



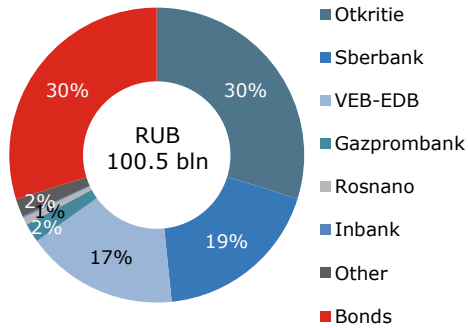
Source: Company's management accounts

- There have been no material changes to the capital expenditures program since the end of 2015. A part of investments was carried forward to 2017, which resulted in a reduction of the 2016 plan
- Most of the 2016 expenses were incurred in connection with the implementation of strategies aiming to expand the product assortment, and achieve a higher capacity, flexibility and operating efficiency of the production process
- The share of costs in foreign currency is some 50%, with most of the costs related to purchases of product, plant and equipment abroad. The remaining 50% includes ruble-denominated costs of construction and installation

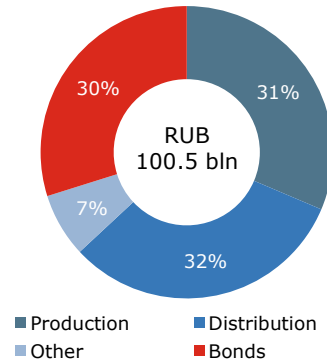
**Notes:** (1) Excluding investments in the acquisition of railcars by Distribution division; (2) Excluding VAT; (3) Excluding mergers and acquisitions

## Debt Portfolio Structure

By lender



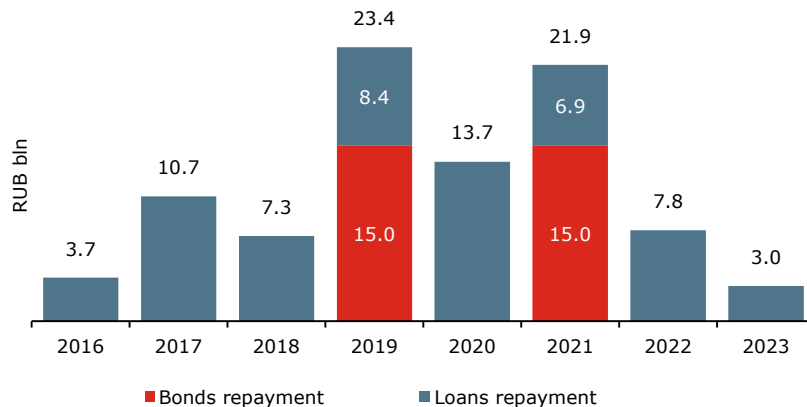
By segment



## Debt Optimisation

- In May 2016, UWC successfully completed its SPO raising a total of RUB 5.0 billion. The investments will be used for the purposes of developing the business and reducing the debt.
- In the reporting period, as resolved by the bond holders, the maturity of UWC Finance's Series 01 bonds for a total amount of RUB 15 billion was prolonged from 2016 to 2021.
- While the Company continues collaborating with its current lenders, it is developing partnerships with other large Russian and international banks.

## Principal Repayment Schedule<sup>1</sup>



Source: Company's management accounts

Notes: (1) Excluding working capital loan in the amount of RUB 9 bln

# **Attachment**

## Financial Statements

# UWC's Profit and Loss Statement

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| RUB ths                                                   | 1H 2015            | 1H 2016            |
|-----------------------------------------------------------|--------------------|--------------------|
| <b>Revenue</b>                                            | <b>17,028,353</b>  | <b>23,533,250</b>  |
| Cost of sales, incl.                                      | (15,456,078)       | (20,394,802)       |
| Raw materials                                             | (8,473,007)        | (9,991,968)        |
| Empty run                                                 | (924,158)          | (3,173,304)        |
| Depreciation and amortization                             | (2,413,735)        | (2,282,473)        |
| Payroll and social funds                                  | (1,665,043)        | 2,094,337          |
| Operating lease                                           | (651,132)          | (1,684,266)        |
| Property tax                                              | (321,863)          | (328,057)          |
| Maintenance and repairs                                   | (144,869)          | (172,600)          |
| Other                                                     | (862,271)          | (667,797)          |
| <b>Gross profit</b>                                       | <b>1,572,275</b>   | <b>3,138,448</b>   |
| Selling, general and administrative expenses              | (1,270,824)        | (668,530)          |
| Share of profit / (loss) of associates and joint ventures | (2,622)            | 89,772             |
| Other operating income                                    | 31,302             | 187,021            |
| <b>Operating profit</b>                                   | <b>330,131</b>     | <b>2,746,711</b>   |
| Finance income                                            | 585,927            | 448,202            |
| Finance costs                                             | (4,626,139)        | (5,448,202)        |
| Foreign exchange (loss)/income                            | (1,584,576)        | 610,198            |
| <b>Loss before income tax</b>                             | <b>(5,294,657)</b> | <b>(1,643,091)</b> |
| Income tax benefit                                        | 150,729            | (351,511)          |
| <b>Net profit/(loss) for the year</b>                     | <b>(5,143,928)</b> | <b>(1,994,602)</b> |

| RUB ths                                    | 31.12.2015         | 30.06.2016         |
|--------------------------------------------|--------------------|--------------------|
| <b>ASSETS</b>                              |                    |                    |
| <b>Non-current assets</b>                  |                    |                    |
| Property, plant and equipment              | 71,428,836         | 71,428,023         |
| Prepayments for non-current assets         | 1,029,400          | 1,538,752          |
| Intangible assets                          | 5,021,518          | 5,282,076          |
| Goodwill                                   | 8,971,232          | 8,971,232          |
| Deferred tax assets                        | 2,643,706          | 2,482,881          |
| Investment in joint ventures               | 752,501            | 1,207,844          |
| Loans receivable                           | 1,353,829          | 2,365,202          |
| Finance lease receivables                  | 243,665            | 233,961            |
| Cash restricted                            | 1,781,709          | 1,781,709          |
| <b>Total non-current assets</b>            | <b>93,226,396</b>  | <b>95,291,680</b>  |
| <b>Current assets</b>                      |                    |                    |
| Inventories                                | 8,524,986          | 14,601,431         |
| Trade and other accounts receivables       | 4,020,587          | 1,804,473          |
| Loans receivable                           | 5,187,614          | 81,642             |
| Bank deposits                              | -                  | 10,008,314         |
| Prepayments for suppliers and other assets | 1,566,070          | 1,426,802          |
| VAT receivable                             | 4,150,385          | 5,146,158          |
| Cash and cash equivalents                  | 3,207,466          | 1,768,842          |
| <b>Total current assets</b>                | <b>26,657,108</b>  | <b>34,837,662</b>  |
| <b>TOTAL ASSETS</b>                        | <b>119,883,504</b> | <b>130,129,342</b> |

| RUB ths                                         | 31.12.2015         | 30.06.2016         |
|-------------------------------------------------|--------------------|--------------------|
| <b>EQUITY AND LIABILITIES</b>                   |                    |                    |
| Share capital issued                            | 105,556            | 113,424            |
| Additional paid-in capital                      | 16,158,720         | 21,178,905         |
| Accumulated loss                                | (14,644,817)       | (16,639,419)       |
| Non-controlling interests                       | 652                | -                  |
| <b>Total equity</b>                             | <b>1,620,111</b>   | <b>4,652,910</b>   |
| <b>Non-current liabilities</b>                  |                    |                    |
| Borrowings                                      | 55,835,462         | 50,693,073         |
| Bonds – non-current portion                     | 15,000,000         | 30,000,000         |
| Deferred tax liabilities                        | 915,953            | 972,657            |
| Other liabilities                               | 190,300            | 219,605            |
| <b>Total non-current liabilities</b>            | <b>71,941,715</b>  | <b>81,885,335</b>  |
| <b>Current liabilities</b>                      |                    |                    |
| Borrowings                                      | 15,286,129         | 20,311,994         |
| Trade and other payables                        | 12,697,270         | 14,523,766         |
| Advances received and other current liabilities | 4,231,504          | 7,927,184          |
| Finance lease – current portion                 | 2,825              | 2,719              |
| Bonds – current portion                         | 14,103,950         | 825,434            |
| <b>Total current liabilities</b>                | <b>46,321,678</b>  | <b>43,591,097</b>  |
| <b>TOTAL LIABILITIES</b>                        | <b>118,263,393</b> | <b>125,476,432</b> |
| <b>TOTAL EQUITY AND LIABILITIES</b>             | <b>119,883,504</b> | <b>130,129,342</b> |

# UWC Cash Flow Statement

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| RUB ths                                                            | 1H 2015            | 1H 2016            |
|--------------------------------------------------------------------|--------------------|--------------------|
| <b>Operating activities</b>                                        |                    |                    |
| Loss before tax                                                    | (5,294,657)        | (1,643,091)        |
| Depreciation and amortization                                      | 2,521,256          | 2,298,887          |
| Non-operating foreign exchange (gain)/loss, net                    | 1,584,576          | (610,198)          |
| Finance costs/(income), net                                        | 4,054,305          | 5,000,000          |
| Other                                                              | (1,860)            | (285,779)          |
| Working capital changes                                            | 6,575,468          | 1,550,797          |
| <b>Cash from / (used in) operations</b>                            | <b>9,439,088</b>   | <b>6,310,616</b>   |
| Income tax paid                                                    | (39,806)           | (254,222)          |
| Finance costs paid                                                 | (4,293,625)        | (5,007,285)        |
| <b>Net cash generated by operating activities</b>                  | <b>5,105,657</b>   | <b>1,049,109</b>   |
| <b>Investing activities</b>                                        |                    |                    |
| Payments for property, plant, equipment and intangible assets, net | (4,200,824)        | (3,885,167)        |
| Loans granted                                                      | (14,151,247)       | (1,093,983)        |
| Short-term deposits                                                | -                  | (10,000,000)       |
| Cash proceeds from redemption of loans granted                     | 13,767,918         | 4,991,293          |
| Interest received                                                  | 583,832            | 531,363            |
| Net cash outflow on acquisition of subsidiaries and joint ventures | (199,010)          | (365,571)          |
| <b>Net cash used in investing activities</b>                       | <b>(4,199,331)</b> | <b>(9,822,065)</b> |
| <b>Financing activities</b>                                        |                    |                    |
| Shareholder's capital contribution, net                            | 3,735,459          | 5,028,053          |
| Proceeds from borrowings and issuance of bonds                     | 4,029,645          | 2,813,043          |
| Repayment of borrowings                                            | (5,163,879)        | (2,081,892)        |
| Purchase/(sale) of own bonds                                       | (2,748,991)        | 1,683,800          |
| Other                                                              | (10,838)           | (660)              |
| <b>Net cash used in financing activities</b>                       | <b>(158,604)</b>   | <b>7,442,344</b>   |
| <b>Net cash flow</b>                                               | <b>747,722</b>     | <b>(1,330,612)</b> |

Source: Company's IFRS statements

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