



UNITED
WAGON
COMPANY

NEW GENERATION LEADER

Annual Report and
Financial Statements for 2015



NEW GENERATION LEADER

Public Joint Stock Company “Research and Production Corporation “United Wagon Company” (UWC) is the leader in the production of new generation railcars in the 1,520 track gauge area. The company is an integrated railway holding structure engaged in production, transportation, operational leasing, engineering and servicing of freight cars.

No. 1

by the production of new generation railcars

No. 1

by the fleet of new generation railcars

TOP 3

in the operational leasing market

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STRATEGIC REPORT

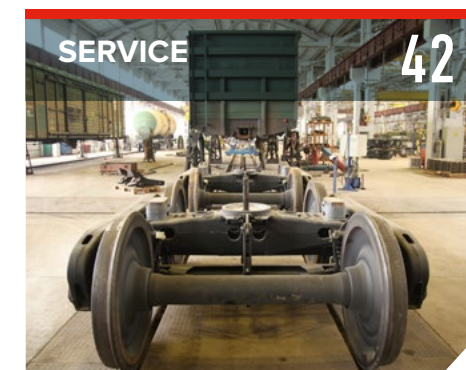
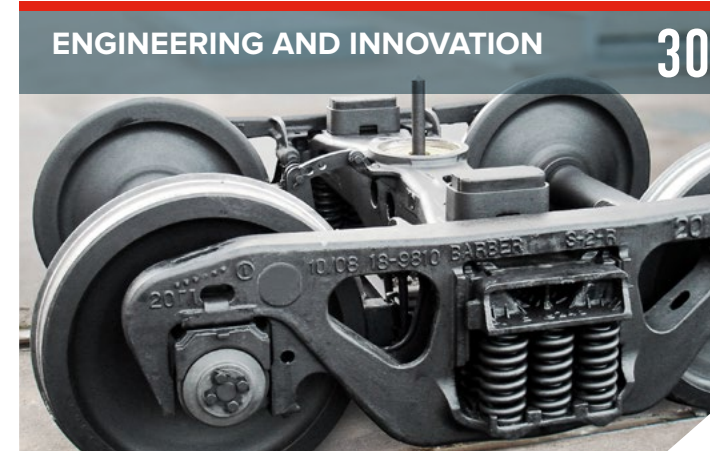
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ABOUT THE COMPANY

UWC manufactures and distributes freight railcars with improved technical and economic characteristics, taking a leading position in their production in Russia and other CIS countries. The new generation rolling stock is characterised by higher capacity, longer life, operational reliability and lower life cycle costs, which determines its economic advantage in comparison with the railcars based on the old generation bogies.



ENGINEERING

>> All-Union Research and Development Centre for Transportation Technology (VNICTT) ensures the development of new models of railcars and their production technology. UWC owns the intellectual property rights on the technologies of two leading manufacturers of bogies – Barber S-2-R (Wabtec, USA) and Motion Control (Amsted Rail, USA), their production and sale in Russia and other CIS countries. [Read more on p. 30.](#)

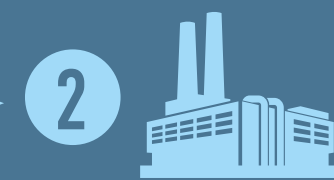
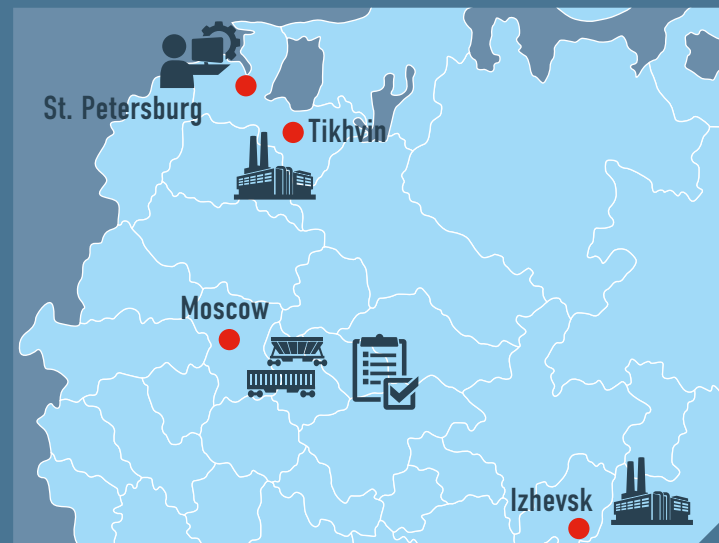
>200

patents in Russia and other CIS countries

>140

designers with experience in leading research centres and high-tech engineering and car building plants

GEOGRAPHY OF UWC PRESENCE



PRODUCTION

>> The main UWC's production asset is Tikhvin Freight Car Building Plant (TVSZ) located on the industrial site in the city of Tikhvin, Leningrad region. TikhvinChemMash is also situated there. It was launched in 2015 to produce new generation tank cars. The company is developing joint ventures with Wabtec and Timken (USA) to produce innovative components for railcars. In Izhevsk, NPC "Springs" is located, which fully meets the needs of UWC in heavy-duty springs. [Read more on p. 32.](#)

45.6%

share in railcar manufacture in Russia

UP TO 22 thou. railcars per year – planned production capacity in 2016



SALES

>> UWC uses multiple channels to sell its innovative railcars, which ensures the efficiency of work in all market conditions. One of the key areas is operational leasing. RAIL1520 group of leasing companies, part of UWC, is among the three leading players in the operational leasing market. [Read more on p. 38.](#)

TOP 3

in the operational lease market

16 thou.

railcars owned



OPERATION

>> UWC provides services of rolling stock operating through Vostok1520, a transportation company. The company provides a new generation railcar fleet for loading and perfects heavy-haul traffic technologies. [Read more on p. 40.](#)

No. 1

by the fleet of new generation cars

15.5 thou.

railcars under operation



SERVICE

>> The network of service centres based at railcar repair depots in Russia, Kazakhstan, and Belarus provides maintenance and planned overhaul services for new generation railcars produced by UWC. [Read more on p. 42.](#)

19

new service centres joined the partner network in 2015

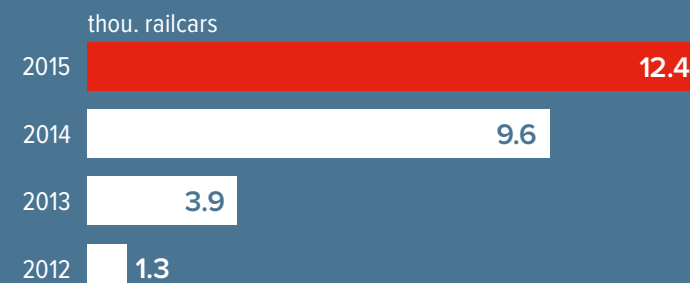
51

service centres in Russia and other CIS countries

IN 2015 UWC REVENUE INCREASED BY 147%



IN 2015 UWC PRODUCTION VOLUME GREW BY 28%



KEY EVENTS

IPO AND SHARE CAPITAL



April 2015

The company held an IPO

On April 30, UWC announced the completion of the initial public offering (IPO) of its ordinary shares on the Moscow Exchange. Under the offering, 12.22% of shares amounting to 9.028 bln roubles was sold. Based on the established price of 700 roubles per share, the Company's market capitalisation reached 73.9 bln roubles.

More than 50 Russian and foreign investors participated in UWC's IPO.

July 2015

UWC changed the composition of its shareholders

The share of ICT Holding Ltd., the main shareholder of UWC, (holding shares in the Company through United Wagon Plc) decreased to 74.71%. The share of RONIN Trust was 13.1%. The change in shareholding was the result of transactions that took place on the Moscow Exchange.

May 2016

UWC SPO

UWC completed a secondary public offer (SPO). The company placed 7,867,948 shares or 6.9% of the increased authorised capital for a total amount of more than 5.0 bln roubles.

NEW VENTURES



December 2015

TikhvinChemMash Launched

UWC launched a new transport engineering company producing new generation tank cars – TikhvinChemMash. Production capacity is up to 3.6 thousand railcars per year. The plant will produce more than 15 models and modifications of tank cars.

Acquisition of Transmashenergo

UWC acquired a 100% stake in Transmashenergo, the customer in the construction of a gas piston thermal power plant. Our own CHP will ensure the energy security of UWC's production facilities within the Tikhvin industrial site.

March 2016

Acquisition of TSZ Titran Express

As part of the strategy to diversify the business, UWC acquired 100% stake in Tikhvin Assembling Plant Titran Express (TSZ Titran Express). The design capacity of the facility allows for repair and modernisation of more than 3.5 thou. freight cars per year.

NEW MAJOR CONTRACTS



April 2015

Agreement of Intent with Logistics 1520

UWC and rail operator Logistics 1520 agreed on the supply of up to 600 new 19-9549 grain hopper cars with improved technical and economic characteristics.

June 2015

Strategic partnership with Technotrans

UWC and rail operator Technotrans announced a strategic partnership and signed an agreement of intent to supply 500 grain hoppers with improved technical and economic characteristics.

July 2015

Agreement with Eurosis SPb – Transportation Systems

UWC and Eurosis SPb – Transportation Systems, one of the leading private railway operators in Russia, signed an agreement on the transfer of up to 1 thou. innovative heavy-duty timber flatcars.

September 2015

Agreement with Eurosis SPb – Transportation Systems

UWC and Eurosis SPb – Transportation Systems signed an agreement on the supply of up to 600 60-foot timber cars and up to 100 box-cars with improved technical and economic characteristics.

Export Contract with Wabtec Corporation

UWC and the global supplier of railway high-tech products, Wabtec Corporation (USA), signed an export contract for the supply of railcar casting production.

December 2015

Contract with Uralkali

UWC and Uralkali, the world's largest potash fertiliser producer, signed a contract for the supply of 400 mineral hoppers.

January 2016

Agreement with VM-Trans

UWC and rail operator VM-Trans agreed to supply up to 3 thou. new generation freight cars of various types. The shipment of freight cars started in Q1 2016.

February 2016

NPC "Springs" entered export markets

NPC "Springs" started to deliver its products to the USA. The prospective volume of shipments is expected to reach 20 thou. car spring sets per year.

March 2016

Agreement with Metafrax

Metafrax, Russia's largest producer and exporter of methanol, purchased from UWC 134 new generation tank cars for transportation of methanol.

April 2016

Agreement with Logistics 1520

Under the agreement, Logistics 1520 will get up to 300 flatcars to transport logs and timber and up to 400 box-cars. The shipments of finished products will begin in the second half of 2016.

Contract with BUSINESS ALLIANCE

UWC and leasing company BUSINESS ALLIANCE JSC signed a contract for the supply of a new generation of universal gondolas for 5.9 bln roubles. Shipments started in Q2 2016.

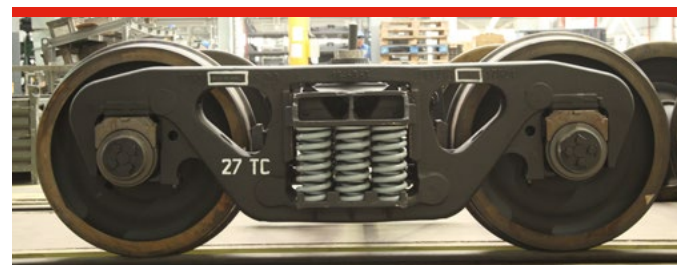
PROMISING PRODUCTS



February 2016

UWC introduces a new generation of railcars for heavy-haul traffic

UWC introduced full-scale samples of articulated gondolas with the body volume of 135 m³ and versatile gondolas with the body volume of 108 m³, having no analogues in Russia and other CIS countries.



April 2016

UWC introduces a new generation of freight bogies

At the International Transport and Logistics Exhibition and Conference TransRussia 2016, UWC introduced the next generation of chassis with an axle load of 27 tf.

2015 HIGHLIGHTS

Since its launch in 2012, UWC has been demonstrating high growth rates. In the reporting year, the Company strengthened its leading positions in the railcar building market, and by using its unique competitive advantages, successfully continued to increase operational and financial performance.

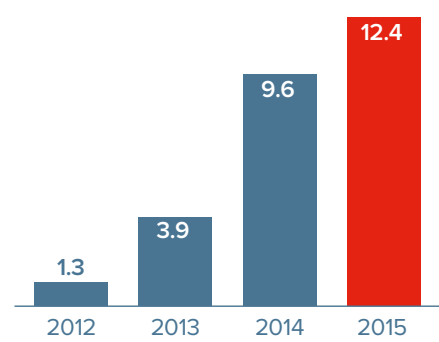
27.2
THOU. UNITS
railcar fleet

22.0
THOU. UNITS
annual planned railcar
production capacity

45.6%
share
in the manufacture of
railcars in Russia

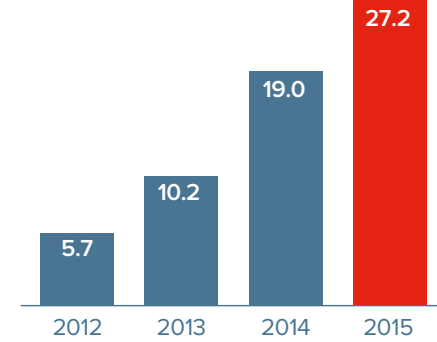
SUSTAINABLE PERFORMANCE INDICATORS CONFIRM THE EFFECTIVENESS OF THE STRATEGY

RAILCAR PRODUCTION, THOU. UNITS



12.4 thou. railcars were produced in 2015

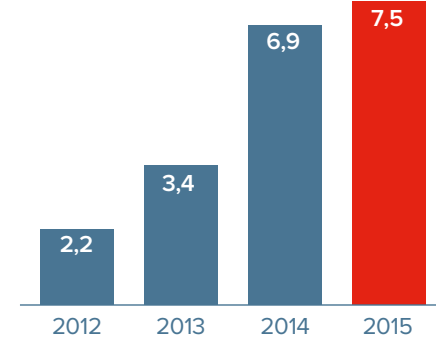
RAILCAR FLEET, THOU. UNITS*



27.2 thou. railcars – UWC fleet in 2015

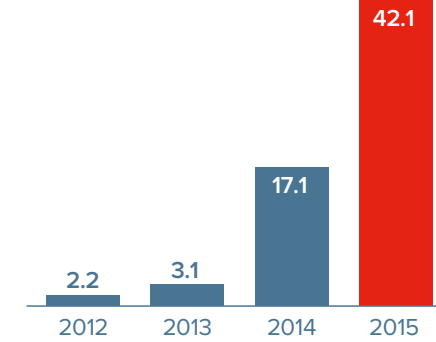
* Owned and operated.

AVERAGE HEADCOUNT, THOU. PEOPLE



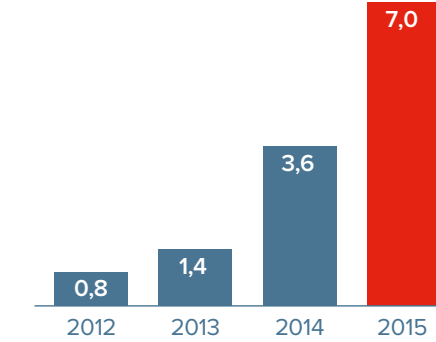
7.5 thou. people – UWC headcount in 2015

REVENUE, RUB BLN



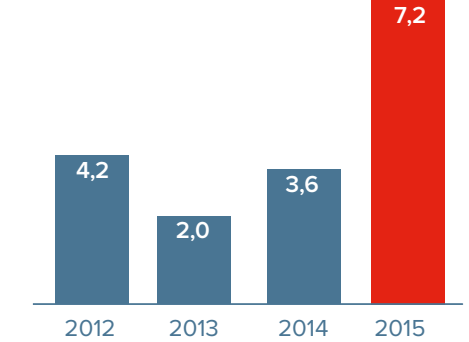
42.1 RUB bln – UWC revenue in 2015

EBITDA, RUB BLN



7.0 RUB bln – UWC EBITDA in 2015

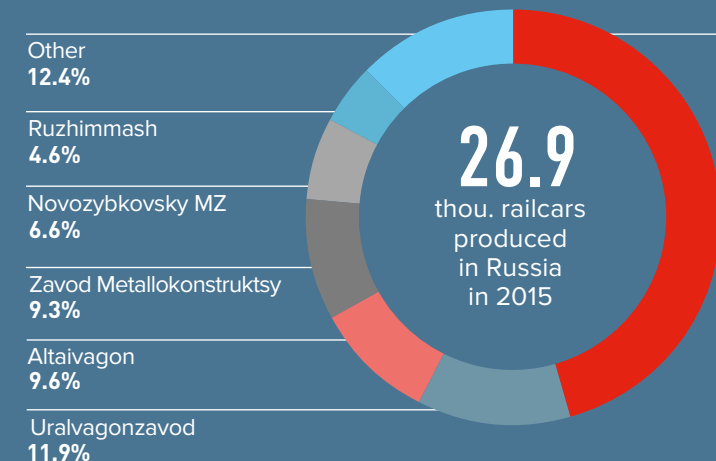
INVESTMENTS, RUB BLN



7.2 RUB bln – investments in 2015

UWC IS THE LEADER IN THE PRODUCTION OF RAILCARS AND OPERATIONAL LEASING

THE LARGEST RUSSIAN RAILCAR MANUFACTURERS IN 2015*



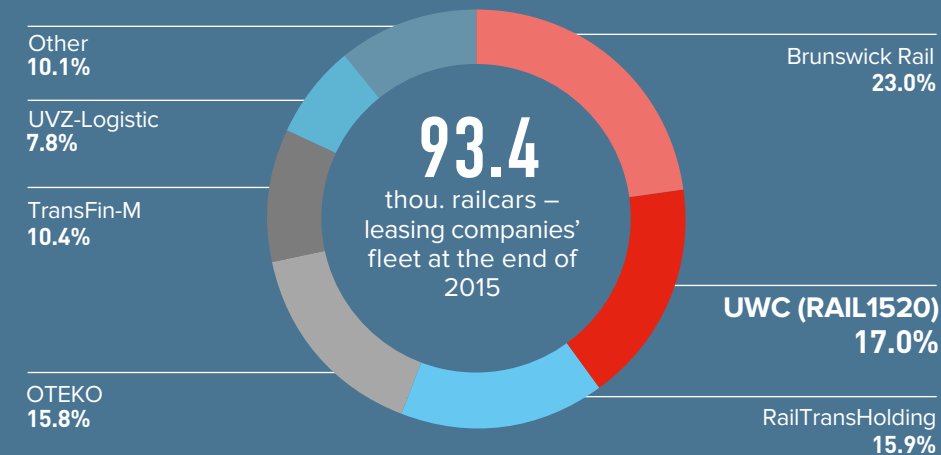
UWC (TVSZ)
45.6%

26.9
thou. railcars produced in Russia in 2015

In 2015, the sales of railcars in the Russian Federation amounted to about 27 thou. units, which is almost 2 times lower than the 2014 level. The share of innovative railcars in total sales increased to 55% and to 80% in the gondola segment. The sales volume decreased due to the reduced production volumes of older generation railcars (which use the 18–100 bogie and its analogues) – in this segment, indicators fell by 70%. The reason for changed demand are high economic and technological characteristics of innovative cars. See the “Railway market” section on p. 26

* According to the Industrial Cargoes magazine.

UWC SHARE IN THE OPERATIONAL LEASING MARKET*



93.4
thou. railcars – leasing companies' fleet at the end of 2015

UWC (RAIL1520)
17.0%

At the end of 2015, UWC possessed one of the youngest fleet of freight rolling stock in Russia – the average age of the railcars did not exceed 1.9 years. Coefficient of rolling stock utilisation was 100% in 2015 – all owned railcars were leased, which confirms the competitiveness of new generation railcars and their high economic benefits for consignors. See the “Sales” section on p. 38

* According to INFOline information and analytical agency.

NEW GENERATION CARS BASED ON THE BARBER BOGIE

UWC's new generation railcars are characterised by high capacity, reduced impact on the railway bed, increased service life and operational reliability, which brings additional savings to customers.

Barber bogie was developed by the leading global company engaged in chassis design, Standard Car Truck (USA, Wabtec Corporation), especially for the Russian market.

Breakthrough technologies incorporated into the bogie design helped to create the chassis of freight cars with safety performance, robustness and lifecycle costs unique for Russia and other CIS countries.

Cars based on the Barber bogie allow operators to get more profit, while consignors can reduce the cost of transporting a tonne of cargo.

Increased axle load of the Barber bogie is achieved through the improved design of bearing cast parts and spring suspension system.

Cars based on the Barber bogie have less impact on the railway bed due to the improved dynamic features, and have less resistance to motion. This is achieved through the bogie suspension perfected design, friction shock absorber and side bearers.

Car service life and overhaul periods were increased through the use of reinforced side frame in the bogie, high-quality castings and wear-resistant components.

TECHNICAL CHARACTERISTICS

Increased axle load
from 23.5 to 25 tf
Capacity growth
from 69-71 to 75-77 t

Reduced impact on the railway bed
by 15%

Increased standard car service life
to 32 years (by 1.5 times)

Increased standard overhaul period
up to 8 years (800,000 km)

Increased service life of wear-resistant components
to 1,000,000 km

ECONOMIC CHARACTERISTICS

Reduced freight rates per tonne
by 10-15%

Special empty run tariff system:
savings of **up to 30%**

Reduced frequency of fleet renewal and purchase of new rolling stock

Reduced life cycle cost
threefold

Reduced frequency of breakdowns
by 15 times

CUMULATIVE EFFECT*

RUB 930
daily savings
(+150% to the current market rate)

New generation railcars provide their owners and lessees with additional benefits per day as compared to standard railcars

RUB 3.1 mln
additional savings on the railcar life cycle at a discount rate of 12%

* As of the issue date of the annual report.

ADVANTAGES OF BARBER BOGIE DESIGN

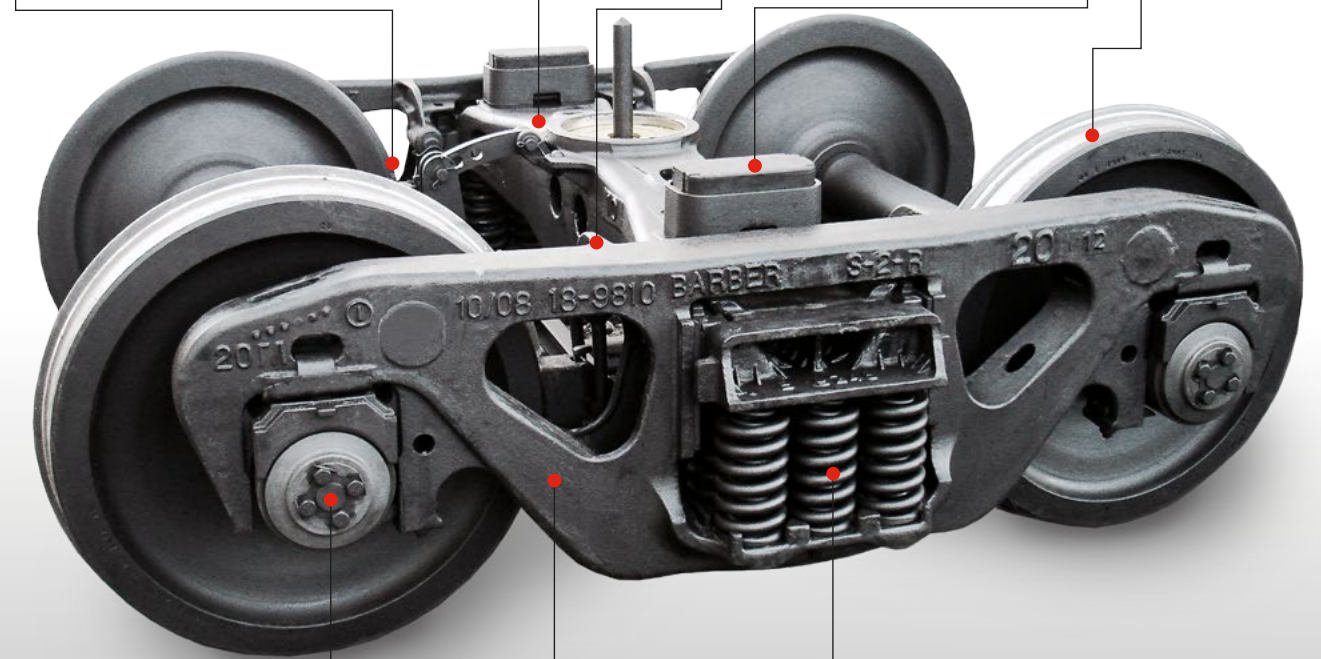
IMPROVED BRAKE PADS
The bogie uses pads of an asbestos-free composite material with a cast iron insert, which provide wheel-saving effect.

WEAR RESISTANCE BOLSTER
Bolster service life was increased due to the wear-resistant contact friction pairs.

SPATIAL FRICTION WEDGE OF DUCTILE IRON
It has high wear resistance and mechanical strength.

ELASTIC CONSTANT CONTACT SIDE BEARERS
Made of ductile iron, they have high wear resistance and mechanical strength, reduce the load on the thrust bearing.

WHEELS OF INCREASED HARDNESS WITH A CURVILINEAR DISC
Provide increased load bearing.



TAPERED CASSETTE-TYPE BEARINGS
Designed for 800 thou. km.

REINFORCED SIDE FRAME
Strengthened structure due to the increased cross-sectional areas and reduced bending moment arms.

HIGH STRENGTH SPRING
Heavy-duty springs do not compress during operation, retain a constant inter-coil gap, preventing the collision of coils.

ADVANTAGES OF NEW GENERATION GONDOLA DESIGN

SIDE WALL COVERING
Enhanced side wall covering design reduces the friction of load with the walls and covering wear, increases stability and reduces defects of the walls.

SIDE WALL DESIGN
Enhanced side wall design provides increased body strength.

ARTICULATION DESIGN
Improved design of side and end walls articulation increases the operational reliability of the assembly.



CHASSIS
Innovative chassis improves the dynamic characteristics of the car, increases its operational safety and overhaul period, and reduces the cost of the entire product life cycle.

BRAKE SYSTEM
Devices with a overhaul period of at least eight years, fittings for the threadless connection of brake pipes, wear-resistant bushes of the composite pressed material based on formaldehyde resins, which provide a mileage of not less than 1 mln kilometres.

AUTOMATIC COUPLER
Automatic coupling device is equipped with modern Class T-1 draft gear that reduces the level of the longitudinal forces affecting the car and an improved uncoupling arrangement that prevents the coupler from falling on the railway bed if it breaks.

SUCCESS OF CUSTOMERS OPERATING NEW GENERATION RAILCARS

Operation of new generation railcars produced by UWC demonstrated their undeniable advantages compared with the older generation railcars of other manufacturers.

SUEK



“Distances of export transportation of bulk cargoes (primarily coal) in Russia reach several thousand kilometres, so the issue of increasing the capacity of railcars is one of the highest priorities for SUEK. Only the latest models of innovative railcars can provide the capacity required by the Company.”

I.V. Kurotchenko,
Head of the Capacity Analysis Department, Logistics Unit of SUEK JSC

Comparison of technical characteristics of gondola cars

Indicator	UWC gondola	Standard gondola
Load capacity, t	75	70
Body volume, m ³	92	88

Siberian Coal Energy Company JSC (SUEK) is the largest manufacturer and exporter of coal in Russia and one of the leading mining companies in the world. By production volumes, SUEK is among the ten largest world producers. SUEK manages 20.4 thou. owned and leased gondolas for coal transportation.

Cooperation between UWC and SUEK began in 2013. Today the coal company operates over 6,000 freight railcars.

Advantages of UWC gondolas operation at SUEK*

Higher efficiency:

- increased capacity by 10% led to an increase in the transportation or reduction of required rolling stock.

Increased reliability:

- reduced number of breakages by 25 times
- increased overhaul periods .

Cost reduction:

- increased period of effective railcar operation
- reduced cost of cargo transportation by 20%.

* Compared to a standard railcar, according to SUEK.

URALCHEM

United Chemical Company URALCHEM JSC is one of the largest companies producing mineral fertilisers in Russia. The company is the Russian leader in the production of ammonium nitrate; it ranks second in Russia in terms of ammonia and nitrogen fertilisers production.

In 2015, the logistics business unit of URALCHEM, URALCHEM-TRANS LLC, launched a massive use of new generation mineral hoppers produced by UWC.

Advantages of UWC hopper operation at URALCHEM

Increased average railcar load index:

- in 2015, a new generation railcar delivered on average 11% more ammonium nitrate than a standard railcar (75.1 t vs. 67.8 t).

Increased reliability:

- UWC new generation railcars are repaired 3.5 times rarer than the standard railcars.

Saving on initial-end operations:

- reduced number of locking and sealing devices and greater railcar load decrease railcar handling costs and the time needed for loading and weighing.

URALKALI

Uralkali PJSC is one of the leading vertically integrated global manufacturers of potash. The company accounts for about 20% of the world's potassium chloride production. The company controls the entire production chain, from potash ore mining to supply to consumers.

Cooperation of UWC and Uralkali began in 2014.

Advantages of UWC railcar operation at Uralkali

Efficiency growth:

- in 2015, a new generation railcar delivered on average 9% more potassium chloride than a standard railcar (75.7 t vs. 69.5 t).

Increased reliability:

- new generation railcars are repaired 3.5 times rarer, which reduces the likelihood of delays in delivery of raw materials to production facilities.

Saving on initial-end operations:

- reduced number of locking and sealing devices and greater railcar load decrease railcar handling costs and the time needed for loading and weighing.

KUZBASS FUEL COMPANY

Kuzbass Fuel Company PJSC is one of the leading and actively developing producers and exporters of thermal coal in Russia. It employs 2.5 thou. workers. In 2015, the production volume amounted to 11 mln tonnes of coal.

Production assets of the company include 3 existing and 1 projected open-pit mines, 2 processing plants, a single production cluster in the Belovo District of the Kemerovo Region.

The company has its own modern loading and rail infrastructure adjacent to Meret station of the West Siberian railway, capable of forming heavy-haul trains. Cooperation between UWC and Kuzbass Fuel Company PJSC started in 2015.

Advantages of UWC railcar operation at Kuzbass Fuel Company

Efficiency growth:

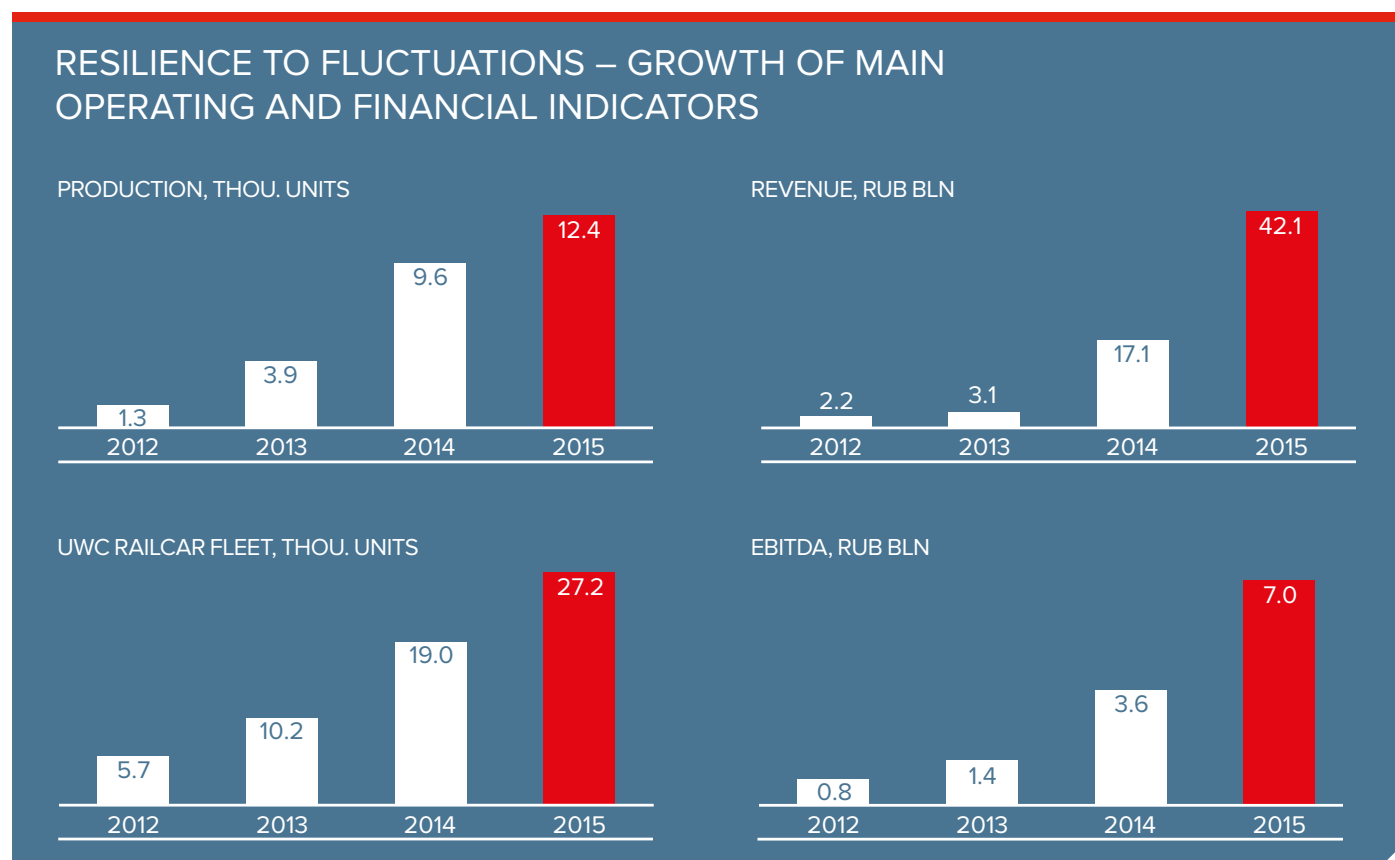
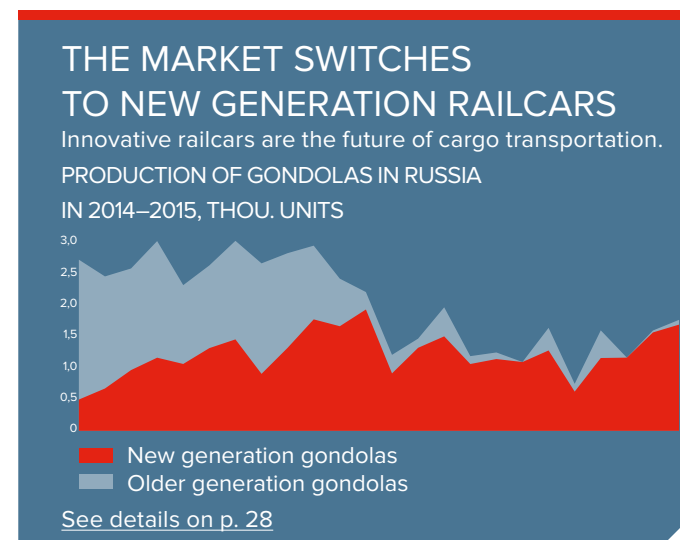
- in 2015, a new generation railcar delivered on average 7% coal more than a standard railcar (73.1 t vs. 68.3 t).

Significant reduction of railcar decoupling due to a fault:

- the number of unscheduled repairs of new generation railcars being loaded is about 2-3 per 1 thou. railcars. Of 1 thou. standard railcars, 86 are rejected due to poor technical condition.

KEY FACTORS OF INVESTMENT APPEAL

Our sustained leadership in innovative railcar building, coupled with the market transition to new generation railcars, makes us confident that UWC has a significant potential of value growth over the long term.



INNOVATIVE PRODUCTS

The advantages of innovative railcars:

- increased capacity
- reduced impact on the railway bed
- increased standard service life
- increased standard overhaul periods

See details on p. 8

ACCESS TO FOREIGN MARKETS

- UWC exports railcar casting products to the US market.
- In 2016, supply of railcar spring sets to the United States was launched. Prospective volume of shipments may go up to 20 thou. railcar spring sets per year.
- Currently, UWC is negotiating the possibility of freight cars and components supply with representatives of rail networks in Africa, the Middle East and Latin American countries.

See details on p. 18, 36

COOPERATION WITH THE WORLD'S LEADING MANUFACTURERS

Construction of 2 joint ventures producing bearings, brake components and joint assemblies for innovative railcars together with Timken and Wabtec (USA).

See details on p. 37

SUPPORT OF INNOVATIVE RAILCAR BUILDING

- The Russian Government has approved subsidies to producers and buyers of rolling stock with improved performance.
- A ban on service life extension was introduced for 95% of the Russian rolling stock. The ban led to an increase in demand for rolling stock.
- RZD is implementing a project to increase the capacity of BAM and Trans-Siberian Railway. One of the areas of the project is the increase of train weight standards, which is only possible due to new generation rolling stock.

See details on p. 29

SMART CORPORATE GOVERNANCE

- Engagement of independent directors.
- Efficient internal control.
- Transparent management KPIs.

See details on p. 66

UNIQUE BUSINESS MODEL

UWC has a vertically integrated business model which is unique for the Russian car building market. It combines engineering, production, sales, operation and service.

See details on p. 24

MESSAGE FROM THE CHAIRMAN OF THE BOARD



Dear shareholders,

It is no exaggeration to say that 2015 was a challenging year for the entire Russian economy. A combination of microeconomic and macroeconomic factors put many industrial companies in a difficult position. Despite the general negative background, United Wagon Company managed to achieve growth in key operating and financial indicators in 2015.

IPO AND SPO

One of the most significant events of the last year for United Wagon Company was an IPO on the Moscow Exchange. The UWC IPO was a landmark event for the entire Russian transportation industry, because we were the first railcar building company in Russia to list its shares. A sophisticated and attractive business model combined with qualitatively constructed internal business processes allowed UWC to achieve significant success and attract more than 50 institutional and private investors by listing 12.2% of the shares. We highly appreciate the confidence of our numerous investors.

In 2016, we successfully conducted an SPO, listing an additional 7.9 mln shares on the Moscow Exchange, which enabled us to attract new partners and shareholders, increase the number of outstanding shares, and provide momentum to develop UWC.

COOPERATION WITH SHAREHOLDERS AND INVESTORS

UWC public offering has imposed on the Company a number of additional commitments, including in the sphere of interaction with shareholders, investors and analysts. Working in this direction, UWC regularly meets with the investment community, participates in conferences, always responds to investor and analysts' queries, as well as develops its own dedicated IR site.

We do not intend to stop there and plan to continue improving the tools of interaction with investors and shareholders in accordance with international and domestic practices.

CORPORATE GOVERNANCE

United Wagon Company operates an effective and transparent corporate governance system. In accordance with the international practice and provisions of the Corporate Governance Code recommended by the Bank of Russia, UWC uses proven tools to protect minority shareholders' rights. For this purpose, the UWC Board of Directors includes independent directors who are actively involved in the work of its committees.

In 2015, the Board of Directors of United Wagon Company held 20 meetings, including three meetings in praesentia and 17 in absentia.

The internal control and audit system is also an important element of the UWC corporate governance system, which allows our shareholders to effectively implement comprehensive control over the Company's operations. Together, the Audit Committee of the Board of Directors, the Internal Audit Service, and the Internal Auditor oversee all the aspects of financial and economic activities of UWC.

STRATEGY IMPLEMENTATION

In 2015, United Wagon Company achieved significant operational and financial results. The focus on the new generation freight cars was fully paid off and enabled the Company to become a leader in their sales in Russia and other CIS countries.

Another fundamental element of UWC leadership is the high quality of our products, which are currently among the most reliable and efficient products in the Russian market. Customers appreciate the benefits of our railcars in practice, while abandoning the railcars of older Soviet types. Thus, UWC is actively shaping a market trend to switch to using railcars with improved technical and commercial characteristics. The presence of the trend is confirmed by the steadily growing demand for the new generation of railcars, in order to meet which we, in accordance with our strategic priorities, are constantly working to expand the production. As part of this work in 2015, UWC launched a new transport engineering venture producing tank cars, TikhvinChemMash.

It is important to note that the Government of the Russian Federation supports the modernisation of the railcar fleet, and the widespread use of the new generation of railcars. State support measures will significantly increase the share of innovative railcars in Russia and, as a consequence, increase

« THE UWC IPO WAS A LANDMARK EVENT FOR THE ENTIRE RUSSIAN TRANSPORTATION INDUSTRY, BECAUSE WE WERE THE FIRST RAILCAR BUILDING COMPANY IN RUSSIA TO LIST ITS SHARES »»

the efficiency of the entire transportation industry. In 2016, we plan to keep up the pace of growth and development. Our plans include further increase in production of heavy-duty freight cars. We will also continue to expand our network of service centres, develop and certify promising new modifications of railcars and increase the customer base. In addition, we intend to invest in a number of projects, the implementation of which will strengthen the Company's position in the market. I would like to thank our shareholders, customers, partners and all the employees of UWC. I am confident that further fruitful cooperation will help us to reach new heights in 2016.

NIKOLAI DOBRINOV

UWC Board of Directors
Chairman

MESSAGE FROM THE CEO



Dear shareholders, colleagues and partners,

First of all, I want to note that after just 4 years since its inception, United Wagon Company has become not only a national leader in the production of freight cars, but also made a name for itself in the international market. This, of course, indicates that our strategy and development vector are right. In 2016, UWC plans to strengthen its market position, actively developing the production, operation and maintenance fields both within the 1,520 track gauge area and beyond.

MARKET POSITION

Despite the challenging situation in the Russian economy, in 2015, the conditions of the railroad transportation market were favourable by many parameters for the development of UWC. The positions of rail transport proved to be stable in the difficult macroeconomic conditions, leading to a moderate growth in its share in the Russian freight traffic. Loading in the railway market segments that are key for UWC (coal, ore, fertilisers, grain, timber) increased, especially in exportation areas. Cargo turnover growth also had a positive impact on the demand for rolling stock.

The reporting year was marked by a sharp increase in the volume of written-off old railcars and significantly reduced production of standard rolling stock. This led to a significant decline in car surplus in the Russian Railways network.

Consignors and operators expect this trend to continue, leading to a possible local shortage of rolling stock in 2016.

Keeping in mind the declining production of standard cars, we should note that the market of new generation railcars is growing significantly, which by virtue of their high economic and technological characteristics are actively replacing older cars. The share of innovative railcars in the total sales volume has reached about 50%, coming closer to 100 percent in the gondola segment.

Currently, we are witnessing a sharp turn of the market towards new generation cars. The market is transforming, and a quantitative avalanche increase in production is being replaced by the qualitative sustainable development of the industry.

These market changes positively influenced the UWC performance as Russia's largest producer of heavy-duty cars.

+147%

revenue growth
vs. 2014

+28%

growth of railcar
production vs. 2014

« **TO MEET THE MARKET DEMAND FOR INNOVATIVE RAILCARS, OUR COMPANY PRODUCED NEARLY 12.4 THOUSAND HEAVY-DUTY CARS IN 2015** »

SUSTAINABLE GROWTH OF BUSINESS

It is important to note that we successfully met the 2015 targets in terms of production volume. Last year, United Wagon Company sold 12.4 thou. heavy-duty cars. The stable consumer demand is based, firstly, on the technical characteristics of railcars – increased capacity, body volume and low operating costs – and, secondly, on their build quality. Due to these factors, the demand for new generation railcars is increasing.

The fleet managed by UWC increased by 43% at the end of 2015 and amounted to 27.2 thou. railcars. Part of the Holding, Vostok1520 railway operator, showed outstanding results last year, winning a significant market share over a relatively short period of time. On average, innovative UWC railcars accounted for about 10% of export coal shipments in 2015.

The launch of a new transport engineering facility producing new generation tank cars, TikhvinChemMash (CJSC), was a significant milestone in the Company's history. Its production capacity is up to 3.6 thou. railcars a year. On the basis of TikhvinChemMash, we plan to manufacture more than 15 models and modifications of heavy-duty tank cars, which are currently unrivalled in the CIS.

As part of our joint ventures with the world's leading manufacturers of freight car components – Wabtec and Timken (USA) – we are preparing to start the full-scale production of bearings and braking system components, as well as products from ductile iron, which are not produced in Russia.

Our production facility in Izhevsk is expanding its product range and is ready to offer high-strength springs for the Lastochka trains, as well as mainline and shunting diesel locomotives.

The high quality of UWC products was appreciated not only in Russia. In 2015, United Wagon Company entered into a contract for export of railcar casting products and springs. For the first time in the history of the Russian transport engineering, domestic products will be massively operated in the USA. UWC continues to search for new markets, not only for components, but also for finished railcars and considers the opportunity to enter the markets of Africa, Middle East and Latin America.

Achievements in various business areas in 2015 led to a substantial increase in financial indicators of United Wagon Company. Revenues amounted to 42.1 bln roubles, an increase of 147% year-on-year. At the same time, EBITDA doubled and reached 7 bln roubles.

CORPORATE SOCIAL RESPONSIBILITY

United Wagon Company tries to strike a balance between the implementation of social and economic interests of the Company in its activities. To this end, UWC implements social and charitable programmes both for its employees and for residents of the key regions of presence. The priority areas of UWC's sustainable development are projects in the areas of urban development, education and culture. As a socially responsible business, the Company also provides support to socially vulnerable groups and people with disabilities. In 2016, we will continue to participate in all the planned social activities because we consider corporate social responsibility as one of our main priorities.

As Chief Executive Officer, I would like to thank all employees of United Wagon Company for their efforts and hard work which allowed us to achieve strong results in 2015. I offer my sincere gratitude to our shareholders and everyone who contributed to our present success.

ROMAN SAVUSHKIN

CEO, UWC

SUCCESS IN IMPLEMENTING THE STRATEGY

The development strategy of United Wagon Company includes a comprehensive approach to the implementation of key objectives and tasks of the Company. It allows UWC to work effectively in order to increase the carrying capacity of Russian railways and improve traffic safety, which in turn leads to an increase in operational and financial performance.

UWC STRATEGIC GOALS



Keeping the leading position in domestic innovative car building



Active participation in the programme to develop heavy-haul traffic technologies and ensure the renovation of rolling stock through the production of high-value-added railcars



Use of synergies from joint work of production facilities of the Holding, which produce freight cars, bogies and parts, leasing and transportation companies, engineering centre and service unit



Development of the international market, building economic relations with the largest transnational railway companies and direct export supplies of products made by the Holding's production facilities

PRIORITIES IN IMPLEMENTING THE STRATEGY

1

Development of new high value-added products

2

Diversification of the customer base

3

Developing a network of service centres

4

Increase operational efficiency

1. Development of new high value-added products

- Improvement of existing modifications
- Increase in specialisation of the rolling stock
- Expansion of the range of railcars produced

Target indicators	Objectives for 2015	Progress Report	Objectives for 2016	Risks
<ul style="list-style-type: none"> Revenue Number of certified railcar modifications 	Expanding the portfolio of certified railcar models and certifying 6 new railcars	Done	Expanding the portfolio of certified railcars even further and certifying more than 20 new modifications, including heavy-haul cars: an articulated gondola with a body volume of 135 m ³ and axle load of 25 tf and a gondola with a body volume of 108 m ³ and axle load of 27 tf; different types of tank cars and specialised cars	<ul style="list-style-type: none"> Increased competition The fall in demand for transportation in individual sectors due to the general decline of business activity in Russia
	Organising the launch of tank car production	Done In December 2015, TikhvinChemMash, a plant producing tank cars, was launched	Organising the manufacture of specialised cars: box-cars and flatcars of various types	
	Development of 10 new railcar models	Done		

2. Diversification of the customer base

- Using the points of growth of the market
- Replacing inefficient railcars and focus on the routes where innovative railcars have the maximum economic advantage
- Developing railcars for specific customers

Target indicators	Objectives for 2015	Progress Report	Objectives for 2016	Risks
<ul style="list-style-type: none"> Number of new customers Diversification of clients by industry Diversification of contractual framework Diversification of portfolio by type of rolling stock Volume of export contracts 	A further increase in the customer base in all business segments	Done <ul style="list-style-type: none"> New contracts executed for the supply of railcars with such large players as Logistics 1520, Technotrans, Eurosis SPB-Transport Systems, Metafrax, Uralkali, UMMC and others Customer base of Vostok1520 grew more than 3 times compared to the previous year, to > 100 customers A contract on export delivery of casting was signed with Wabtec (USA) 	<ul style="list-style-type: none"> Increased customer base across all business segments Elaboration of export contracts for supply of railcars 	<ul style="list-style-type: none"> Increased competition The fall in demand for new rolling stock due to the deterioration of the macroeconomic situation Currency risk
	<ul style="list-style-type: none"> Elaboration of contracts for new types of innovative railcars: <ul style="list-style-type: none"> tank cars grain hopper cars with increased capacity and volume 	Done <ul style="list-style-type: none"> Agreements for the supply of tank cars with Metafrax and UMMC were signed Agreements for the supply of large batches of grain hopper cars were signed with Logistics 1520 and Technotrans 	<ul style="list-style-type: none"> Elaboration of contracts for new types of heavy-duty cars: <ul style="list-style-type: none"> tank cars for various chemical goods grain hopper cars with increased capacity and volume flatcars box-cars 	
	Analysing customer routes in order to increase the UWC share in their fleet	Done <p>UWC railcars were operated mainly in long export routes, where they showed the greatest economic benefit. The average distance of transportation by Vostok1520 rose to 4 thou. km. The number of block train shipments increased</p>	A further increase in the proportion of block train shipments in UWC railcars	

3. Developing a network of service centres

- Expansion of the network of service centres
- Expansion of geography
- Expansion of service centres competence

Target indicators	Objectives for 2015	Progress Report	Objectives for 2016	Risks
<ul style="list-style-type: none"> Railcar downtime during repair The number of service centres 	Organising service centres in the Trans-Baikal, North Caucasus, Sverdlovsk, Far Eastern Railways	Done <p>19 service centres were opened. The total number has reached 51</p>	Expansion of the service centre network to 55	No current risk
	Upgrading the service centres to Category II (allows diagnosis of bogie cast parts, monitoring of their geometric parameters, and repairs)	Done <p>9 service centres received Category II</p>	A further increase in the number of Category II service centres	
			Development of our own Category I railcar repair depot	

4. Increase in operational efficiency

- Increasing productivity of assembly lines and blank production
- Increasing productivity of small foundry
- Implementing projects to reduce production costs
- Reducing waste in all industries

Target indicators	Objectives for 2015	Progress Report	Objectives for 2016	Risks
<ul style="list-style-type: none"> Maximum productivity Time for switching to new products Production costs Total efficiency of equipment 	Increasing the maximum production capacity of TVSZ to 16 thou. railcars per year	Done	Increase in total production capacity of UWC to 22 thou. railcars	<ul style="list-style-type: none"> Delays in the delivery and installation of equipment Rising metal prices due to, the weakening rouble
	Introduction of modular fast revamped tooling for the production of drop-bottom gondolas with body volume of 88 m ³ and 92 m ³	Done <p>In March 2016, the first line was revamped from the 88 m³ model to 92 m³ model</p>	<ul style="list-style-type: none"> Move from the production of the 101 m³ hopper car model to the 120 m³ model Integration of the capability to simultaneously produce cement cars into the line 	
	Introduction of flexible technological solutions for the production of the entire lineup of hoppers	Underway <p>Currently, the preparation of production for manufacturing hopper cars with the body volume of 101 m³ and 120 m³ is finishing</p>	<ul style="list-style-type: none"> Integration of flexible tooling to enable the production of articulated gondolas and gondolas with axle load of 27 tf Integration of versatile tooling to produce the entire family of flatcars 	
	Increasing productivity of small foundry and blank production	Done <ul style="list-style-type: none"> Production of medium casting was increased by 58% in 2015, both at the expense of optimisation and organisational activities, as well as due to the revision of the lineup, where we left the most marginal products and strategic products Blank production was also extended due to the commissioning of additional equipment 	Production from 15 to 17 thou. railcars	
	Introduction of lean production systems, increase in output per employee	Underway <ul style="list-style-type: none"> TVSZ staff was provided with the oretical training in philosophy, principles and ideals of lean manufacturing Projects were implemented to reduce costs in the workplaces of railcar production 	Implementation of projects to improve the technology and enhance the performance bottlenecks	
	Rediction in equipment downtime, changeover time, work at nonstandard speeds	Underway <p>Downtime reduction was achieved primarily at the key limiting stages of production, which were a molding line of a large foundry and a painting line of a railcar production facility. We were able to reduce equipment downtime by 4.7 times on the molding line. In the area of railcar preparation for painting, it became possible to reduce railcar blasting equipment downtime by 15%</p>	Further implementation of projects to reduce equipment downtime	
			Implementation of projects to localise production of components	

INTRODUCTION OF A KPI SYSTEM

In order to achieve the highest results, United Wagon Company has developed a list of key performance indicators to objectively evaluate the implementation of plans and help decide on the remuneration of management and each employee of UWC.

The KPI system is closely linked to the system of employee motivation adopted in UWC. The degree of KPI achievement by workers in the quarterly or annual horizon is directly related to the variable part of their remuneration. A set of the Company's indicators is divided into two main groups: corporate and functional.

The plans for 2016 include the continuation of KPI system development – detailing the existing and creating new indicators that would meet the level of UWC development at this stage of the Company's life cycle.

CORPORATE INDICATORS

Corporate indicators are the indicators that are defined in the corporate target chart; they cover all areas of UWC business valuation and are divided into the following groups:

- ▀ production efficiency
- ▀ product quality
- ▀ commercial activity
- ▀ staff
- ▀ common performance indicators
- ▀ R&D
- ▀ financial performance.

The total number of corporate KPIs does not exceed 70, that amount makes it possible to account and control them in a timely manner. Corporate KPIs are defined for a year with a quarterly breakdown; during the year each indicator may be adjusted in accordance with a possible change in the Company's strategy and market conditions. One of the senior executives is responsible for every corporate indicator. On average, about 5-6 corporate KPIs are designated for every UWC top manager. However, the key financial indicators related to profit and the creation of the Company's shareholder value are set for all senior executives. Therefore, the contribution of each manager in the overall financial results of UWC activities is taken into account.

FUNCTIONAL INDICATORS

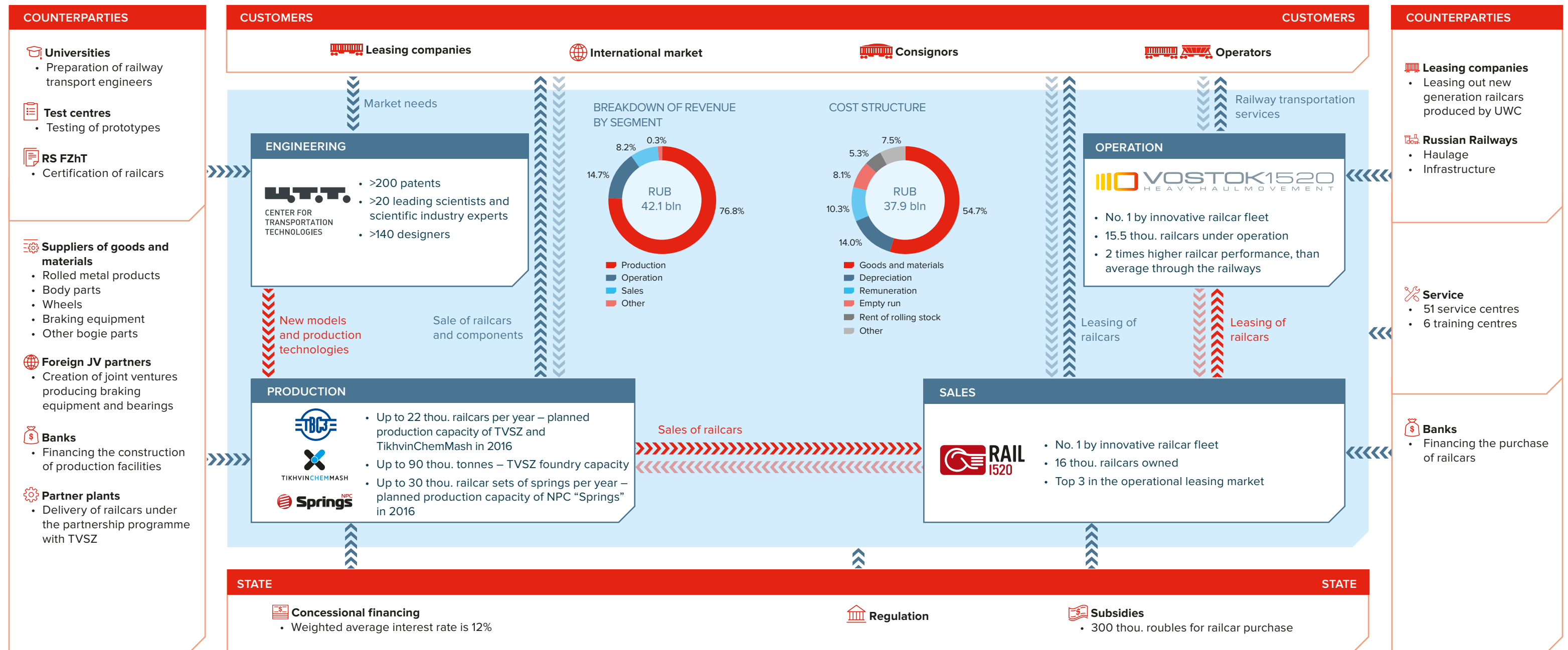
Functional indicators are KPIs that are formalised for each functional area of the Company and include those local tasks that need to be performed by employees in order to achieve the goals of the subdivision. For the middle and lower level managers, as well as specialists, this kind of indicators serves as the main indicator in planning and evaluating their activities.



BUSINESS MODEL

United Wagon Company is a vertically integrated company unique for the Russian railcar building market. The UWC business model ensures stability and effective cooperation between the companies of the Holding at all stages of value creation: from design to distribution of the end product.

KEY BENEFITS OF THE BUSINESS MODEL



Revenue at the business unit level and consolidated level

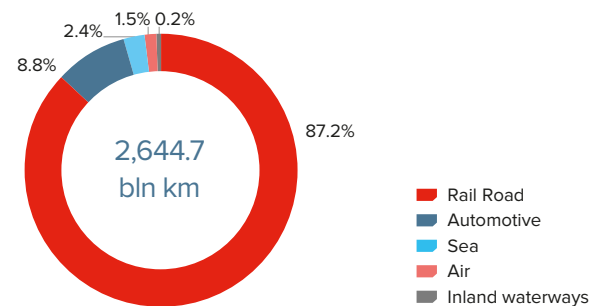
Revenue at the business unit level

RAILWAY MARKET

2015 IS THE TURNING POINT FOR THE RUSSIAN RAILWAY INDUSTRY

Currently, the global and Russian economies are clearly facing a number of crisis phenomena, which inter alia have a definite impact on the transportation sector. However, as compared with other modes of transport the positions of rail transport turned to be quite resistant to difficult macroeconomic conditions. Despite the economic situation, the share of rail transportation excluding pipeline transportation increased to 87.2% (against 86.5% in 2014) in 2015.

CARGO TURNOVER BY TYPE OF TRANSPORT (EXCLUDING PIPELINE TRANSPORT)



0.2% GROWTH OF CARGO TURNOVER IN 2015 DESPITE THE LOADING DECLINE BY 1%

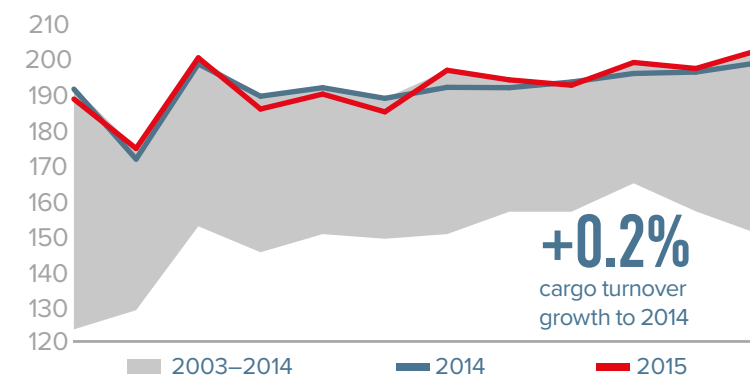
During the 2015, the indicators of loading and cargo turnover changed in different directions. The devaluation of the rouble, as well as the situation in world commodity markets led to an increase in exports and in the length of the cargo transportation arms. As a result, cargo turnover increased by 0.2%, while loading reduced by 1%.

Due to the fact that the country's demand in the rolling stock fleet is directly correlated with the value of cargo turnover index, the observed changes in the turnover are positive for the car building sector.

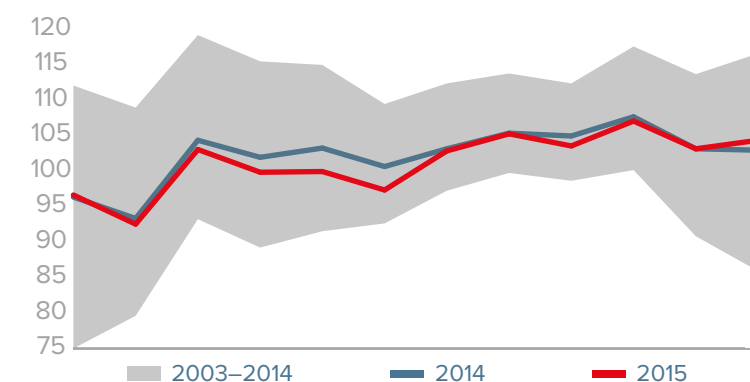
According to the results of 2015, the transportation of coal (+2.5%), iron and manganese ore (+0.4%), timber (+2%), chemical and mineral fertilisers (+4.4%), grain and milling products (+2.7%), non-ferrous ores and sulfur raw materials (+6.1%) rose.

The transportation of oil and petroleum products (-2.1%), building materials (-7.4%), ferrous metals (-0.6%), ferrous metal scrap (-10.1%), cement (-11.1%), chemicals and soda (1.3%), coke (-6%), industrial raw materials and molding materials (-1.8%) decreased.

CARGO TURNOVER IN RZD NETWORK, BLN TKM



LOADING IN RZD NETWORK, MLN TONNES



ACCELERATED WRITING-OFF OF OLD ROLLING STOCK COMBINED WITH LOW VOLUMES OF PRODUCTION HAS LED TO THE EMERGENCE OF CAR LOCAL DEFICIT

Written off railcars in 2015 amounted to about 100 thou. units, which is higher than the volume of write-offs in 2014 almost by 3 times. At the same time, gondolas constituted two-thirds of the decommissioned rolling stock.

At the same time, against the background of the economic crisis and lack of investment in the industry, the production of railcars for 12 months of 2015 was at the lowest level – about 27 thou. units.

As a result, the gondola surplus reduced to a minimum level in the RZD network.

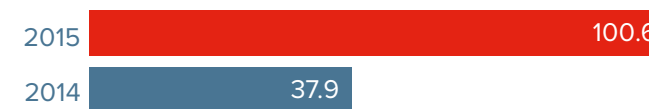
An additional factor in the decreased surplus of the Russian Railways network was ban on operation of old railcars,

which was introduced from 1 January 2016 to stimulate domestic car building.

Consignors and operators predict the occurrence of rolling stock shortage in 2016, but the forecast might not be realised due to the increased efficiency of the RZD network: since the beginning of 2015, the speed of rail transportation has increased by 8.2%.

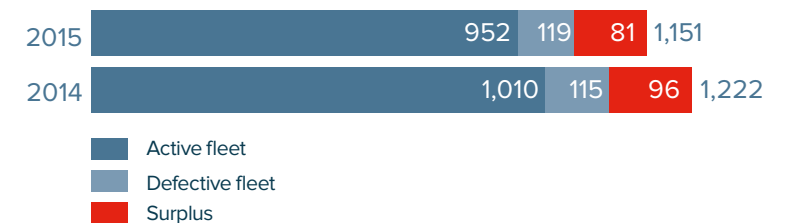
In the conditions when extending the service life of railcars is prohibited, rolling stock production is projected to grow in 2016.

DYNAMICS OF RAILCAR WRITING-OFF IN RUSSIA, THOU. UNITS

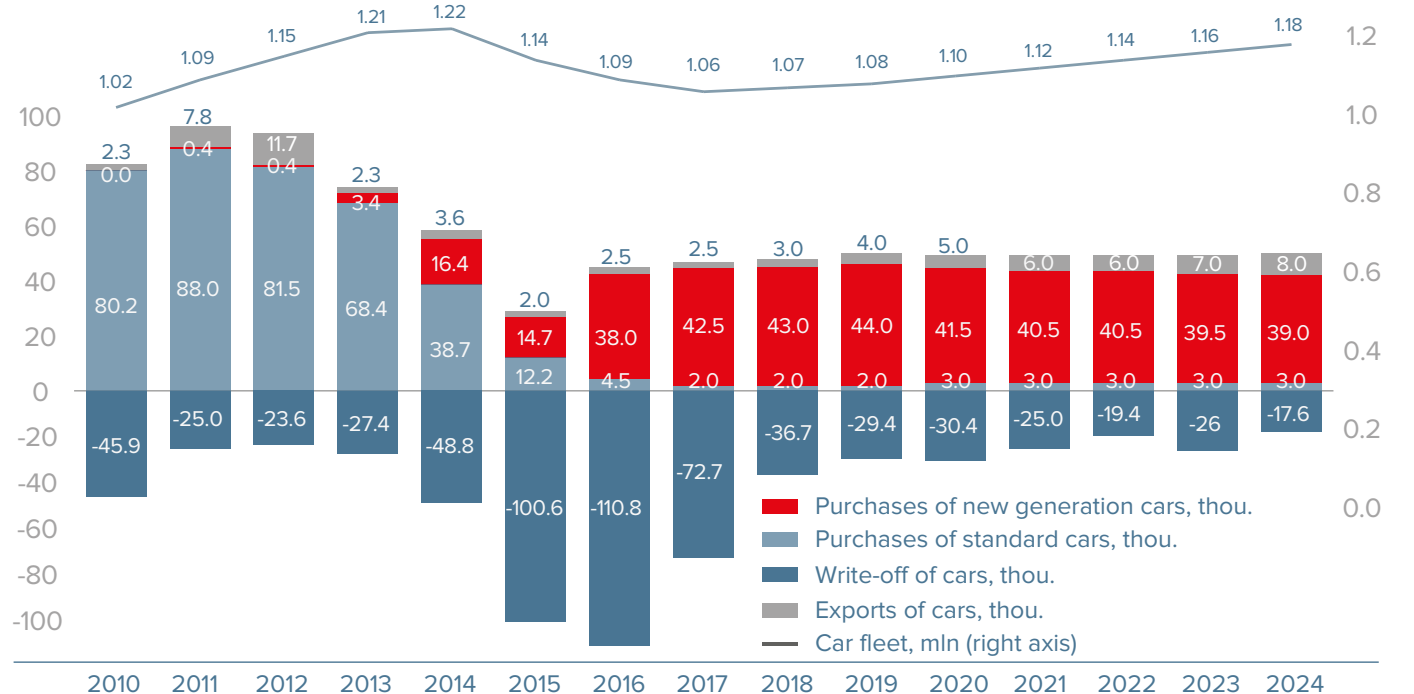


100 thou. railcars written off in 2015

DYNAMICS OF CHANGES IN RUSSIAN RAILCARS FLEET, THOU. UNITS



FORECAST OF CAR MARKET, THOU. UNITS*



* According to INFOline information and analytical agency.

EXPERTS EXPECT FURTHER GROWTH OF ROLLING STOCK RATES

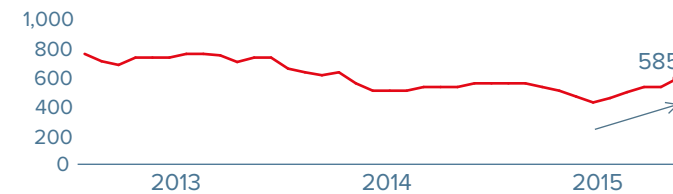
The mass writing-off of standard gondolas resulted in rental rates increase by 20–25%, from 450–500 to 550-630 roubles per day by the end of the year.

According to INFOline, in 2017–2018 the rental rates will grow to 700–750 roubles per day because of the massive decommissioning of old railcars and increase in the share of innovative and new gondola with a load of 25 tonnes per axle.

Institute of Natural Monopolies Problems (IPEM) forecasts the continued growth of operators' rates in 2016, which was outlined in July-August 2015. According to IPEM, by December 2016, the rates of freight car operators could rise to 700 roubles per day, i.e. by 60–70% compared to January 2015.

25% growth of gondola rental rates in 2015

DYNAMICS OF RENTAL RATES FOR GONDOLA CARS, RUB PER DAY



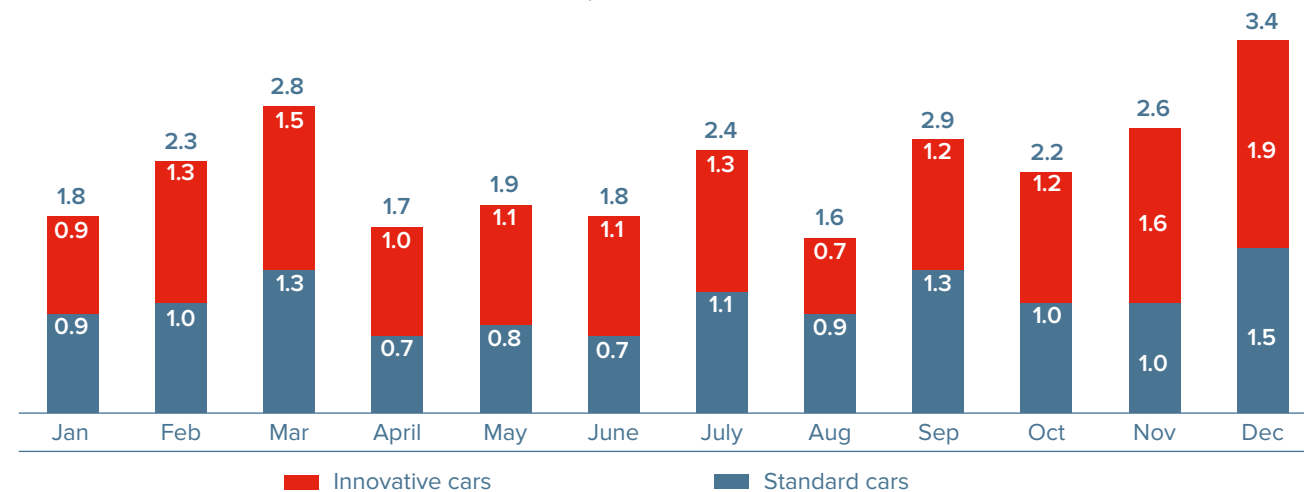
THE INDUSTRY MOVES FROM QUANTITATIVE TO QUALITATIVE IMPROVEMENTS

Production of railcars in the Russian Federation in 2015 amounted to 26.9 thou. units, which is almost 2 times lower than the level in 2014. The share of innovative railcars in total sales increased to 55% and to 80% in the gondola segment. That is, the volume of sales decreased due to the reduction of production volumes of the old generation railcars (on the 18-100 bogie and its analogues) – fall in this segment amounted to 70%. The reason for switching demand are high economic and technological characteristics of innovative railcars.

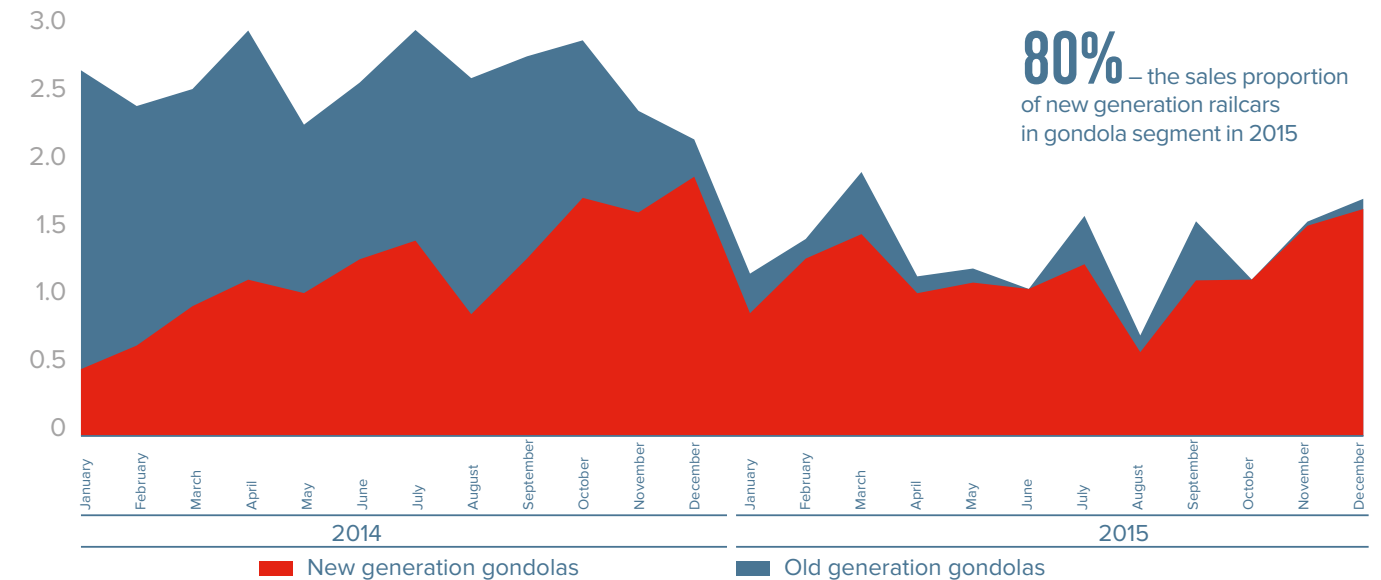
According to experts, the market has reached a new level of development – in the short term, as the innovative railcars are introduced in new segments (tank cars, box-cars, flatcars, etc.), the share of new generation railcars in the production structure will be closer to 100%.

26.9 thou. car production volume in the Russian Federation in 2015

RAILCARS PRODUCTION IN THE RUSSIAN FEDERATION IN 2015, THOU. UNITS



GONDOLA PRODUCTION IN RUSSIA IN 2015, THOU. UNITS



PRODUCTION OF NEW GENERATION RAILCARS IS SUPPORTED BY THE STATE

The state has evaluated the benefits of innovative railcars and introduced a numbers of support measures for them.

Operating innovative railcars enables RZD to considerably curtail the infrastructure maintenance costs due to reduced effect of such railcars on the railway bed.

Introduction of railcars with increased load capacity into the network raises its train-handling capacity due to a possibility to operate trains with increased tonnage rating, and also due to a considerable reduction in railcar turnover by 1-2 days, reached as a result of using the so-called “guarantee shoulders” (railcars do not stop for additional technical inspections en-route).

The increased wear resistance of elements makes it possible to reduce the railcar downtime both in the course of scheduled repairs in view of increased overhaul periods of innovative rolling stock, and more than 15 times rare coincidence with current repairs.

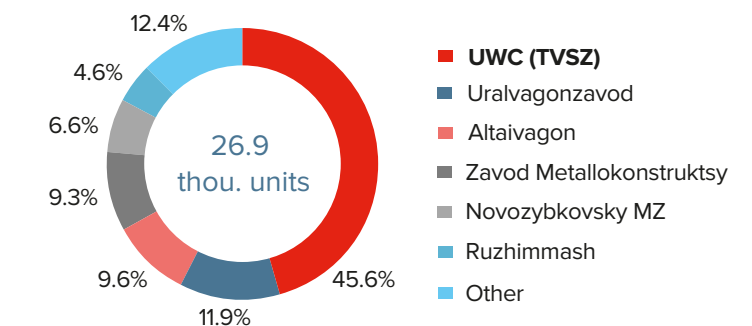
Measures taken by the Government of the Russian Federation to support the manufacturers of new generation railcars:

- In 2013, the Federal Tariff Service of the Russian Federation established the 25(2) rate scheme for freight gondolas of the 12-9761-02, 12-9833-01, 12-9853 and 12-9869 models, and the 25 (3) rate scheme for the 19 9835-01 hopper, according to which the price of empty run of new generation railcars run produced by TVSZ was on average 10-30% lower than for typical old-generation rolling stock.
- The Russian government introduced a subsidy to purchase innovative rolling stock in the form of interest compensation on loans to purchase railcars in the amount of 90% of the refinancing rate. The subsidy currently amounts to 300 thou. roubles per railcar.
- Russian Railways implements a large-scale project to increase the capacity of the Baikal-Amur and Trans-Siberian Railways. One of the trends is to increase the weight rate of trains, which is only possible due to a new generation of rolling stock.

- Since the beginning of 2016 Russia has banned the extension of service life for 95% of the railcar fleet. Exceptions were made for certain specialised railcars (refrigerators, transporters, specific chemical tank cars) and for railcars used in the business activity of Russian Railways (feeders, flatcars for tracked vehicles). The ban led to an increase in demand for rolling stock (first and foremost, innovative) and to an increase in profitability of railcar operating.

UWC IS THE LEADING PRODUCER OF RAILCARS

THE LARGEST MANUFACTURERS OF RAILCARS IN THE RUSSIAN FEDERATION IN 2015



BUSINESS OVERVIEW

ENGINEERING AND INNOVATION

In its activities, UWC relies on the use of the most advanced technologies and innovations. To this end, the Company has the All-Union Research and Development Centre for Transportation Technology (VNICTT) – a modern research and design centre, specialising in the field of freight rolling stock.



KEY FACTS

UWC has an advisory Scientific and Technical Council, which is responsible for the main directions of development of innovative activities of the Company, as well as its scientific and technical policy in the field of producing a new generation of rolling stock, including heavy-duty cars.

>200

patents in Russia and other CIS countries

>20

leading scientists and Industry science experts

>140

designers with experience at the largest car building plants in Russia

KEY ACTIVITIES:

- ▀ implementation of projects to reduce the cost of products and optimisation of production
- ▀ designing new generation railcars
- ▀ patenting
- ▀ designing bogies
- ▀ designing tooling
- ▀ technological preparation of mass production
- ▀ operational product support.

The main purpose of the research and development work of VNICTT is to create high value-added products, providing economic and technological efficiency in their operation compared to analogous railcars.

RESULTS OF OPERATIONS IN 2015

As part of the innovative development strategy in 2015 we significantly expanded the range of the rolling stock on the Barber bogies with an axle load of 25 tf. 6 certificates for new railcar modifications and models were received, and their total number grew to 20.

In 2015, TVSZ began mass production of grain hopper cars with a body volume of 120 m³. Certificates for the hopper cars were also obtained for 2 versions of cement hoppers and the gondola with a solid body with a volume of 98 m³. New railcars were developed: a grain hopper car with a body volume of 126 m³, grain hopper car with a roof made of aluminium alloy with a body volume of 120 m³, a lineup of flatcars with a loading length of 40 feet for containers and timber, flatcar with a loading length of 60 feet for timber, a flatcar with a loading length of 80 feet for heavy containers, universal box-car and others.

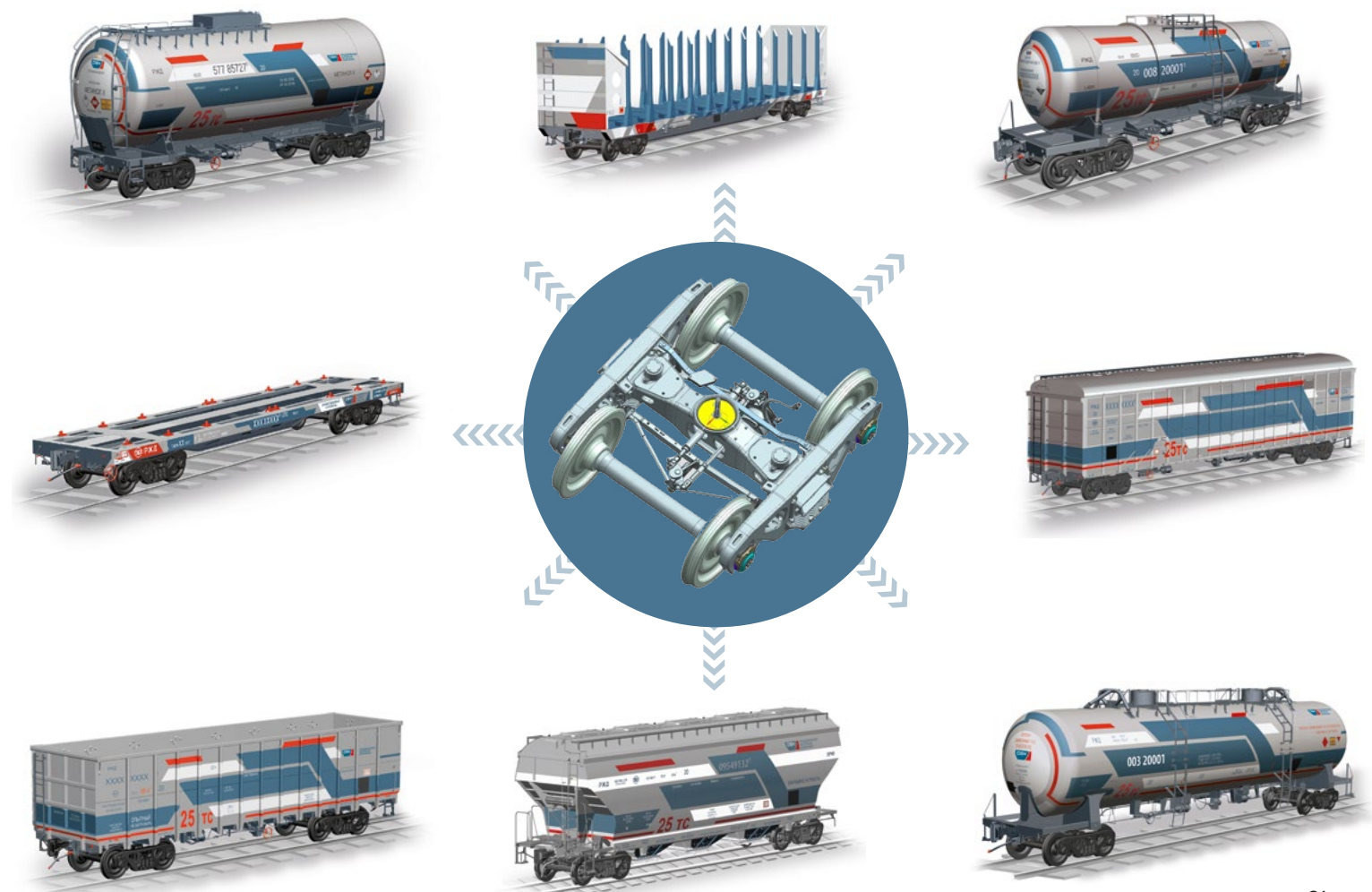
As part of performing one of the priorities in the reporting period to support the launch of TikhvinChemMash, a certificate of conformity was received and the production of a tank car for technical sulfuric acid was mastered. New models of tank cars for transportation of chemical goods, methanol, petroleum products, molten sulfur, liquefied petroleum gas, ammonia were developed with the use of low-alloy and stainless steels, aluminium alloys and composite materials.

The company is also implementing a new stage in the development of innovative strategy associated with the creation of rolling stock for heavy-haul traffic. In the course of this stage, we have developed a new articulated gondola and an articulated tank car for liquefied hydrocarbon gases, and manufactured prototypes. The effectiveness of these railcars in comparison with analogues is achieved by increasing the load per unit length and axle payload.

In addition, in 2015 the work to upgrade the Barber bogie in order to improve its performance was continued, as well as work was commenced on developing a bogie with a 27 tf axle load and railcars based on it.

PLANS

- ▀ Expansion of the tank cars lineup: development of railcars for pitch, naphthalene, chlorine, benzene.
- ▀ Development of versatile drop-bottom gondolas and solid-floor gondolas with increased volume, hopper cars for mineral fertiliser, grain hopper cars, flatcars and box-cars.
- ▀ Continued work to launch the production of bogies with an axle load increased to 27 tf and railcars based on it.
- ▀ Certification of up to 60 models of railcars by 2018.



BUSINESS OVERVIEW

PRODUCTION

Currently, UWC is the leading producer of new generation railcars in Russia. Using advanced technologies, best practices and modern production facilities, UWC manufactures a wide range of products of the highest quality, increasing the efficiency of rail freight and contributing to the development of the Russian transport industry.



KEY FACTS

up to **22** thou. railcars per year – planned production capacity in 2016

up to **90** thou. tonnes of castings per year – production capacity

3 factories producing railcars and components

>20 automated lines

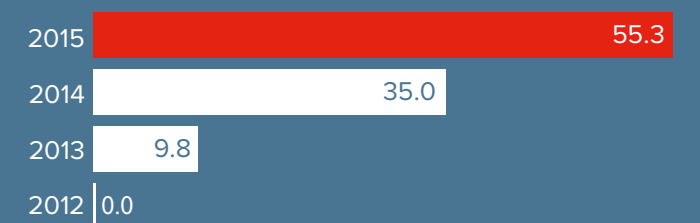
>100 industrial robots

2 joint ventures

RAILCAR PRODUCTION VOLUME, THOU. UNITS



CASTINGS PRODUCTION, THOU. TONNES



PRODUCTION

TIKHVIN FREIGHT CAR BUILDING PLANT



KEY ACTIVITIES

- Production of gondolas, hopper cars and new generation flatcars
- Production of railcar castings

The Tikhvin Freight Car Building Plant is UWC's production centre and the most advanced railcar production facility in Russia.

RESULTS OF OPERATIONS IN 2015

At the end of 2015, TVSZ produced 12.4 thou. railcars, which is 28% higher than the 2014 number. Railcar production plan in 2015 was performed in full. Significant growth was the result of the planned increase in production capacity and the growth of order volume.

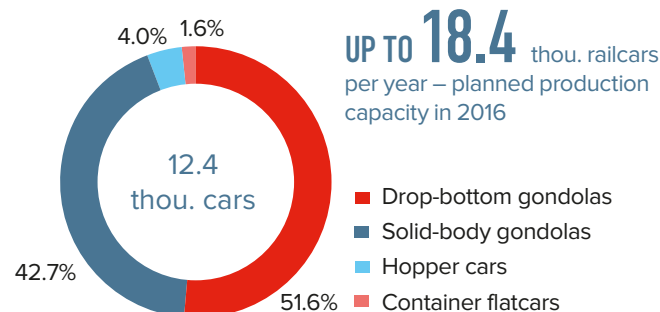
In 2015 TVSZ production capacity increased to 16 thou. railcars per year.

The capacity increase was achieved through:

- modernisation of the equipment and tooling
- optimisation of the production process (introduction of the Lean production system)
- launch of the 4th line for hopper car production.

In 2015, TVSZ also saw the introduction of flexible technological solutions to produce the whole range of hoppers and fast revamped tooling installation for the production of drop-bottom gondolas with the body volumes of 88 m³ and 92 m³.

STRUCTURE OF TVSZ RAILCAR PRODUCTION IN 2015



At TVSZ, there is a functioning foundry deemed to be one of the best in Europe and Russia.

TVSZ casting production capacity increased to 90 thou. tonnes of castings per year in the reporting year. In 2015 it became possible to reduce downtime on the molding line of the large castings and to increase the capacity of the medium castings.

Under the strategy of increasing the operational efficiency the implementation of lean production tools is continued at TVSZ.

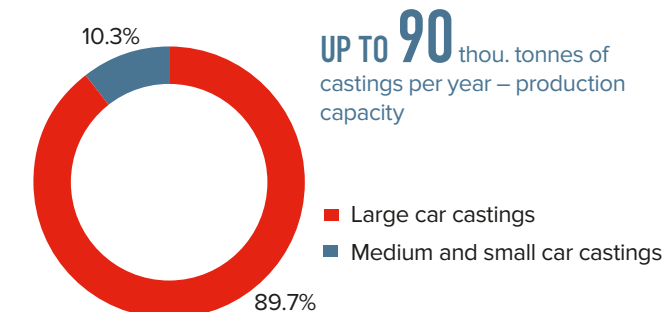
PLANS

As part of the line revamping, in 2016 we plan to transfer from manufacturing the 101 m³ hoppers to the 120 m³ model, integrate the capability of simultaneous production of cement cars and flexible tooling into the line to enable the production of articulated cars.

Also, the company strategy envisages the implementation of projects to localise production of components, enhance the performance of bottlenecks, and other measures to improve operating efficiency.

In 2016, the production capacity will be increased to 18.4 thou. railcars per year. Also during 2016, UWC intends to expand the range of manufactured railcars; it is planned to master the production of new gondola models with increased cargo capacity, hopper cars with increased body volume, and specialised railcars.

STRUCTURE OF CASTINGS PRODUCTION IN 2015



TIKHVINCHEMMASH



KEY ACTIVITIES

- Production of new generation tank cars

In December 2015, UWC launched a transport engineering facility producing a new generation of tank cars – TikhvinChemMash (CJSC).

The planned production capacity is up to 3.6 thou. railcars per year. On the basis of TikhvinChemMash, UWC plans to produce more than 15 models and modifications of tank cars with high capacity to transport the entire range of chemical products (sulfuric acid, methanol, ammonia, caustic soda, etc.). TikhvinChemMash also plans to produce articulated tank cars, unrivaled in the CIS.

More than 20 suppliers from Europe and America participated in the project to build the plant. TikhvinChemMash production was designed taking into account the best practices of Western and domestic transport engineering. Its production lines can be rapidly revamped to produce various types of tank cars, depending on customer requirements. The main process equipment is represented by modern robotic systems and automation tools.

Experts predict that by 2020 the production of chemical tank cars will be in high demand. Historically, a significant proportion of tank cars was produced in Ukraine. In 2014, imports of railcars to Russia ceased, and a significant portion of the tank car fleet was not modernised for a long time and was outdated.

The construction of TikhvinChemMash received support from the Ministry of Economic Development and the Industrial Development Fund, the state guarantee of the Ministry of Finance.

A new generation of tank cars is characterised by improved technical and economic characteristics compared to standard analogues. Tank cars are equipped with the Barber bogie with an axle load of 25 tf, decreasing the cost of operation and maintenance of rolling stock.

UP TO 3.6 thou. tanks per year – planned production capacity in 2016

RESULTS OF OPERATIONS IN 2015

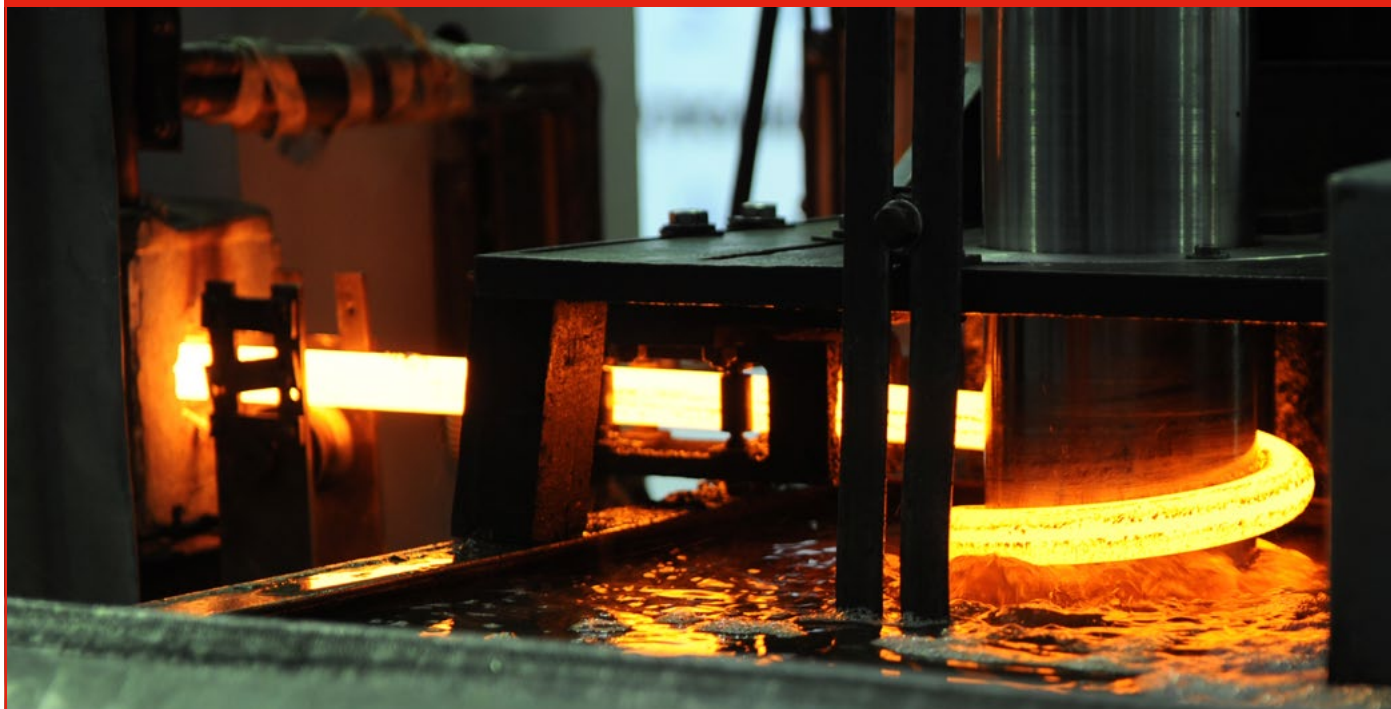
At the opening ceremony of TikhvinChemMash the first shipment of tank cars intended for transportation of chemical cargoes to Sredneuralsk Copper Smelter OJSC (part of the Ural Mining and Metallurgical Company) and the transport and logistics company Polar Freight Company (part of Yekaterinburg Trade and Industrial Company) took place.

PLANS

In 2016, the production of tank cars for caustic soda, methanol and molten sulfur is planned at TikhvinChemMash. The production capacity of the plant will amount to up to 3.6 thou. tank cars a year. The planned capacity will be reached in 2016 by commissioning the process equipment which is in the process of installation and start-up now (equipment for the manufacture of tank car bottoms, heat treatment furnaces, boiler welding lines, assembly stands, mechanical processing machines etc.).

PRODUCTION

NPC "SPRINGS"



KEY ACTIVITIES

- Production of high-quality springs for railcars
- Production of springs for different equipment

NPC "Springs" produces high-quality railway springs that are compliant with the high performance standards and constructive features of innovative freight car bogies. The plant fully meets the needs of UWC in springs for the Barber bogies and is actively expanding its capacity to meet future demand for its products against the background of the expanding railcar production at TVSZ, launch of the TikhvinChemMash plant and access to new markets, including export ones.

RESULTS OF OPERATIONS IN 2015

In 2015, NPC "Springs" continued to increase production volumes have. In the reporting year, the plant saw an increase of 5.3% compared to 2014. The steady growth of production was achieved by increasing the production capacity. In Q4 2015, a high-performance coiling unit was put into operation. As a result of the launch of the new module, NPC "Springs" increased its production capacity by an additional 6 thou. railcar sets (500 thou. springs), to 21 thou. railcar sets per year, which is 40% more than in 2014.

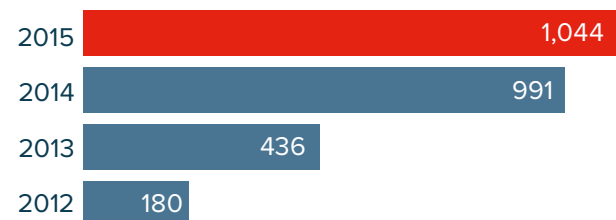
In 2015, NPC "Springs" produced six models of springs for the Barber bogies. It also mastered the production of springs for the centre coupler draft gear, which began to be exported.

PLANS

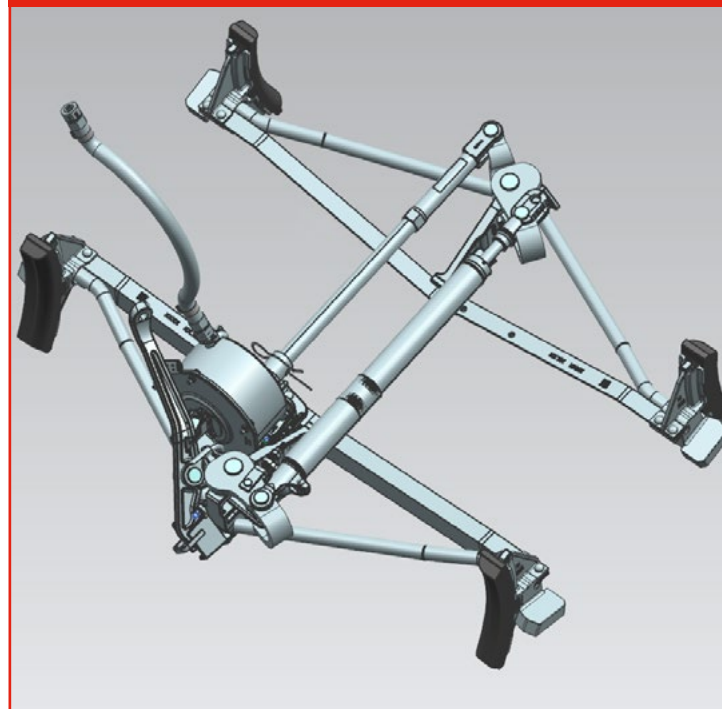
In 2016, the plant plans to increase the production of springs for the Barber bogies, enhance the export of draft gear springs, master the production of springs for locomotives and enter new markets.

UP TO 30 thou. railcar spring sets per year – planned production capacity of NPC "Springs" in 2016

OUTPUT OF NPC "SPRINGS", THOU. PIECES



WABTEC-UWC, A JOINT VENTURE WITH WABTEC



KEY ACTIVITIES

- Production of brake components and joint assemblies for freight cars

The joint venture will enable UWC to improve product quality, strengthen its market position and technological leadership.

RESULTS OF OPERATIONS IN 2015

In 2015, the design of the bogie brake system, the SAC-1 joint assembly and the auto mode was completed. Also, tests of new brake pads were carried out with positive results.

PLANS

In 2016, the company plans to certify brake pads and get access to the Russian Railways infrastructure, manufacture prototypes of the bogie brake system and auto mode, as well as organise the procurement of equipment to produce brake pads and the brake system.

TIMKEN UWC, A JOINT VENTURE WITH TIMKEN



KEY ACTIVITIES

- High-tech production of bearings

The joint venture will enable UWC to improve its operational efficiency through the use of in-house-produced bearings.

RESULTS OF OPERATIONS IN 2015

In 2015, Timken UWC completed the site preparation by 85% to receive the complete set of process equipment. In the reporting year, the plant installed and set up equipment for the assembly of bearings, and got most of the machining equipment.

The first samples of products were made and sent for certification tests.

PLANS

In 2016, Timken UWC plans to receive a certificate of the Register of Certification on the Federal Railway Transport for its bearings and start their mass production.

BUSINESS OVERVIEW

SALES

UWC offers its partners a wide range of opportunities to obtain new generation railcars. An important area of UWC sales is operational leasing.



KEY FACTS

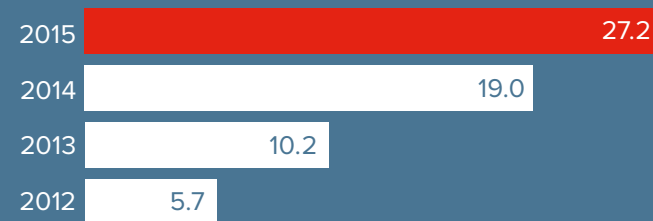
No. 1
by new generation railcar fleet

27.2 thou. railcars – fleet owned and operated by UWC

100%
railcar fleet utilisation ratio

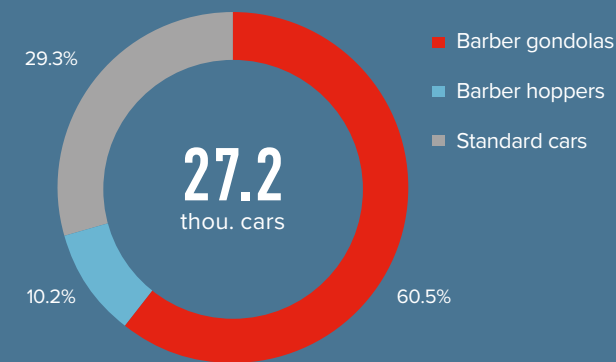
1.9 years – average age of the fleet owned and operated by UWC

OWNED AND OPERATED FLEET, THOU. UNITS*

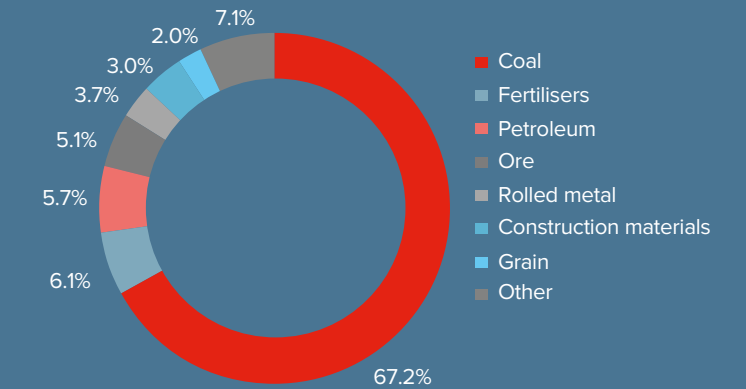


* Including railcar fleet operated by Vostok1520 and the fleet owned by UWC leased out to third parties (11.7 thou. railcars).

UWC RAILCAR FLEET STRUCTURE



UWC TRANSPORTATION STRUCTURE



KEY ACTIVITIES

Rolling stock operational leasing

Operational leasing is an important area of railcar sales for the Company. UWC has a group of leasing companies united under the brand RAIL1520, which is one of the largest in the Russian market of leasing companies. At the end of 2015, RAIL1520 occupied leading positions in the size of innovative railcar fleet and was second largest company specialising in the operational leasing of rolling stock. In addition, railcars are provided for operational leasing by UWC's subsidiary, "Trade House "UWC".

RESULTS OF OPERATIONS IN 2015

In 2015, the fleet owned by UWC decreased by 4% compared to 2014 and totalled 16 thou. railcars. Such trend was primarily due to several transactions for the sale of railcars in 2015 in connection with the increased market demand for rolling stock of a new generation.

The average rate of rent for the new generation railcars owned by UWC showed positive dynamics during the year and reached 860 roubles per day as of December 31, 2015, which was due to the indexation of rates for a number of contracts. The gradual increase in interest rates for UWC railcars corresponds to the market trends.

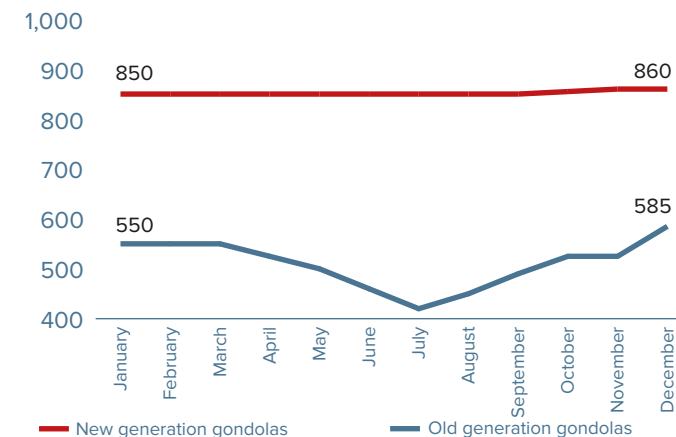
At the end of 2015, UWC had one of the youngest fleet of freight rolling stock in Russia – the average age of the railcars did not exceed 1.9 years. The utilisation ratio of the rolling

stock amounted to 100% in 2015 – all the owned railcars were leased out, which supports the competitiveness of innovative railcars and their high economic benefits for consignors.

PLANS

In 2016, UWC plans to enlarge the owned fleet actively due to an increase in the share of new generation railcars, as well as to diversify its customer base.

RENTAL RATE OF UWC GONDOLAS COMPARED TO THE MARKET RATE IN 2015, RUB PER DAY



BUSINESS OVERVIEW

OPERATION

In order to distribute new generation railcars in Russia, in 2014, UWC established the railway operator Vostok1520. Activities of Vostok1520 are aimed at the implementation of technological solutions to improve the efficiency of freight traffic, the positive effects of which is felt by all parties engaged in transportation: consignors, operators and infrastructure owners.



KEY FACTS

No. 1
by new generation railcars fleet

15.5 thou. railcars – fleet operated by Vostok1520

2 times higher than the average railcar performance in the market

>100 companies – the customer base

FLEET OPERATED BY VOSTOK1520, THOU. UNITS



CARGO TURNOVER, BLN TKM



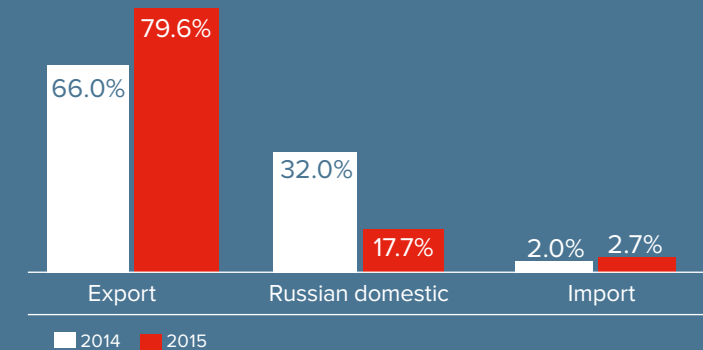
TRANSPORTATION VOLUME, MLN T



CAR PERFORMANCE, THOU. TKM PER CAR PER DAY



STRUCTURE OF TRANSPORTATION BY AREAS,*



* The share of transit in the transportation structure was 0.00% in 2014 and 0.01% in 2015.

KEY ACTIVITIES

Transportation of goods in heavy-duty cars

Initially, the rolling stock of Vostok1520 consisted of versatile gondolas and hoppers for mineral fertilisers based on innovative bogies with a load of 25 tf produced by Tikhvin Freight Car Building Plant. Then, the company entered the segment of grain transportation, and at the end of 2014 began to transport goods in solid-bottom gondolas unique for the market, with an increased capacity of 77 tonnes.

The customer base of Vostok1520 consists of more than 100 companies. The largest customers are Kuzbassrazrezugol, SUEK, Kuzbass Fuel Company, PromugolSERVICE, Topprom, StroySERVICE, PMH, Uralkali, RUSAL, Uralchem, Bashchem.

RESULTS OF OPERATIONS IN 2015

Stable growth of freight gondola base in 2015 caused an increase in demand for this type of rolling stock. The desire of consignors to optimise transport costs and the increased cargo base formed a strong demand for new generation railcars, due to their high economic and operational indicators. As a result, at the end of 2015, the fleet of Vostok1520 increased more than 3 times to 15.5 thou. railcars.

Due to the high efficiency of the Vostok1520 fleet, railcar loading showed a high growth, increasing by 4.6 times, to 11.9 mln tonnes, with 79% of the traffic being coal. In 2015, 10% of coal export shipments was carried out in UWC new generation railcars.

Access to more distant export routes helped increase the cargo turnover fivefold, to 47.9 bln tonne-kilometres.

In cooperation with RZD Vostok1520 develops heavy-haul technologies to increase the carrying capacity of the railway infrastructure due to train mass and axle load increase. On account of forming trains weighing 7,100 tonnes directed to the east and up to 9,000 tonnes – to the west, RZD even now can already reduce capital expenses (no need in additional investments in lengthening the receiving-and-departure tracks of stations).

Introduction of heavy-haul traffic is a qualitative leap in the freight sector of the industry. Heavy haul traffic is discussed with participation of companies and railway administrations of numerous countries as part of the Organisation for Cooperation between Railways and offers great opportunities for organising international freight traffic.

PLANS

In 2016, Vostok1520 plans to continue building up its fleet of railcars. It is also about to take steps for expanding the customer base and diversifying the range of operated railcars. The company intends to increase transportation efficiency by increasing the number of block train shipments and continue cooperation with RZD regarding heavy-haul traffic.



BUSINESS OVERVIEW

SERVICE

UWC is committed to providing a high level of service and maintenance for all users of new generation railcars. To this end, the Company is actively developing and expanding a network of service centres, which can in the shortest possible time carry out warranty and post-warranty repair of all types of UWC innovative railcars.

KEY FACTS

51

service centres

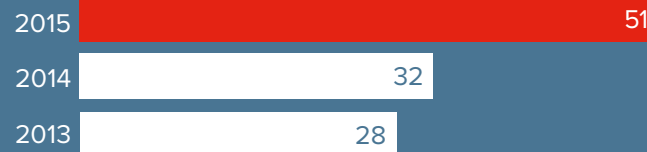
6

training centres

19

new service centres
joined the partner network
in 2015

NUMBER OF UWC SERVICE CENTRES



PARTNERS

UWC service centres are organised on the basis of railcar repair companies:

- TSZ Titran Express
- Railcar Repair Company – 1
- Railcar Repair Company – 2
- Railcar Repair Company – 3
- Central Infrastructure Directorate, a branch of JSC Russian Railways
- Ural Railcar Repair Company
- Siberian Railcar Repair Company)
- Railcar Repair Company (Khilok)
- Transvagonmash
- Belarusian Railway
- Kamkor Wagon (Kazakhstan).

KEY ACTIVITIES

- Service activities of the Company are performed on the basis of railcar repair facilities in the Russian Federation, Kazakhstan and Belarus, which carry out current and scheduled repairs of new generation railcars

RESULTS OF OPERATIONS IN 2015

In 2015, the UWC service network added 19 new centres, bringing the total to 51. The service centres provide current uncoupling repair (Category III service centres), as well as minimise railcar downtime in the repair zone at the expense of fast delivery of accessories and organisation of repair on the spot.

In 2015, 9 service centres were certified for Category II, which enables them to diagnose bogie cast parts, control their geometrical parameters and perform repairs.

PLANS

In 2016, UWC plans to continue the intense development of its network of service centres and open four new centres, bringing the total to 55. We will also continue the development of our own Category I head service centre, able to carry out current repairs of new generation railcars.



For the new generation gondolas, uncoupling frequency for current repairs is **15 times lower** than the average number through the network. Such trend is caused by high levels of operational reliability of UWC new generation railcars.

BROAD GEOGRAPHY OF SERVICE CENTRES



CORPORATE SOCIAL RESPONSIBILITY

PERSONNEL

Hiring and retaining the best professionals, developing human resources and motivating for result achievement are the necessary conditions for stable growth and development of United Wagon Company. Highly qualified employees are the key to UWC's success.

HR POLICY

UWC's HR policy is based on the Company's long-term Strategy and aims at increasing its competitiveness through the efficient use of the employees' skills, realisation of their professional potential and motivation.

Ensuring a high quality of life and good health for our employees, as well as ensuring their professional and personal development, is inextricably linked to the Company's success – this conviction lies at the heart of the five principles of UWC's human resources policy:

- achieving strategic aims by involving the people
- relentless improvement by realising of the potential of our human resources
- an effective material and non-material remuneration system
- training and development, creation of an environment that fosters professional and career growth
- a balance between powers and responsibilities, fair decision-making.

The Company is working in five areas to implement its human resources policy:

- employee recruitment and training
- pay and bonuses
- creation and refining of a system of pay grades
- increasing the efficiency of the employee development system
- developing and maintaining our corporate culture.

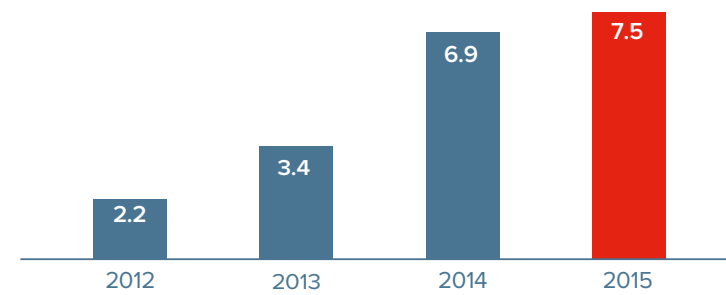
EMPLOYEE HEADCOUNT

In 2015 the average headcount of UWC was 7,476 employees, 9% more than in 2014.

The increase in the number of UWC's employees in 2015 was mainly due to intensive hiring of staff at the Tikhvin Freight Car Building Plant.

A significant increase in the staff of UWC is planned in 2016 because of production expansion. To timely recruit staff capable of effectively fulfilling strategic and tactical objectives set by the Company, quickly adapt to the changing environment, act efficiently in conditions of uncertainty, UWC strives for maintaining and strengthening its image as an attractive employer. The Company offers competitive salaries, incentive and social payments, comfortable and safe labour conditions, occupational pension scheme, training and staff development. The Employee Opinion Survey is held at the Company's production directorates once in six months to monitor the level of the employees' satisfaction with working conditions.

UWC AVERAGE HEADCOUNT, THOU. PEOPLE



PAY AND REMUNERATION

UWC has a common salary policy for all its subsidiaries. The policy sets out the pay system, the types and procedures for financial remuneration and other payments to employees, the principles and rules for the drawing up of local pay regulations.

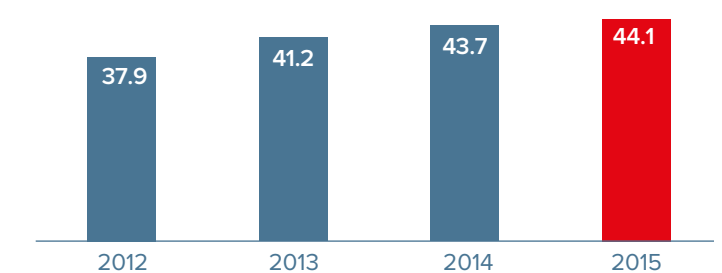
In 2015 the average salary of the employees at UWC's largest facility, the Tikhvin Freight Car Building Plant was 39.4 thou. roubles.

Material employee remuneration consists of permanent and variable elements. The permanent element includes the salary and the various additional payments provided for by the Labour Code of the Russian Federation.

The variable element consists of stimulating bonuses and premiums, the amount of which depends on the achievement of targets and key performance indicators for the accounting period.

The Company meets all its obligations in respect of pension provision for its employees in accordance with the legislation of the Russian Federation. In conjunction with Non-state Pension Fund "StalFond", the Company is implementing a programme of private pension provision.

AVERAGE SALARY AT UWC, RUB THOU.



PERSONNEL

EMPLOYEE TRAINING AND DEVELOPMENT

UWC offers uninterrupted all-round professional growth to all categories of employees. The Company's priorities are ensuring constant professional development of employees, expansion of their skills and abilities, accumulation and dissemination of knowledge and advancement for the best employees.

Employee training is delivered in 3 areas:

- ▀ Compulsory training in workplace health, fire safety and industrial safety.
- ▀ Professional employee training, including training, vocational retraining and qualifications upgrading.

- ▀ Seminars and training events for managers, specialists and employees to develop their competencies.

Employees are trained both by in-house trainers and by external training providers.

In 2015 more than 10,000 employees attended training courses. Training costs amounted to 22.9 mln roubles.



COOPERATION WITH UNIVERSITIES

In 2015 United Wagon Company and St. Petersburg State Transport University (PGUPS) entered into an agreement for cooperation in the field of creation and implementation of modern educational technologies related to railway transportation using PGUPS scientific potential. The key areas of cooperation will be joint research in the testing of materials and parts for freight railcars and non-destructive testing, training programmes for the Company employees and practice for the best students of PGUPS at UWC, a grant programme for the best undergraduate and master students of the university, and participation of the leading scientists of PGUPS in the research and technical council established by UWC.

In 2016 UWC signed a cooperation agreement with the Moscow State University of Railway Engineering (MIIT). Within the framework of partnership it is planned to implement training programmes for retraining and advanced training of UWC's employees, and practice for MIIT academic staff at the Company's facilities. Moreover, target training and material incentive programmes for the best students were developed. After graduation, these students will have the possibility to be employed at UWC's subsidiaries.

SOCIAL GUARANTEES AND BENEFITS

UWC offers its employees the whole range of social guarantees required by the laws of the Russian Federation. Moreover, the Company grants to its employees additional benefits and compensation, including payment for meals and mobile communications, optional medical insurance and free regular medical check-ups, additional paid leave and other benefits.

In Tikhvin UWC is implementing a comprehensive housing programme for employees of the production facility. In three of Tikhvin's suburbs 9 modern blocks of flats have been built, with a total surface of over 127 thou. m². The employees of the plant can use the programme "Financing of the initial deposit" and "Partial compensation of mortgage interest". For the employees invited from other regions of Russia, there is the programme "Discounted rental with purchase". At the end of 2015 more than 1 thou. flats were occupied under TVSZ housing programme.



CORPORATE CULTURE DEVELOPMENT

Corporate culture is a unique combination of ideals, values, beliefs, norms and models which unite UWC and are shared by its employees. The corporate culture supports the Company's Strategy and creates a favourable environment for the implementation of advanced technologies and business processes in all business areas.

One of the key instruments for development of the corporate culture is the newspaper PROZAVOD, which is published 8 times a year at UWC's largest production site in Tikhvin. A programme with the same name is aired by Russkoe Radio Tikhvin. In the social network VKontakte there is an active group, "Forum. Tikhvin Freight Car Building Plant, TVSZ", with about 9 thou. members.

Organisation of internal and external events is an important component of the corporate culture. At TVSZ a group of volunteers created a social organisation, PromAktiv, which efficiently arranges similar events.

Employees of the production site take part in sporting events in Tikhvin and in the Leningrad Region, participate in sightseeing tours, cultural and historical trips and other events.



HEALTH AND SAFETY

Employees' health and safety have always been a priority for UWC. The Company has responsibilities to its employees and works to implement advanced safety standards developed in full compliance with the relevant laws of the Russian Federation and international standards.

The main risks to the health of UWC's employees are concentrated at the 3 largest production sites of the Company: Tikhvin Freight Car Building Plant, TikhvinChemMash and NPC "Springs".

TIKHVIN FREIGHT CAR BUILDING PLANT

In order to implement workplace health and safety policy, the working conditions and work activity management, the technical condition of equipment, safety measures, maintenance of documents on safety and industrial safety are regularly monitored at TVSZ. Audits of working conditions at the workplace are also carried out. All dangerous production facilities are covered by an employer liability insurance policy relating to workplace injury.

In order to prevent injuries and occupational illness, the business carries out periodic medical examinations on employees, as well as special training sessions on workplace health and safety. To increase the safety culture, regular training courses are organised at the plant.

In 2013 TVSZ received a certificate confirming that it has met the IRIS international railway standard.

This standard takes into account the requirements of international professional health and safety management standard OHSAS 18001 and of environmental management standard ISO 14000. In 2015 TVSZ successfully passed the recertification audit and confirmed the compliance of its management system with IRIS international railway industry standard.

From 2012 until 2015 there were no deadly incidents at TVSZ. In 2015 11 accidents occurred at the plant. The investigations required by the laws of the Russian Federation were carried out for each accident. Investigations for injuries classified as "serious" were supervised by state labour inspectors. The reasons for each accident were identified and measures for prevention of similar accidents were developed. Moreover, the employees of the plant were informed of the reasons through extraordinary briefings.

In 2015 the Social Insurance Fund allocated to TVSZ 23.3 mln roubles for the organisation of preventive measures aimed at reducing occupational injuries and occupational diseases.

The allocated funds were used to purchase protective clothing and protection equipment for the plant employees.

In 2015 TVSZ's total expenses for safety amounted to almost 159 mln roubles.

In 2016, to ensure labour safety, at TVSZ it is planned to organise several organisational events (briefings, safety training courses, medical check-ups etc.) and technical events (bringing lighting at the work places into compliance with sanitary norms, installation of protective barriers etc.).

NPC "SPRINGS"

NPC "Springs" operates a modern workplace health and safety management system, based on legislative standards and corporate regulations, as well as internal standard "Supply of individual safety equipment to the business's employees".

NPC "Springs" conducts three-tier monitoring of workplace health and safety:

- Tier one: daily monitoring (each shift) by the line manager
- Tier two: monitoring by the production manager or the chief foreman at least once a week
- Tier three: monitoring by a commission headed by one of the business's managers, at least once a quarter and covering all production units.

To decrease workplace accidents and occupational diseases, identify risks at the workplace, visualise hazardous and harmful production factors, NPC "Springs" develops a control method for supervision of health and safety, "Safety Cross", trains workers, specialists and managers, develops and implements new health and safety instructions, installs modern and safe equipment which timely undergoes all technical tests and certifications.

To guarantee the employees' safety during their work and respect of their rights at the workplaces in accordance with the national health and safety requirements, in 2015 NPC "Springs" performed a special assessment of working conditions.

To manage production and professional risks, NPC "Springs" is working on implementing and obtaining the certification of the health and safety management system for compliance with standard GOST R 54934-2012/OHSAS 18001:2007.

In 2015 at NPC "Springs" 1 accident occurred.

The total amount of safety expenses for the accounting year was 1.7 mln roubles.

In 2016 NPC "Springs" plans to continue the modernisation of equipment, increase employees' motivation to fulfil the common targets and goals in the field of health and safety.

TIKHVINCHEMMASH

As a part of implementation of the Health and Safety Policy, TikhvinChemMash CJSC regularly controls the working conditions and organisation of work, technical conditions of the equipment, implementation of safety measures during work, keeping of health- and safety-related documents, and performs audits of working conditions at the workplaces.

To prevent injuries and occupational diseases, employees undergo regular medical check-ups. To increase the safety culture, regular safety training courses are organised at the plant.

In 2015 at TikhvinChemMash there were no accidents.

The total amount of health and safety expenses in 2015 was 3 mln roubles.

In 2016, to ensure workplace safety, at TikhvinChemMash it is planned to organise several organisational events (briefings, safety training courses, medical check-ups etc.) and technical events (bringing lighting at the workplaces into compliance with sanitary norms, installation of protective barriers etc.).



ENVIRONMENTAL PROTECTION

Consideration for the environment and natural resources is an essential part of UWC's activities. The Company is constantly looking for technical solutions aimed at improving environmental constructions and reducing the negative impact on the environment. UWC pays special attention to protection of the atmosphere and waste management. At its production sites, the Company has set up effective environmental management systems, based on standards laid out in the legislation of the Russian Federation and industry best practice.

ENVIRONMENTAL POLICY AT UWC BUSINESSES

The Tikhvin Freight Car Building Plant's environmental management system is based on the CTO 1510-002-2014 environmental protection management system, developed during 2014, which takes account of the requirements of the GOST R ISO 14001 standard. The system stipulates that the environmental risks attached to production should be assessed, followed by the compilation of a register recording the business's significant environmental aspects and the development of an action plan to reduce risk. The provisions of the system apply to all production processes and must be implemented by all structural units, as well as being communicated to the employees of all counterparties.

Every year, on the basis of the register of significant environmental aspects, the business's structural units put together a programme of environmental protection measures, with the results of the programme being analysed and communicated to the management on a quarterly basis.

Using this system ensures effective management of environmental protection operations, as well as guaranteeing that the views and needs of all interested parties are taken into account.

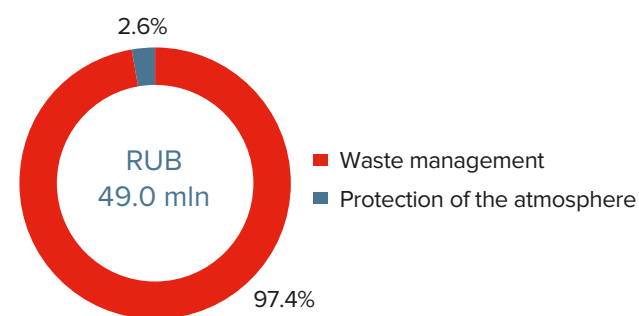
The environmental management system at NPC "Springs" is based on the internal Regulation on production controls, observance of all legislative standards and regulations in the area of environmental protection, the rational use of natural resources and measures to prevent pollution of the environment.

The operations of TikhvinChemMash, which was commissioned in 2015, were limited and did not have a significant impact on the environment.

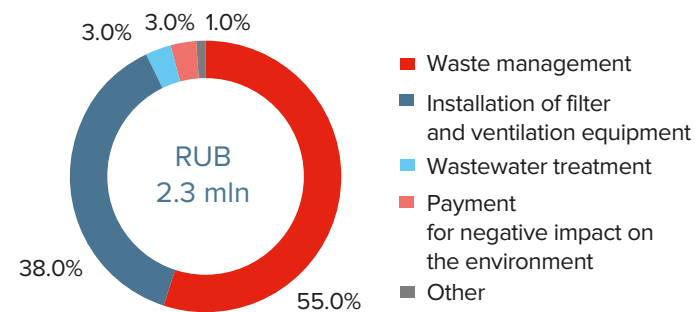
ENERGY CONSERVATION AND SAVING RESOURCES

Equipment, buildings and facilities at TVSZ meet the very latest standards in the field of energy and resource conservation, and so the business primarily puts in place organisational measures designed to reduce the consumption of heat and electricity. At present, TVSZ's production equipment is one of the most energy-efficient not only in Russia, but also in Europe.

SPENDING ON ENVIRONMENTAL PROTECTION AT TVSZ IN 2015



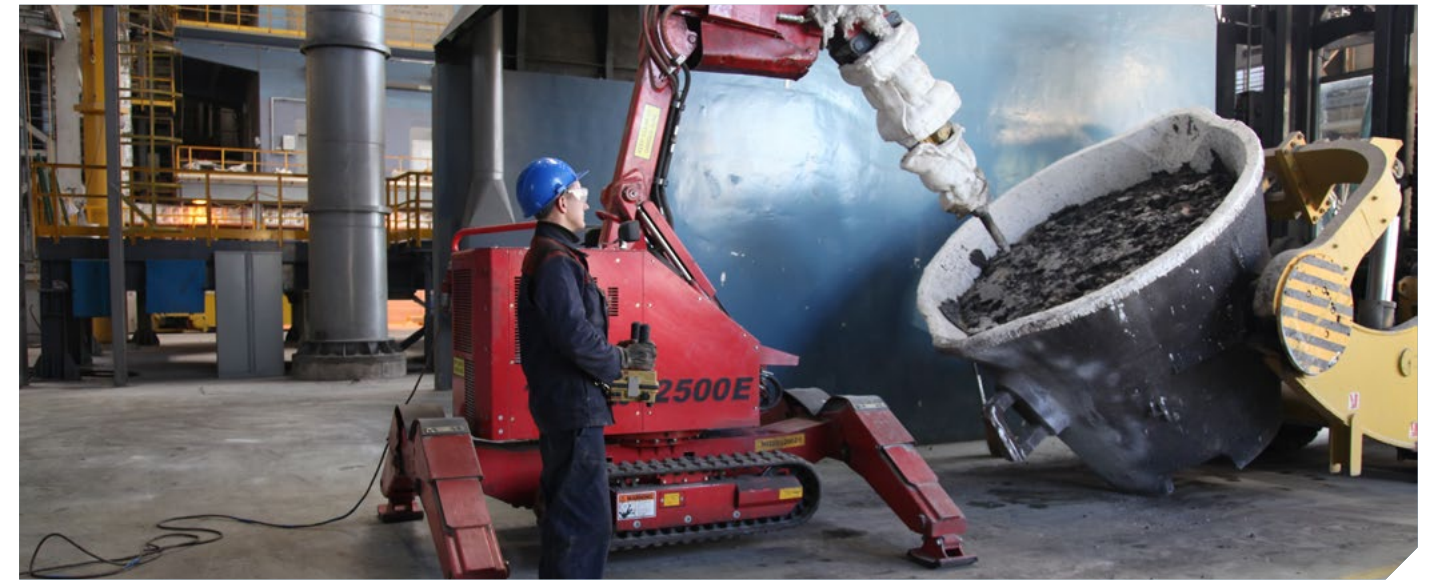
SPENDING ON ENVIRONMENTAL PROTECTION AT NPC "SPRINGS" IN 2015



DEVELOPMENT OF ENVIRONMENTAL DOCUMENTS

In 2015, within the framework of obtaining environmental documentation for TVSZ united plant (taking into consideration accession of former Titan-Express), the following documents were developed:

- passports for Class 1–4 waste categories for 44 types of waste
- a project for maximum permissible emissions into the atmosphere
- a draft of waste generation norms and limits for their disposal.



EMISSIONS INTO THE ATMOSPHERE

UWC's businesses use state-of-the-art technology that meets the standards of "clean" production. For instance, TVSZ uses the very latest gas-cleaning systems, and also strictly monitors the level of emissions.

In 2015 production and casting volumes at the company trebled, which inevitably led to an increase in emissions into the atmosphere. At the same time, the trends in emissions were considerably lower than the rate of growth of production indicators. High-tech equipment and permanent monitoring of its effectiveness mean that it is possible to deliver a significant reduction in the level of emissions when compared to the growth in production.

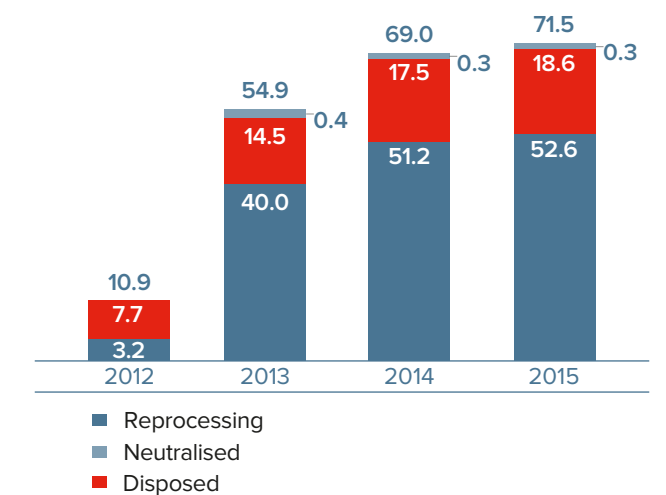
WASTE REPROCESSING

Various types of waste build up at the Company's production units as a result of the production of railcars, casts and components. UWC operates a progressive system to handle that waste safely. The majority of the waste produced at the Tikhvin Freight Car Building Plant is sent away for reprocessing, and is then reused. Making dangerous waste safe is compulsory. In 2015, only 26% of the waste produced was transferred for storage at special sites.

INDUSTRIAL ENVIRONMENTAL CONTROL

As a part of industrial environmental control, the Tikhvin Freight Car Building Plant carries out monthly testing of the quality of drinking water and control of parameters at the border of the plant's buffer zone. The standard indicators were not exceeded.

WASTE MANAGEMENT AT TVSZ, T PER YEAR



SOCIAL RESPONSIBILITY

UWC recognises and acknowledges its responsibility to the population of the regions where the Company has a presence. By investing in the development of these regions, and above all in the town of Tikhvin, home to the main production site, the Company supports social development and formation of a social environment which promotes the harmonious business development of the Company and meets the interests of all parties involved.

Urban development, education and cultural projects are the priority features of UWC's corporate social responsibility. As a socially responsible business, the Company also provides support to vulnerable sections of the population and to people with disabilities.

URBAN DEVELOPMENT PROJECTS

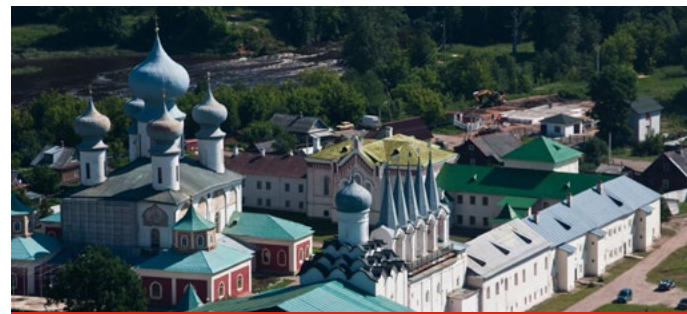
The city's central Freedom Square (Ploshchad Svobody) has been turned into a pleasant area for walks and relaxation. Pavements have been resurfaced, the monument to the heroes of the Great Patriotic War has been restored, new benches have been installed and flower beds have been provided.

Improvements to the area beside the Vyazitsky Stream and Tabory Ponds include the city's first pedestrian and cycle lane, new benches, street lights and additional landscaping. This neglected spot has been transformed into a comfortable and safe pedestrian area for adults and children alike.

The town centre has acquired a space for events: three wooden footbridges have been built over the Vyazitsky Stream and the Tabory Ponds; the grounds adjacent to the Cathedral of the Transfiguration of the Saviour have been landscaped; a viewpoint has been installed where Orlovskaya Street opens onto the banks of the Tabory Ponds; and Sovetskaya Street and Karl Marx Street have undergone upgrading. The town's appearance has been substantially transformed, with the fronts of buildings renovated, improved storm drainage ridding the streets of puddles and the creation of new pocket parks and high-grade pedestrian zones.

UWC has brought new ventures to Tikhvin in a bid to create a livelier town and enhance the lives of its residents. The DESIGN REFORMA art and design festival has been held in Tikhvin since 2012. The Company is also a general partner of the "Running City" city racing competitions in which more than 400 people take part every year from Tikhvin, Saint Petersburg, Moscow, Tver, Troitsk, Cherepovets and Pushkino. UWC supports the annual City Day, the "Tikhvinsky Lei" children's and young adults' talent contest, the "September in Tikhvin" jazz festival, the City Marathon.

In 2015 UWC supported Tikhvin's annual interactive road safety event "Fasten your seat belt!", initiated by the State Traffic Inspectorate of the Russian Ministry of the Interior with the support of civic organisation "Safe Traffic". During the accounting year UWC also supported the publication of a CD by Igor Volodin, a famous jazz musician from Tikhvin, and the Tikhvin Freight Car Building Plant sponsored the International Hanseatic Business Days, held in Tikhvin.



UWC is engaged in an extensive programme to develop the town of Tikhvin, home to the Company's main production facilities. The programme aims at creating a comfortable and modern urban environment. A number of projects which have radically transformed the city have been implemented to date with support from the local administration.

As a part of the implementation of the town development and improvement programme Tikhvingorod, in 2015 UWC supported the opening of library/social and cultural centre Teffi. Teffi is the most modern cultural and social centre of Tikhvin, which combines the functions of a modern library and venue for various events. Teffi was created with the cooperation of the Russian State Library for Young People, and the librarians from the largest libraries in Saint Petersburg (Lermontov and Mayakovsky Libraries).

From September to December 2015 Teffi hosted over 200 events of various types, with about 5 thou. visitors. Every day the library has about 150 clients, and their number increases as the centre becomes more popular. The library attracts townspeople of all ages, especially teenagers and young adults.

In 2015 more than 1.1 thou. readers registered with the library.



SOCIAL SUPPORT

The Company's Tikhvin Freight Car Building Plant is a partner of the AdVita charitable foundation, which provides support to adults and children with cancer. For several years, the Plant has sponsored a Saint Petersburg team made up of children supported by the foundation, their parents and volunteers, that takes part in the World Children's Winners' Games. These are athletic competitions for survivors of childhood cancers. The Plant also pays for children supported by the foundation to visit the Sheredar Rehabilitation Centre, the first holiday camp in Russia to specialise in the psychosocial rehabilitation of child survivors of cancers and blood diseases.

Since 2014 the Company is the official partner of the foodbank charity Rus, which provides food assistance to disadvantaged and large families, the elderly living alone, families with people with disabilities and the homeless in all regions of the Russian Federation.

In 2015, a workshop making up food parcels for disadvantaged people in the Tikhvin Eparchy was launched in the village of Nadkopanye in the Volkhovsky District. UWC regularly finances the purchase of food for the workshop. In 2015 the workshop produced 72 thou. food parcels.

In autumn 2015, on the occasion of World Food Day, in UWC's Moscow office, in cooperation with the foodbank charity Rus, food parcels for disadvantaged groups were prepared. Within 2 hours the Company's volunteers made more than 3 thou. "People's Lunches" parcels.

EDUCATIONAL AND CULTURAL PROGRAMMES

Since 2013, as part of the Grades A for Tikhvin educational project, additional classes to prepare the town's school-leavers for the Unified State Examination (USE) have been held with UWC support. To this end, invitations are issued to teachers and textbooks are acquired for advanced mathematics, physics, Russian and English, as requested by the schools. In 2013–2015 academic years, 273 students regularly attended classes. In 2015, the Tikhvinsky District came top in the Leningrad Region in the Unified State Examination (USE) in Russian and mathematics. In English, the average USE score for the project's students was 81.75 (compared to a Leningrad Region average of 65.6), in physics it was 60.13 (Leningrad Region average: 56.1).

In 2015 TVSZ began large-scale implementation of vocational guidance to grade 7–8 students of Tikhvin schools. Visits to the plant are organised for children, facultative courses concerning the plant's production system are held.

The plant also actively cooperates with Tikhvin Technical College named after E.I. Lebedev. Year 3-4 students can attend courses on the production system and pass apprenticeship. The teachers of Tikhvin Technical College named after E.I. Lebedev undergo regular practical training at TVSZ.

FINANCIAL PERFORMANCE OVERVIEW

REVENUE

CONSOLIDATED REVENUE

UWC revenue in 2015 amounted to 42.1 bln roubles, a more than two-fold increase over 2014. This trend is the result of an increase in production volumes, railcar sales to the market and sales prices for the products, and expansion of the fleet managed by the transportation company Vostok1520, and, consequently, of operation segment revenue.

Given the approved UWC development programme, further revenue growth is expected in the years ahead, to be achieved by increasing production capacity and boosting sales of innovative railcars.

PRODUCTION

In 2015 the revenue from UWC's Production segment amounted to 32.1 bln roubles, an almost 40% increase year-on-year. This solid upward trend can be attributed both to increased production volumes and to the higher prices of goods sold.

SALES

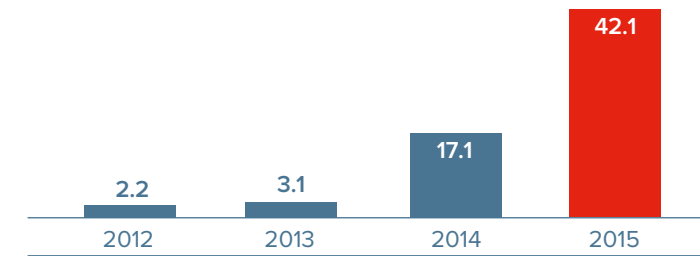
In 2015, the revenue from UWC's Sales segment decreased by 2% year-on-year (to 4.3 bln roubles). The decrease of the revenue in this segment was the result of curtailing UWC's own fleet by 4% during the year, from 16.6 thou. to 16 thou. railcars.

OPERATION

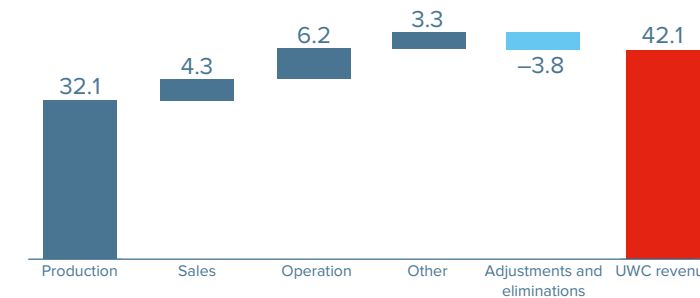
In 2015, a new Operation segment was added along with Production and Sales. In 2015 the revenue of the Operation segment amounted to 6.2 bln roubles and had a considerable impact on the total revenue of UWC.

It is expected that in 2016 the Operation segment will show a very dynamic growth as a result of the increase in demand for new generation railcars, and it is planned that the revenue of this segment will continue growing.

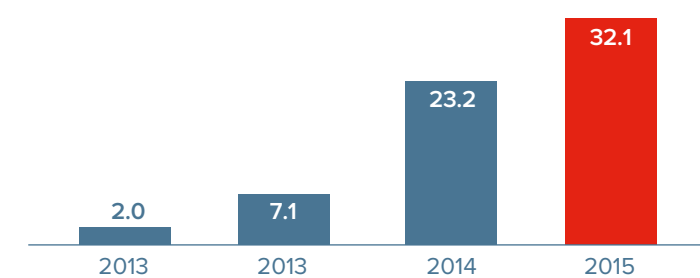
REVENUE, RUB BLN



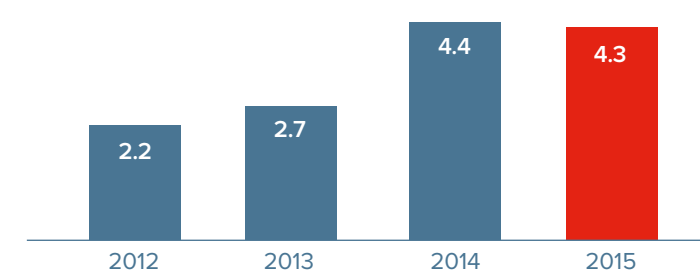
CALCULATION OF UWC CONSOLIDATED REVENUE IN 2015, RUB BLN



PRODUCTION SEGMENT REVENUE, RUB BLN



SALES SEGMENT REVENUE, RUB BLN



EBITDA

CONSOLIDATED EBITDA

In 2015 the Company's EBITDA was 7 bln roubles, almost twice more than in 2014. The increase in the indicator during the accounting year is due to the increase in revenue from sale of railcars and to the EBITDA positive trend in the Production segment. In 2015 the EBITDA margin was 16.6%. The decrease in the profitability is due to an increase in the share of less profitable segments Production and Operation.

The Company plans to achieve and maintain an EBITDA margin of 40%, mainly by:

- reaching full production capacity and target output rates
- implementing efficiency-boosting measures
- increasing the Sales segment business volumes as a result of greater market promotion of innovative standards.

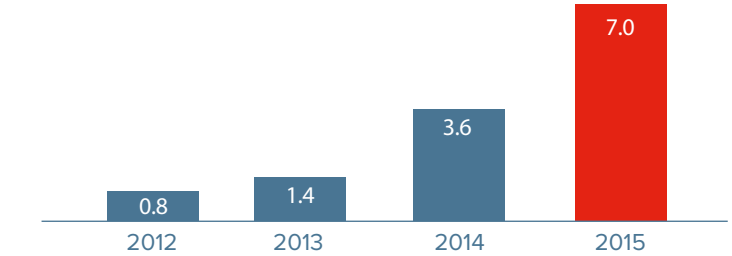
PRODUCTION

By 2015 the EBITDA of the Production segment showed a more than threefold increase compared to 2013, reaching 4.2 bln roubles, with a 13.1% margin. The increase in production capacity, the growth of production and sales volumes and cost reduction measures contributed to the growth of margin. The management expects the EBITDA target margin to be up to 25 %, if the target indicators for production volume and production costs are reached.

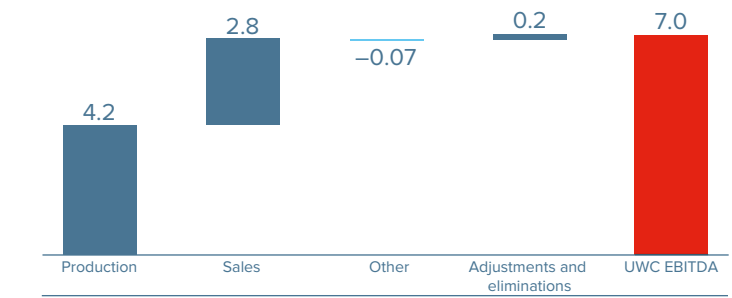
SALES

In 2015 the EBITDA of the segment amounted to 2.8 bln roubles, with a margin of 65.1%. The decline in EBITDA and margin in 2015 was the result of an increase in property tax expenses. The Company plans to keep the division's average EBITDA margin stable at 80–85%.

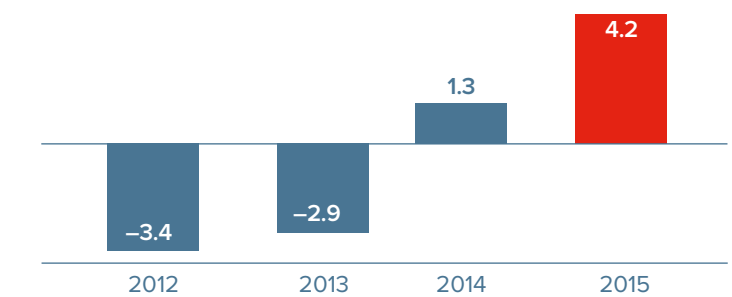
EBITDA, RUB BLN



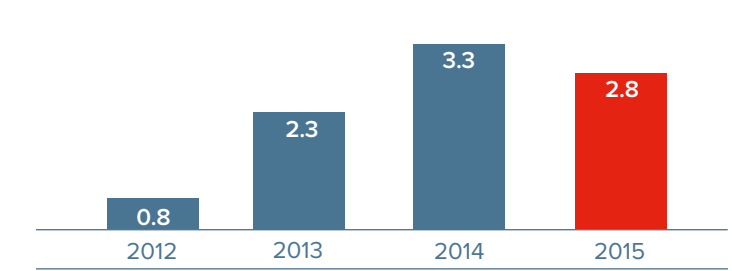
CALCULATION OF UWC CONSOLIDATED EBITDA IN 2015, RUB BLN



PRODUCTION SEGMENT EBITDA, RUB BLN



SALES SEGMENT EBITDA, RUB BLN



COSTS

In 2015, the Company's cost increased to 37.9 bln roubles. During the accounting year, the cost structure for each segment achieved stability.

PRODUCTION

In the Production segment, the bulk of costs was for goods and materials: rolled metal products, bogie parts and components, brake equipment, etc. Successful implementation of cost reduction actions in 2015 resulted in obtainment of gross profit by the segment.

SALES

In the Sales segment, the bulk of costs refer to the fixed assets depreciation for UWC's own railcars. Taxes had a significant impact as well, as in 2015 property tax expenses increased due to changes in the Tax Code according to which assets transferred between related parties are taxable.

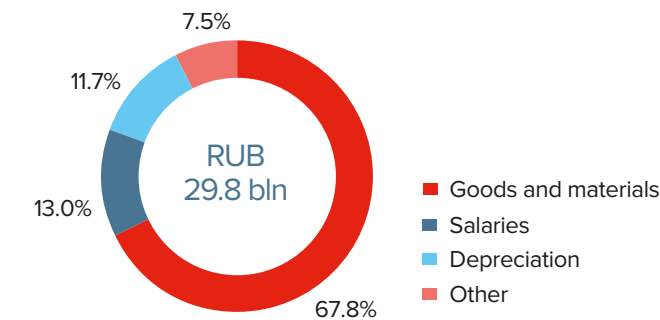
OPERATION

In the Operation segment, the costs refers to expenses related to RZD tariffs for empty run of railcars and operational lease of rolling stock, which is dictated by the specifics of the operator business.

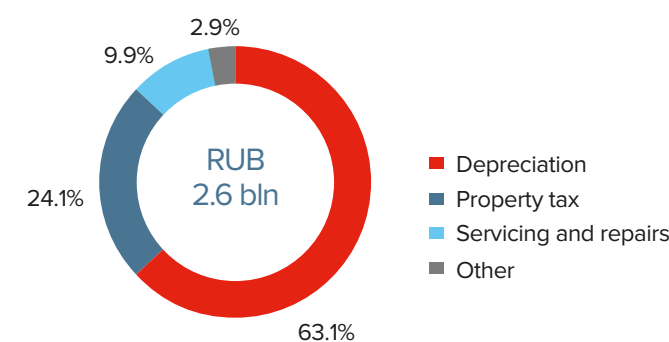
A substantial proportion of costs entered as expenditure for all segments is not pegged to foreign currency, which considerably lessens the exposure of Company spending to currency risks.

The Company plans to take actions to implement an optimisation programme to decrease costs, which will boost the efficiency of UWC's business.

BREAKDOWN OF PRODUCTION SEGMENT COSTS

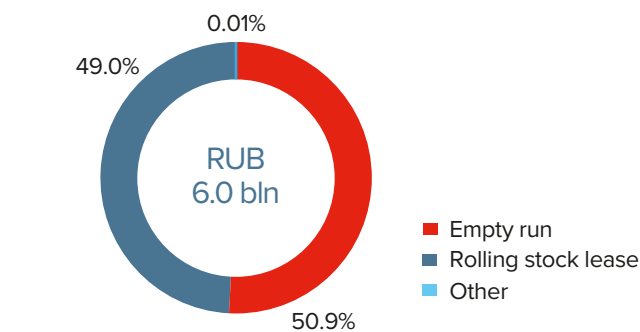


BREAKDOWN OF SALES SEGMENT COSTS*



* The share of goods and materials is 0.05 %.

BREAKDOWN OF OPERATION SEGMENT COSTS*



* The share of goods and materials is 0.04 %.

INVESTMENT, DEBT, CASH FLOW

UWC's capital expenditure in 2015 increased significantly as compared to 2013-2014 and amounted to more than 7 bln roubles.¹ The bulk of this was spent in 2015 to expand the product range and boost operational efficiency of production.

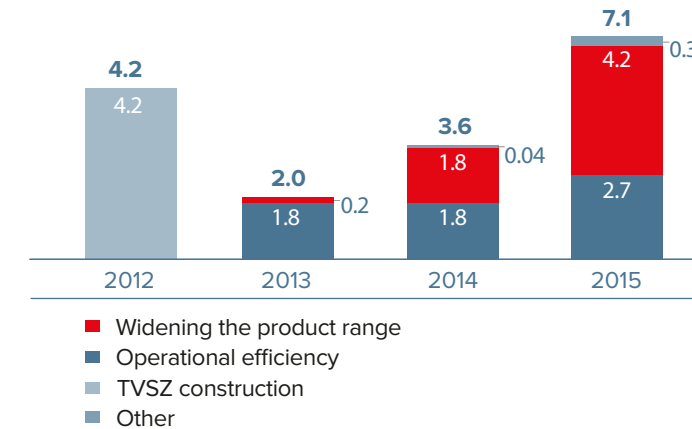
The debt of the Company amounted to 99.1 bln roubles as of the end of 2015.¹ In order to optimise the debt burden in 2015, UWC and Sberbank entered into agreements on rescheduling loan repayments of RAIL1520 leasing company. Besides, TikhvinChemMash and TikhvinSpetsMash obtained concessional credit facilities for production development under the investment projects support programme implemented in the territory of the Russian Federation based on project financing for the total amount of 8.7 bln roubles at the rate of 10.5%.

In 2016, the General Meeting of UWC Finance bond holders have adopted the resolution to extend the maturity date of series 01 bonds for the total amount of 15 bln roubles from 2016 to 2021. Changes in the securities issue resolution were registered by the Bank of Russia.

These measures and other steps to optimise the credit portfolio together with the growth of financial indicators will allow UWC to reach comfortable debt burden, which management sees as no more than 3.0x Net Debt/EBITDA.

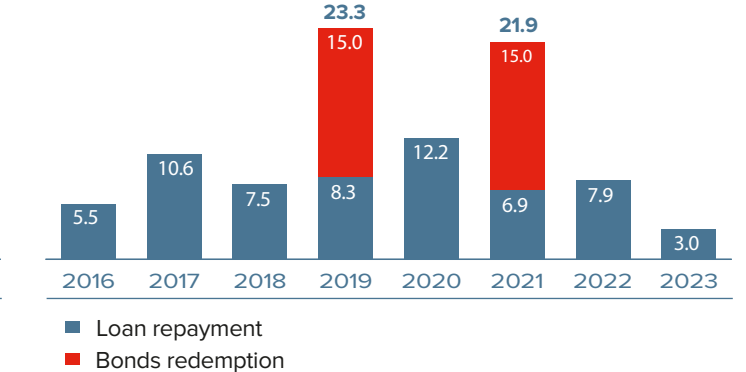
Cash flow from operating activities (before deduction of financial expenses) increased to 8.1 bln roubles due to the operating profit growth and positive changes in the current assets.

TRENDS AND BREAKDOWN OF UWC INVESTMENTS, RUB BLN*



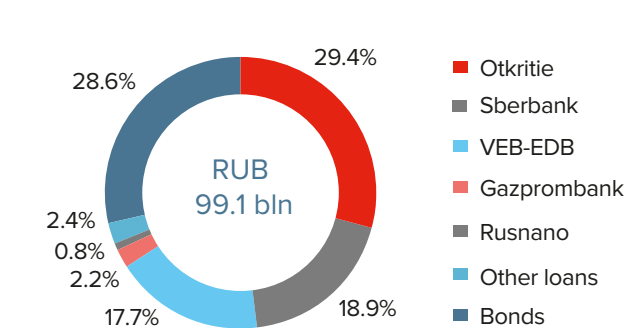
* Excluding railcars purchase and investments in other assets. The amount of investment expenses is shown exclusive of VAT.

PRINCIPAL DEBT REPAYMENT SCHEDULE, RUB BLN*

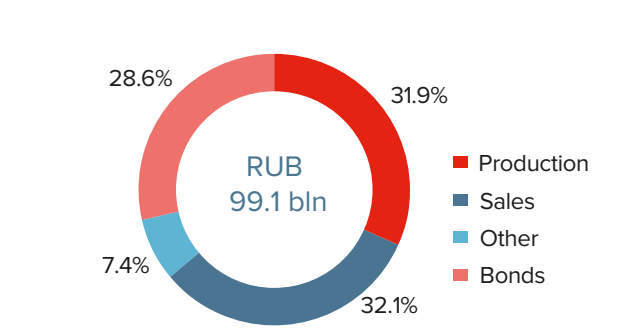


* Excluding working capital credit in the amount of 9 bln roubles. Including extension of series 01 bonds maturity date from 2016 to 2021. Excluding bonds held by UWC subsidiaries as at December 31, 2015.

BREAKDOWN OF UWC DEBT (BY CREDITORS)



BREAKDOWN OF UWC DEBT (BY SEGMENTS)



¹ According to the data of UWC management statements.

RISK MANAGEMENT

Various risks have an impact on UWC's business and may adversely affect the achievement of business goals. In order to manage and minimise these risks, the Company has adopted a risk-based approach designed to ensure the adoption of the most effective management solutions. UWC's risk-management system enables early risk detection, detailed risk analysis and the adoption of measures for risk hedging and minimisation. Risk identification and risk management procedures are closely integrated into strategic decision-making process and into ongoing Company activities.



RISK MANAGEMENT SYSTEM

UWC has an autonomous risk management unit. It is part of the Company's Finance Directorate and is accountable directly to the Chief Executive Officer. The risk management unit keeps the Risk Chart. It also establishes and updates the risk management policies which determine the risk identification and minimisation measures taken by the Company's operational units. Furthermore, the risk management unit regularly briefs UWC managers on current risks and monitors the implementation of risk hedging measures.

RISK CHART

A key element in the UWC risk management system is the Risk Chart which is updated on a quarterly basis. The Company regularly interviews the heads of its business units in order to monitor changes in current risks and identify new ones. Updating the Risk Chart includes UWC assessing/re-assessing the impact of each risk and carrying out regular stress tests. Moreover, the Company is gradually expanding the scope of its Risk Chart through the inclusion of new business processes and new business units.

The Company's risk management procedures are being constantly adapted and upgraded. These include ongoing analysis of the competitive environment and analysis of contemporary risk requirements and solutions (including solutions standardised by the ISO).

The following are the main risk factors that the Company is subject to in the course of its operations:

- financial and economic risks (basic risks)
- legal risks
- commercial risks
- marketing risks
- technical risks
- human resource risks.

CREDIT RISK MANAGEMENT

Since freight car lease payments represent one of the main sources of UWC's profit, beside railcar sales, credit risk (leading to potential loss of business partners' ability to meet payment obligations) is among the Company's key risks.

Credit risk includes:

- business partners default risk
- leased property loss/damage risk
- leased items liquidity loss risk.

The main document regulating the Company's credit risk management is the Credit Policy. It envisages the following procedures for managing credit risk:

- preliminary analysis of the business partner's ability to meet payments
- complex analysis of the lessee's business, including:
 - credit scoring modelling
 - financial factor analysis, including:
 - structural and trend analysis of the business partner's financial activities
 - an established system of financial indicators (absolute and relative)

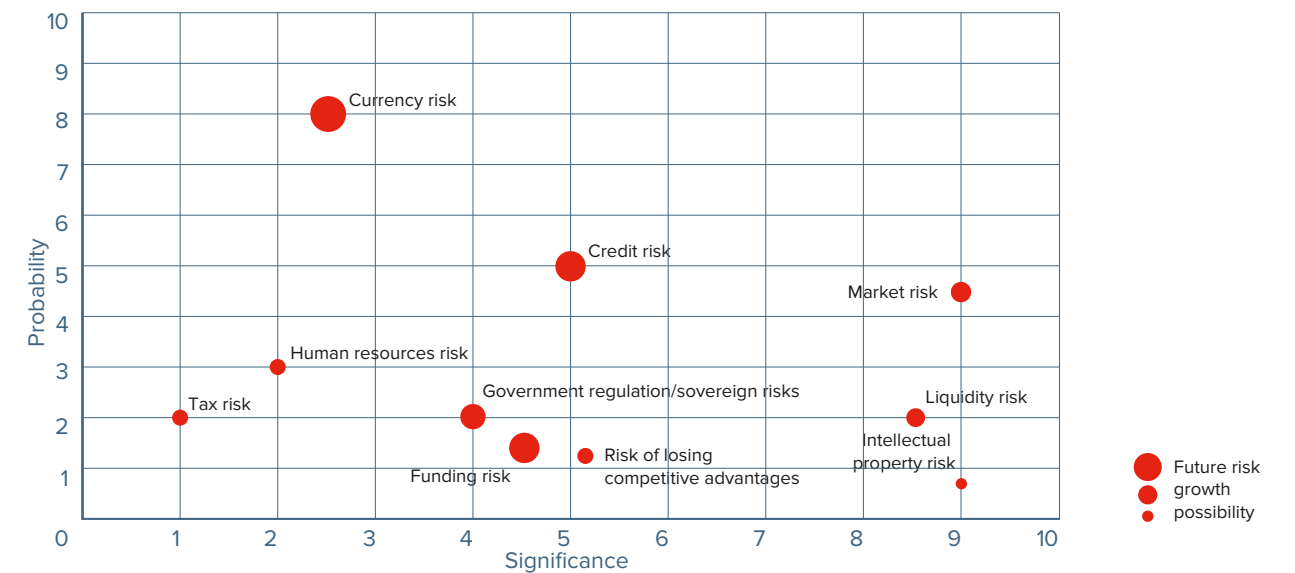
■ analysis of non-financial factors:

- the lessee acting in the market
- the lessee as part of a group of companies
- business sector trends
- cooperation with the state
- the quality of management
- reputation and analysis of publicly available information

- examination of each transaction by varyingly representative Credit Committees
- monitoring payment history
- monitoring the business partner's financial health
- timely preventive measures to avert/reduce the consequences of risk occurrence by devising asset remarketing measures, seeking compromise solutions and taking legal action where required.

The following instruments are used to minimise the credit risk: securitisation, provision for reserves, limiting the operations. Leasing transactions are secured by having railcars owned by the leasing company (the Company) as a security for such transactions. The Company insures the leasing transactions' property in order to minimise the leased property loss/damage risk.

RISK RADAR



UWC BASIC RISKS CHART

Risk description	Probability	Exposure	Potential effect of occurrence:	Risk management / ways of mitigation	Change versus 2014
Financial and economic risks					
<p>Funding risks</p> <p>The risk of the creditor unilaterally imposing a substantial change in the rate of raising capital</p> <p>The risk of a substantial change in the basic conditions of financing</p>	Low	Medium	<ul style="list-style-type: none"> Rise in financing cost, entailing increased costs Need to raise additional funds from shareholders Need to put up additional collateral 	<ul style="list-style-type: none"> Strengthening conditions of financing in long-term loan agreements Monitoring compliance with covenants and other conditions of financing in credit agreements, and modifying the terms of credit agreements ahead of time Reducing the volume of debt burden Compensating expenses by increasing lease rates Reviewing the distribution pattern of borrowed funds to ensure priority funding of business areas with higher return on equity 	<p>The risk has increased in connection with aggravation of crisis in the Russian economy:</p> <ul style="list-style-type: none"> fall in oil prices a weaker rouble a higher key rate and as a consequence an increase in the value of debt financing
<p>Currency risk</p> <p>The risk of a substantial fluctuation in exchange rates</p>	High	Low	<ul style="list-style-type: none"> Rise in financing cost Occurrence of losses from exchange rate differences in loan agreements and in equipment and parts supply agreements 	<ul style="list-style-type: none"> Localising production of imported parts Forward contracts with a fixed exchange rate Minimising the volume or conversion of foreign currency credits Hedging currency risk, closing open forex positions / minimising short open forex positions 	<p>The risk has increased in connection with depreciation of the rouble and its highly volatile rate of exchange</p>
<p>Capital and liquidity risk</p> <p>The risk of insufficient cash over the short or long term</p>	Low	High	<ul style="list-style-type: none"> Failure to meet current financial commitments Insufficient working capital to ensure operations 	<ul style="list-style-type: none"> Boosting the proportion of long-term sources of finance in the overall volume Constantly monitoring and managing balance-sheet liquidity Constantly working with banks to raise additional financing 	No change
<p>Tax risk</p> <p>Varying interpretations of tax laws</p>	Low	Low	<ul style="list-style-type: none"> Supplemental income tax assessment, payment of tax penalties 	<ul style="list-style-type: none"> Structured document management, timely submission of documents for tax inspections Monitoring changes in requirements in regard to “controlled indebtedness” Timely preparation of documents in regard to transfer price transactions 	No change
<p>Banking risk</p> <p>Risk of termination of operating activities, suspension of bank account transactions</p>	Low	Low	<ul style="list-style-type: none"> Failure to meet credit commitments and payment obligations towards business partners Suspension of Company operations 	<ul style="list-style-type: none"> Opening back-up accounts with other banks Evaluating financial health of banks / credit rating (of countries) when opening accounts 	<p>The risk has increased due to worsening of banks’ financial health during the crisis</p>
<p>Credit risk</p> <p>The risk of default by one or several lessees, accounting for a significant proportion of the portfolio, and the risk that the portfolio will make a loss</p>	Medium	Medium	<ul style="list-style-type: none"> Lessee default Contractual arrears A proportion of railcars standing idle Forced reduction in the lease rate when remarketing 	<ul style="list-style-type: none"> Performing credit analysis of the Client Regular monitoring of the Client’s current financial health In case of the lessee’s assumed default – timely choose a new lessee and enter into agreements in order to eliminate railcars’ idle time 	<p>The risk has grown in connection with Russia’s general economic decline and increase of business bankruptcies in the corporate sector</p>

UWC BASIC RISKS CHART (CONTINUED)

Risk description	Probability	Exposure	Potential effect of occurrence:	Risk management / ways of mitigation	Change versus 2014
Legal risks					
Compliance risks Risk of business partner's bankruptcy	Low	Medium	<ul style="list-style-type: none"> • Bankruptcy of business partner / lessee / supplier • Non-performance of current contracts / obligations • Legal proceedings • VAT refund failure 	<ul style="list-style-type: none"> • Complete due diligence of clients and suppliers upon entering the agreement • Subsequent monitoring with respect to nonfulfillment of the agreement • Continuous monitoring of the business partner's legal status 	The risk has grown in connection with Russia's general economic decline and increase of business bankruptcy in the corporate sector
Property risks Risk of property rights loss Risk of company management loss	Low	High	<ul style="list-style-type: none"> • Loss of control over the company • Legal proceedings • Loss of title to assets (property and companies) 	<ul style="list-style-type: none"> • Control over the creation of corporate organisational structure • Creation of a control system in respect of assets acquisition and management 	No change
Intellectual property risk Risk of losing intellectual property rights Risk of unlawful patent use	Low	High	<ul style="list-style-type: none"> • Appearance of lower-priced competitive equivalents • Shortfall in revenue from licensing agreements • Legal proceedings 	<ul style="list-style-type: none"> • Legal elaboration of mechanisms to preserve the protection of intellectual property • Introducing a non-disclosure regime, concluding non-disclosure agreements • Monitoring production volumes of licensed companies • Timely development of new intellectual property 	No change
Commercial risks					
Market risk Risk of substantial changes in raw material prices. The risk of changes in lease rates on the market	Medium	High	<ul style="list-style-type: none"> • Substantial decline in lease rates • A fall in revenue • Margin decrease 	<ul style="list-style-type: none"> • Contracting parts supply by methods that are not dependent on the market situation • Increasing the fleet proportion of innovative railcars that are least susceptible to falling prices • Exercising the option to change the lease rate in lease agreements • Increasing and diversifying the client base 	The risk has grown in the light of reduced lease rates
Risk of losing clients Risk of losing clients if cooperation with the Group is no longer advantageous	Low	Medium	<ul style="list-style-type: none"> • A drop in revenue as a result of a shrinking lease portfolio • A proportion of railcars standing idle • Additional administrative outlay on emergency expansion of the client base / output sold at unacceptable prices 	<ul style="list-style-type: none"> • Diversifying the client base of the Group's lease companies • Selling output to related companies 	The risk has fallen due to legislation and state programme aimed at shifting to innovative railcars
Risk of losing competitive advantage Risk of competitors emerging in the market with more attractive prices and lease rates for railcars with analogous quality characteristics	Low	Medium	<ul style="list-style-type: none"> • A reduction in the rates and prices of innovative railcars 	<ul style="list-style-type: none"> • Prioritising innovative output when forming the railcar fleet • Licensing the production of innovative railcars • Expanding and diversifying the client base • Investing in R&D 	No change
Service risk Risk of absence of service centres for technical and service maintenance of innovative Barber bogies	Low	Medium	<ul style="list-style-type: none"> • Delays, downtime • Financial losses • Barber bogies service problems • Drop in demand for Barber bogies and railcars based on them 	<ul style="list-style-type: none"> • Purchasing of own railcar repair shops • Expanding the network of innovative railcars maintenance service centres • Barber bogies repair training • Distribution of component parts via the network of service centre 	The risk has decreased due to acquisition of Titran-Express

UWC BASIC RISKS CHART (CONTINUED)

Risk description	Probability	Exposure	Potential effect of occurrence:	Risk management / ways of mitigation	Change versus 2014
Marketing risks					
<p>Reputation risks</p> <p>Risk of losses due to unfavourable image of the Company perceived by lessees, contract parties, business partners, regulatory authorities, creditors</p>	Low	Low	<ul style="list-style-type: none"> Worsening of commercial goodwill of the company Loss of good mutual relations with business partners. Creditors and business partners doubting sustainability and solvency of the company Spreading adverse information about the company, loss of reputation on employment market and consequently – inability to choose appropriate employees in such market Loss of market share 	<ul style="list-style-type: none"> Monitoring and control of market information on the business partner Forming long-term relations with press and mass-media, controlling sources of information, monitoring and retraction of misinformation Forming and maintaining positive business reputation Developing the corporate staff, team-building Promoting the Company's positive image through social networks and by means of the Company's staff feedback 	The risk has decreased due to an increase in the market share of the Company, Rankings participation and positive feedback from mass-media publications
<p>Government regulation / sovereign risks</p> <p>Risk of changes in the country's political situation and/or deterioration in the business climate</p> <p>Risk of greater regulation of the sector or a change in standards</p> <p>Risk of a reduction in state support for the transport engineering business</p>	Low	Medium	<ul style="list-style-type: none"> Loss of a proportion of existing competitive advantages A fall in demand and sales volumes 	<ul style="list-style-type: none"> Participating in sectorial associations (Union of the Producers of Railway Equipment, the Association of Railcar Builders) Working closely with Russian Railways 	<p>The risk of greater regulation and changes in legislation has diminished due to implementation of the state programme for replacement of obsolete railcars</p> <p>Sovereign risk remains high due to the country's foreign policy</p>
Technical risks					
<p>Infrastructure risk</p> <p>Risk of IT problems</p> <p>Risk of falling behind the schedule of business processes automation</p>	Low	Low	<ul style="list-style-type: none"> Full or partial loss of company data Temporary suspension of the company's operations 	<ul style="list-style-type: none"> Using fault-tolerant virtualisation systems Storing e-mails on a remote server Housing the server somewhere out of office Controlling information conveyed outside by the employees Data back-up Division by data access levels depending on the authority of the employee 	No change
<p>Automation risk</p> <p>Risk of business processes efficiency loss due to violation of planned automation schedule</p>	Low	Low	<ul style="list-style-type: none"> Poor efficiency of the company's business processes implementation 	<ul style="list-style-type: none"> Controlling timely implementation of access provision automation plans 	No change
HR risks					
<p>Human resources risk</p> <p>Risk of losing key staff with access to the Company's commercial secrets</p>	Medium	Low	<ul style="list-style-type: none"> Loss of key Company clients Leaks/loss of important financial information or commercial secrets Loss of intellectual resources with the departure of key staff 	<ul style="list-style-type: none"> The existence of procedures to restrict access to information in line with employees' authority, introducing a non-disclosure regime In-house security vetting of staff at recruitment, proficiency tests 	No change
<p>Motivational risk / risk of job satisfaction loss</p> <p>Risk of failure of current corporate principles to meet expectations of the majority of the employees</p>	Medium	Low	<ul style="list-style-type: none"> Resignations of key staff due to motivation loss Financial losses due to staff turnover or leaks of commercial information 	<ul style="list-style-type: none"> HR branding Introduction and development of employee incentive programme The existence of procedures to restrict access to information in line with employees' authority, introducing a non-disclosure regime 	No change

CORPORATE GOVERNANCE

CORPORATE GOVERNANCE BODIES

Effective corporate governance system is one of the key elements of UWC's success. Consistent development and rationalisation of corporate governance system allows UWC to increase its operating and financial efficiency.

BASIC PRINCIPLES OF UWC'S CORPORATE GOVERNANCE:

- ▀ protection of the rights and interests of all shareholders
- ▀ fair and equal treatment of all the shareholders
- ▀ business transparency for the shareholders and investors
- ▀ provision of an effective mechanism for cooperation between management bodies
- ▀ decision-making autonomy of the Board of Directors
- ▀ maintenance of an effective internal control and auditing system
- ▀ compliance with legislative norms in every aspect of business.

UWC has set itself the objective of developing an effective system of corporate governance that meets the highest standards in the field. The Company strives to observe modern practices of managing and disclosing information so as to enable the creation of an atmosphere of trust between all interested parties and to raise the quality of management decision-making.

GOVERNANCE AND SUPERVISION BODIES

The following bodies and units have been set up at UWC in order to implement the principles mentioned above:

- ▀ General Meeting of Shareholders
- ▀ Board of Directors
- ▀ CEO
- ▀ Internal Auditor
- ▀ Internal Audit Department

UWC's governance and supervision bodies operate according to the Company's constituent and internal documents. These can be found on the Company's official website at: www.uniwagon.com/corporate_documents.

GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is UWC's highest body of governance. By taking part in the Company's General Meeting, shareholders exercise their right to participate in Company management. Under the UWC Charter and Russia's current legislative norms, shareholder participation is required for taking a number of the most important corporate decisions, including those on profit distribution and the approval of major transactions.

UWC offers its shareholders various opportunities to exercise their rights to manage the Company by participating in the General Meeting of Shareholders, tabling proposals and nominating candidates for the Board of Directors and the position of Internal Auditor.

The Annual General Meeting of Shareholders is held no less than once a year between 1 March and 30 June. An Extraordinary General Meeting of Shareholders is convened by a decision of the Board of Directors at its discretion or at the request of the Internal Auditor, the external auditor or a shareholder with a stake of at least 10% of UWC voting shares. Meetings may require attendance or allow absentee voting. The procedure for holding a General Meeting of Shareholders is set out in the UWC Charter and the Regulations on the General Meeting of Shareholders.

Two UWC General Meetings of Shareholders were held in 2015 with one of them – the Annual General Meeting of Shareholders – devoted to UWC's results in 2014 and the other – to review the decision on approval of UWC's suretyships for its controlled companies – TikhvinChemMash CJSC and TikhvinSpetsMash CJSC within the framework of implementing investment projects under the Programme for support of investment projects implemented within the territory of the Russian Federation based on project financing approved by Decree of the Government of the Russian Federation No. 1044 of October 11, 2014.

BOARD OF DIRECTORS

The Board of Directors is the collegiate governance body in overall charge of the Company, with the exception of matters that are within the remit of the General Meeting of Shareholders. Its activities are regulated by the Federal Law On Joint-Stock Companies, the Company Charter and the Regulations on the Board of Directors.

The General Meeting of Shareholders elects members of the Board of Directors by cumulative voting for the period until the next Annual General Meeting of Shareholders. Members of the Board of Directors are accountable to the General Meeting of Shareholders and are responsible for the Company's successful development. The Board of Directors is a vital tool for protecting the rights and legitimate interests of shareholders, including those with minority holdings.

Under the Charter, there are nine members of the Company's Board of Directors. It is headed by the Chairman.

The Company gives great significance to the institution of independent directors in the belief that their input increases the objectivity of the resolutions adopted by the Board of Directors and ensures the best protection of the rights and interests of all the shareholders. In accordance with UWC internal documents, the Board of Directors must include no fewer than three independent directors who hold no less than one-fifth of the seats in the Board of Directors.

A Member of the Board of Directors is deemed independent if she/he has no connection with the Company or with any substantial shareholder, business partner, competitor or state. The independence of members of the Board of Directors is determined according to the criteria set out in the listing rules of the Moscow Exchange and those of trade operators listing company stock.

As at 31 December 2015, the UWC Board of Directors included three independent directors, three non-executive and three executive directors (the CEO and senior management).

In 2015, the Board of Directors met 20 times and considered the following issues among others:

- ▀ Electing the Chairman of the Board of Directors
- ▀ Confirming the decision to issue additional securities
- ▀ Specifying the price of the additional securities issue
- ▀ Joining the international Organisation for Cooperation between Railways (OSJD).

In accordance with the decision of the General Meeting of Shareholders of June 29, 2015, each member of the Board of Directors could have received remuneration for his/her work in 2015 amounting up to a maximum of 3 mln roubles. The maximum amount of remuneration for work in each of the Board of Directors' committees in 2015 was 500 thou. roubles.

BOARD OF DIRECTORS



01

NIKOLAI DOBRINOV

02

ILYA YUZHANOV

03

GENNADY ZHUZHLEV

04

IGOR MINTZ

05

ALEXANDER PLESHAKOV

06

IGOR TSYPLAKOV

07

ZUMRUD RUSTAMOVA

08

ROMAN SAVUSHKIN

09

DMITRY BOVKIN

10

ALEXEY TSYPLAKOV

BOARD OF DIRECTORS

01 NIKOLAI DOBRINOV

CHAIRMAN OF THE BOARD OF DIRECTORS,
NON-EXECUTIVE DIRECTOR

Nikolai Dobrinov is the Chairman of the UWC Board of Directors. In CJSC ICT, in the office of Deputy CEO, he is in charge of corporate communications, relations with governmental authorities.

Prior to the reorganisation in 2013, he was the Vice-President of ICT Group, since the establishment of the Group he held a number of management positions in its companies.

Earlier on, he was the Deputy Chairman of the Board at the Development Fund of St. Petersburg and North-Western region. In 1983-1990 he was the head of a department, the first secretary of the Gatchina City Komsomol Committee, then he was the head of a department, secretary of the Leningrad Regional Komsomol Committee.

He began his career at the Burevestnik Electromechanical Plant in Gatchina, the Leningrad Region.

In 1980, he graduated from the Sergo Ordzhonikidze Moscow Institute of Management as an engineer-economist for organisation of management, and in 1993 he received a diploma from the Russian Foreign Trade Academy.

He does not have a share in the authorised capital and does not own UWC ordinary shares. He did not make transactions with the Company's shares in 2015.

02 ILYA YUZHANOV

INDEPENDENT DIRECTOR, CHAIRMAN OF THE AUDIT
COMMITTEE, MEMBER OF THE REMUNERATION AND
NOMINATION COMMITTEES

Currently, he also holds the post of the Chairman of the Board of Directors at Polyus Gold International.

In 2011-2015, he served as the Chairman of the Supervisory Board at AK ALROSA (OJSC).

In 2004-2013, he was a member, and later on the Chairman of the Supervisory Board of NOMOS-BANK OJSC.

In 2000-2011, he was a member of the boards of directors in such companies as RAO UES of Russia OJSC, Uralkali OJSC, NOVATEK OJSC, Kirov Plant OJSC, Polymetal OJSC and Holding MRSK OJSC.

Previously, Mr Yuzhanov held various positions in the city administration of Leningrad / St Petersburg, worked as the Chairman of the State Committee of the Russian Federation for Land Resources, Minister of Land Policy, Construction and Housing and Utilities Infrastructure of the Russian Federation, and the Russian Minister of Anti-Monopoly Policy and Support to Entrepreneurship.

In 1982, Ilya Yuzhanov graduated from the Economics Department of Leningrad State University. Candidate of Economic Sciences.

He does not have a share in the authorised capital and does not own UWC ordinary shares. He did not make transactions with the Company's shares in 2015.

03 GENNADY ZHUZHLEV¹

INDEPENDENT DIRECTOR

Gennady Zhuzhlev has been working in banking since 1995 and has extensive practical experience in the field of project financing and the financing of investment projects.

Since 2015, he has served as Senior Vice President of Bank Otkritie Financial Corporation PJSC

In 2010–2015, he was the Chairman of the Board of Eurasian Development Bank.

From 2003 to 2008, he served as the Executive Director of FC Uralsib.

In 1996–2003 he held various positions in MDM-Bank, including the post of Deputy Head of the Credit Department.

In 1996, he graduated from Tsiolkovsky Moscow State Technology University, and in 1999 he received a degree from Moscow International Higher Business School MIRBIS, majoring in Finance and Credit.

He does not have a share in the authorised capital and does not own UWC ordinary shares. He did not make transactions with the Company's shares in 2015.

04 IGOR MINTZ²

NON-EXECUTIVE DIRECTOR, MEMBER OF THE AUDIT
COMMITTEE

Igor Mintz is the Managing Director, the Director of the Corporate Finance Department at O1 Group.

From 2013 to 2015, he headed the Board of Directors of the telecom operator Olo del Peru.

From 2010 to 2014, he was engaged in the analysis of investment attractiveness of venture projects in various economy sectors at MC Kaskol and worked at CJSC ICT, where he headed the foreign investment area as the Managing Director.

From 2007 to 2009, he worked at Commercial Bank SDM-Bank, in the Department of Management Accounting and Internal Control.

Igor Mintz graduated from the International Economic Relations Department of MGIMO.

He does not have a share in the authorised capital and does not own UWC ordinary shares. He did not make transactions with the Company's shares in 2015.

05 ALEXANDER PLESHAKOV

INDEPENDENT DIRECTOR, CHAIRMAN OF
THE REMUNERATION AND NOMINATION COMMITTEE,
MEMBER OF THE AUDIT COMMITTEE

Alexander Pleshakov is the President of Non-Profit Partnership Guild of Financial Managers, and he also is a member of the Board of Directors at RPC UWC as an independent director. Previously, he has held various management positions in the banking sector, including the post of the Deputy President at JSCB NOVIKOMBANK CJSC and a Board member (2007–2008), Vice-Chairman of the Board of Gazenergoprombank CJSC (2004–2007).

From 2000 to 2004, he was a member of the Federal Commission for the Securities Market.

In 1998-2000, he served as the Deputy Head of a Department in the Russian Ministry of Property Relations.

Alexander Pleshakov is a graduate of Mozhaisky Military Engineering Institute, majoring in Flying Vehicles. In 1993, he graduated from the postgraduate course, majoring in Military Cybernetics, Computer Science, Systems Analysis, Operations Research.

In 2000, he was retrained at the Academy of National Economy of the Government of the Russian Federation under the programme "Finance and Law".

In 2006 he obtained an alternative higher education degree at Russian Academy of State Service at the President of the Russian Federation in Law. Candidate of Technical Sciences.

He does not have a share in the authorised capital and does not own UWC ordinary shares. He did not make transactions with the Company's shares in 2015.

06 IGOR TSYPLAKOV

NON-EXECUTIVE DIRECTOR

Igor Tsyplakov holds the position of the Vice-President at CJSC ICT, where he heads the industrial unit. He is one of the founders of ICT Group, having managed its projects in shipbuilding, finance, commercial and industrial development.

From 2001 to 2002, he was the First Deputy CEO of State Unitary Enterprise Rostec of the State Customs Committee of the Russian Federation.

In 1981–1992, he held various management positions in research institutes and scientific-production associations of the Ministry of Medium Machine-Building Industry and the Ministry of Nuclear Energy in the area of the development and production of weapons and security of critical facilities.

In 1980, he graduated from Sergo Ordzhonikidze Moscow Institute of Management as an engineer-economist for organisation of management.

He does not have a share in the authorised capital and does not own UWC ordinary shares. He did not make transactions with the Company's shares in 2015.

07 ZUMRUD RUSTAMOVA

NON-EXECUTIVE DIRECTOR

Since 2006 Zumrud Rustamova has held the position of the Deputy CEO of Polymetal OJSC. In 2006, she also joined the Board of the Russian Development Bank.

In 2004–2006, she held the position of Vice-President at Siberian Coal Energy Company OJSC (SUEK).

In 2000–2004, she served as the Deputy Minister of Property Relations of the Russian Federation.

In 1995–1999, she worked in various positions in the Russian State Committee on State Property Management.

In 1999–2000, Zumrud was the Deputy Chairman of the Russian Federal Property Fund (RFPF).

She graduated from the Moscow Institute of Economics and Statistics (MESI).

She does not have a share in the authorised capital and does not own UWC ordinary shares. She did not make transactions with the Company's shares in 2015.

08 ROMAN SAVUSHKIN

EXECUTIVE DIRECTOR, CEO OF UWC

Roman Savushkin joined the Company in January 2012.

Before that, he headed RAIL1520 LLC specialising in operational leasing of freight rolling stock, where he was responsible for developing the strategy and management of the company. Previously, he worked in the transport engineering industry and held senior positions in a number of manufacturing, leasing and engineering companies, such as companies of Titran Group, Brunswick Rail, Railcar Engineering Centre, Commercial Transport Systems and others.

A graduate of St. Petersburg State University of Railways, majoring in Ground transportation system. He has the scientific degree of Candidate of Technical Sciences. In 2009, he received an Executive MBA at University Antwerp Management School (Belgium).

As of 31 December 2015, his participation interest in the authorised capital was 1.0134%. In 2015, he acquired 1.0134% of shares.

¹ Left the Board of Directors on 11 March 2016.

² Elected to the Board of Directors on 11 March 2016.

BOARD OF DIRECTORS

09 DMITRY BOVYKIN

EXECUTIVE DIRECTOR, FIRST DEPUTY CEO FOR GENERAL MANAGEMENT, UWC. MEMBER OF THE REMUNERATION AND NOMINATION COMMITTEES

Dmitry Bovykin joined the Company in January 2012.

Prior to that, he worked in Brunswick Rail, a leasing company, where he was responsible for investor relations and strategic marketing. Before that, he did market research in such companies as Kraft Foods and Wimm-Bill-Dann.

A graduate of Moscow Institute of Physics and Technology, majoring in Applied Mathematics and Physics.

As of 31 December 2015, his participation interest in the authorised capital was 0.00673%. In 2015, he acquired 0,00673% of shares.

10 ALEXEY TSYPLAKOV

EXECUTIVE DIRECTOR, DEPUTY CEO, FINANCE AND ECONOMY, UWC

Alexey Tsyplakov joined the Company in January 2012.

Prior to that, he worked as Director of Strategic Investments and Planning at Tikhvin Freight Car Building Plant CJSC. Previously, he worked at McKinsey & Company where he participated in projects in metallurgy, electric power, oil and gas and other industries. He also served as the Director for Economy, Finance and Management at Commercial Transport Systems and the Head of economic management at TSZ Titran-Express.

He holds a BA in Economics and a Master's degree in management from the Economic Department of Moscow State University, as well as an MBA from the INSEAD business school (all diplomas with honours).

As of 31 December 2015, his participation interest in the authorised capital was 0.00431%. In 2015, he acquired 0.00431% of shares.

STATISTICS OF PARTICIPATION OF MEMBERS OF THE BOARD OF DIRECTORS IN THE BOARD OF DIRECTORS MEETING IN 2015

Member of the Board of Directors	Number of meetings	In praesentia		In absentia
		Personal participation	Written opinion	
Nikolai Dobrinov	19	2	1	16
Ilya Yuzhanov	20	3	0	17
Gennady Zhuzhlev ¹	20	3	0	17
Igor Mintz ²	-	-	-	-
Alexander Pleshakov	20	3	0	17
Igor Tsyplakov	20	2	1	17
Zumrud Rustamova	20	1	2	17
Roman Savushkin	19	3	0	16
Dmitry Bovykin	20	3	0	17
Alexey Tsyplakov	20	3	0	17
Sergey Areshev ³	4	0	0	4

¹ Left the Board of Directors on 11 March 2016.

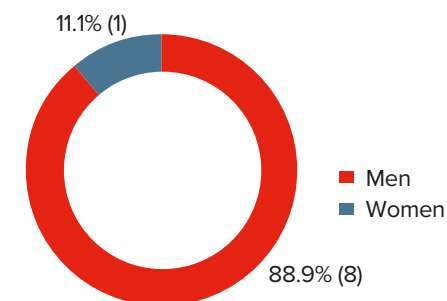
² Elected to the Board of Directors on 11 March 2016.

³ Left the Board of Directors on 20 March 2015.

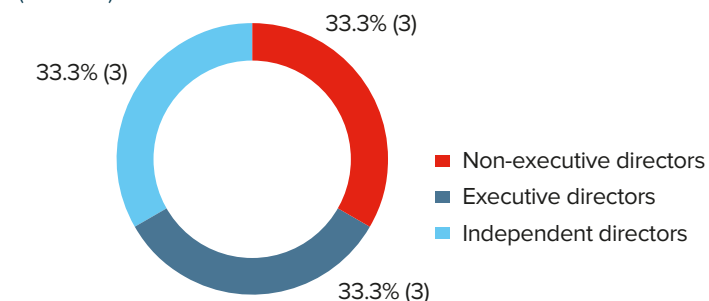
ANALYSIS OF THE BOARD OF DIRECTORS

Member of the Board of Directors	Competences	In what year he/she began working at UWC and / or companies UWC / Council UWC companies/ the Board of Directors	In what year he/she began working in the industry	Status
Nikolai Dobrinov	Professional in the field of corporate communications and relations with public authorities. Experienced manager	2013	2013	Non-executive director
Ilya Yuzhanov	Professional in the field of public and municipal management. He has experience as head of ministries. Candidate of Economic Sciences	2015	2015	Independent director
Gennady Zhuzhlev ¹	Professional in the field of project financing and investment project financing. Expert in banking	2015	2015	Independent director
Igor Mintz ²	Professional in the field of investment and economic evaluation of investment projects	2016	2011	Non-executive director
Alexander Pleshakov	Professional in the banking sector. He has experience in managing a non-profit partnership. An experienced manager. Candidate of Technical Sciences	2015	2015	Independent director
Igor Tsyplakov	Professional in the field of Production management. He has experience in manual in projects in shipbuilding, finance, commercial and industry development	2008	2006	Non-executive director
Zumrud Rustamova	Professional in the field of public and municipal management	2013	2012	Non-executive director
Roman Savushkin	Professional in the field of strategy and business management of transport industry. Candidate of Technical Sciences, has MBA degree from University Antwerp Management School (Belgium)	2011	2007	Executive director
Dmitry Bovykin	Professional in the field of investor relations with and strategic marketing	2011	2007	Executive director
Alexey Tsyplakov	Professional in the field of strategic planning, operating efficiency and finance	2010	2010	Executive director

GENDER COMPOSITION OF THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2015, % (NUMBER)



SHARE OF INDEPENDENT, EXECUTIVE AND NON-EXECUTIVE DIRECTORS IN THE BOARD OF DIRECTORS AS OF 31 DECEMBER 2015, % (NUMBER)



¹ Left the Board of Directors on 11 March 2016.

² Elected to the Board of Directors on 11 March 2016.

COMMITTEES OF THE BOARD OF DIRECTORS

The UWC Board of Directors has functioning committees, whose task is to provide guidance and advice to the Board of Directors on the matters within its competence. The Company has two committees of the Board of Directors: the Audit Committee and the Remuneration and Nomination Committee.

Audit Committee

The main purpose of the Committee is to assist the UWC Board of Directors in effective operation related to addressing the issues of strategic management and monitoring financial and economic activity. The decisions of the Audit Committee are advisory.

The tasks of the Audit Committee are to monitor the completeness, accuracy and reliability of financial statements as well as to review the effectiveness of functioning of the risk management and internal control system. In addition, the Audit Committee is committed to ensuring the independence and objectivity of internal and external audit functions, as well as implementing control over the activities in the field of counteraction to corruption and protection of insider information.

As of 31 December 2015, the Audit Committee of the UWC Board of Directors consisted only of independent directors, which corresponds to the best international practices of corporate governance.

Members of the Committee	as at 31.12.2015	as at 28.06.2016
Ilya Yuzhanov	Member of the Committee	Chairman of the Committee
Alexander Pleshakov	Member of the Committee	Member of the Committee
Igor Mints		Member of the Committee
Gennady Zhuzhlev	Chairman of the Committee	

Remuneration and Nomination Committee

Remuneration and Nomination Committee develops recommendations and proposals related to the Company's organisational structure and personnel policy principles for consideration by the Board of Directors. Furthermore, the Committee prepares proposals to define the requirements for candidates appointed to the UWC management bodies and recommends the principles and criteria to determine the amount of their remuneration.

As of 31 December 2015, the Remuneration and Nomination Committee of the UWC Board of Directors consisted only of independent directors, which corresponds to the best international practices of corporate governance.

Members of the Committee	as at 31.12.2015	as at 28.06.2016
Alexander Pleshakov	Chairman of the Committee	Chairman of the Committee
Ilya Yuzhanov	Member of the Committee	Member of the Committee
Dmitry Bovykin		Member of the Committee
Gennady Zhuzhlev	Member of the Committee	

CEO

The CEO is the sole executive body of the Company and performs operational management of the Company. The CEO is elected by the General Meeting of Shareholders. In his/her work, the CEO reports to the Board of Directors and the General Meeting of Shareholders.

In April 2012, Roman Savushkin was appointed to the position of CEO. Please see the detailed biography of Mr. Savushkin on page 71.

INTERNAL CONTROL AND AUDIT

In order to protect the rights and interests of shareholders and investors, UWC has a functioning system of internal control and audit, which provides oversight of the Company's financial and economic activities. The system can effectively identify, prevent, and limit financial and operational risks, and find violations. The internal control and audit system includes the following elements:

- ▀ Audit Committee of the Board of Directors
- ▀ Internal Auditor
- ▀ Internal Audit Service.

Audit Committee

The Audit Committee is responsible for providing recommendations to the Board of Directors on the appointment of an external auditor and for determining his/her remuneration. The Committee supervises the work of the external auditor and participates in the resolution of disputes over financial accounting issues between the Company's management and the external auditor. In addition, the Audit Committee acts on behalf of the Board of Directors in supervising the internal control, reporting and auditing system of the Company.

Internal Auditor

The Internal Auditor controls UWC's financial and economic activity; he/she is elected at the General Meeting of Shareholders for the period until the next annual General Meeting of Shareholders. As of December 31, 2015, Alexander Godeyev was the Internal Auditor of the Company.

The Internal Auditor conducts audits of UWC's financial and economic activity on his/her own initiative, according to resolutions of the General Meeting of Shareholders, the Board of Directors or at the request of a shareholder owning in aggregate not less than 10% of voting shares.

In 2015, the Internal Auditor did not receive remuneration for 2014 at year end.

Internal Audit Service

The Company has the Internal Audit Department, whose head reports to the Board of Directors and is elected by it on the proposal of the CEO, to whom he/she is administratively subordinated.

The activities of the Internal Audit Service are based on the principles of permanence, independence and impartiality and shall be carried out in accordance with the Regulations on Internal Audit. Managers and employees of the Internal Audit Service cannot combine their activities with those in other units of UWC.

The Internal Audit Service coordinates its activities with the external auditor of UWC and the Audit Committee of the Board of Directors.

EXTERNAL AUDITOR

To carry out inspection and verify the fairness of financial statements, UWC engages an independent external auditor. The independent auditor is approved by the General Meeting of Shareholders on the proposal of the Board of Directors. Currently, Deloitte & Touche CIS CJSC is the independent auditor of UWC. The auditor reviews IFRS consolidated financial statements and RAS financial statements.

The actual amount of remuneration paid by UWC to the auditor in 2015 on the basis of 2014 was 5,067 thou. roubles.

CORPORATE SECRETARY

The Corporate Secretary acts as the guarantor of compliance by officers and management bodies of the Company with procedural requirements that ensure the rights and lawful interests of shareholders.

The Corporate Secretary is responsible for interaction with shareholders, support of the effective work of the Board of Directors and its committees. The Corporate Secretary shall ensure strict adherence by management bodies to their competences, as well as the interaction between the management of the Company, the Board of Directors and shareholders.

The Corporate Secretary is elected by the Board of Directors and is accountable to it. Anna Mikutskaya is currently the Corporate Secretary of the Company.

Anna Mikutskaya

CORPORATE SECRETARY

Education:

2005 Moscow State University, majoring in Law

2008 Academy of National Economy of the Government of the Russian Federation (Moscow), majoring in National economy

2015 Russian Institute of Directors, "Corporate Secretary" course

2014 Law Institute M-Logos, comprehensive long-term advanced training for lawyers

A.A. Mikutskaya's experience in the area of corporate governance is more than 5 years and includes work as the Secretary of the Board of Directors and Corporate Secretary in such organisations as Gazpromneft-Aero CJSC – a 100% subsidiary of Gazprom Neft OJSC (2010–2011), SeverEnergiya LLC – a subsidiary of NOVATEK OJSC (2011–2014).

PROTECTION OF INSIDER INFORMATION

The Company, in accordance with the Federal Law "On combating unauthorised use of insider information and market manipulation" (Law on insider information), approved the Procedure for keeping a list of insiders, access to insider information, protection of its confidentiality and control over compliance with laws, as well as determined the List of insider information.

UWC also keeps the List of insiders. The duties of the Corporate Secretary include control over compliance with the requirements of the Law on insider information and regulations passed in connection with it.

INFORMATION FOR SHAREHOLDERS

AUTHORISED CAPITAL

As of 31 December 2015 the authorised capital of UWC amounted to 105,556,000 roubles and consisted of 105,556,000 ordinary registered uncertificated shares with a nominal value of 1 rouble each.¹

The Company is entitled, in addition to the placed shares, place ordinary registered shares in the amount of 500,000,000 shares with a par value of 1 rouble each. UWC has no preferred shares. The state does not participate in the authorised capital of the Company.

In April 2015, UWC conducted an Initial Public Offering (IPO) on the Moscow Exchange. As part of the IPO, 5,556,000 shares of additional issue were sold to investors, as well as shares owned by UNITED WAGON PLC (Jersey). The offer price was set at 700 roubles per ordinary share. As a result of the listing, 12.22% of the Company's shares were sold, totalling 9,028 mln roubles

Over 50 investors participated in the UWC IPO. Foreign investors provided 38.3% of the demand for the shares. Demand from institutional investors was 81.6% of the listing

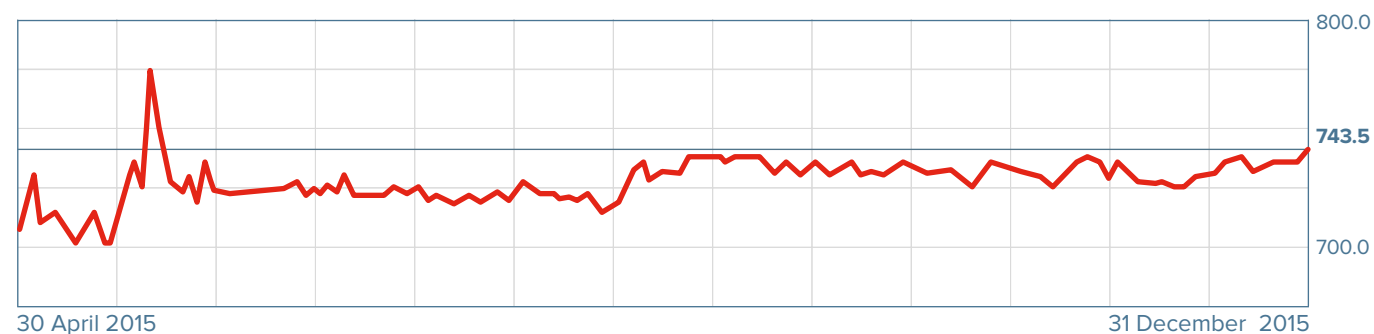
volume, including pension funds – 11.1%; retail and affluent private investors acquired 18.4% of the shares. The Company's top management also took part in the IPO.

As of 30 April 2015, UWC shares were traded in the highest quotation list of the Moscow Exchange under the trading codes UWGN and UWGN001d.

On 17 June 2015 the issues merged and UWC shares have been traded under the trading code UWGN since then.

In May 2016 UWC conducted a Secondary Public Offering (SPO). The Company placed 7,867,948 shares or 6.9% of the increased authorised capital raising a total of over 5.0 bln roubles. More than 70 institutional and retail investors, including Company's management, have acquired the Shares. United Wagon PLC participated in the transaction in order to maintain its stake in UWC.²

DYNAMIC OF UWC STOCK QUOTATION ON THE MOSCOW EXCHANGE IN 2015



RELATIONS WITH SHAREHOLDERS AND INVESTORS

UWC public offering has imposed on the Company a number of additional obligations, including in the sphere of interaction with shareholders and investors. Working in this direction, UWC holds regular meetings with the investment community, participates in conferences, responds to investors, shareholders and analysts' queries, regularly publishes materials on the results of the Company performance and market reports as well as develops its own dedicated IR site.

In the reporting year, UWC established the Department for relations with investors and financial institutions, whose main aim is to develop the tools of interaction with the investment community.

Since the IPO, the following objectives have been met in the IR area:

- Regular disclosure of financial and operating results was launched. The Company prepares presentations and press releases on financial results every six months, and each quarter for the operating results.
- A project to improve the "Investors" website section was launched.
- The work is underway with analysts of investment banks. A number of meetings and site visits of the UWC industrial site were held.
- Disclosure regulations were developed.
- Participation in several conferences was organised.
- A debut annual report on the results of 2014 was prepared.
- Mailing of the Company's materials to analysts and investors was launched, including market analysis reports, which are prepared by the UWC Research Department.

In 2016, UWC plans to continue to develop and improve the tools of interaction with investors and shareholders in accordance with the best international practices.

DIVIDEND POLICY

UWC's dividend policy is aimed at maintaining a balance between the distribution of dividends and increase in the Company's capitalisation at the expense of reinvestment in own development. Through such approach, the Company's shareholder value increases in the long term.

The procedure for making a decision on the payment of dividends and the calculation of dividend amount is regulated by the Russian Federation laws, the Charter, and the Regulations on the Dividend Policy of the Company. When issuing a recommendation to the General Meeting of Shareholders on the amount of dividends and their payment procedure, the Board of Directors is guided by the principle of optimal combination of UWC's effective development and respect of shareholders' rights to receive part of the net profit as dividends.

Dividends are paid from the net profit of the Company, which is determined according to the accounting reports (financial statements) prepared in accordance with Russian laws. Dividends can be paid from the retained earnings of previous years. The decision to pay dividends is taken by the UWC General Meeting of Shareholders on the basis of recommendations of the Board of Directors. The amount of dividends may not exceed the amount recommended by the Board of Directors.

The company did not pay dividends for 2014.

¹ Amendments to the UWC Charter regarding the increase of the authorised capital to 113,423,948 ordinary registered uncertificated shares were submitted for state registration to the registration authority on 21 June 2016.

² The current structure of shareholders will be placed on UWC website in the section Shareholder structure http://www.uniwagon.com/en/investors/information_for_shareholders/shareholder-structure/ upon updating the shareholder register.

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PJSC RPC UWC

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS

for the year ended December 31, 2015

Management is responsible for the preparation of the consolidated financial statements that present fairly the financial position of Public Joint Stock Company "Research and Production Corporation "United Wagon Company" (PJSC RPC UWC or the "Company") and its subsidiaries (the "Group") as at December 31, 2015, the consolidated results of its operations, cash flows and changes in shareholders' equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

In preparing the consolidated financial statements, management is responsible for:

- Properly selecting and applying accounting policies;
- Presenting information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- Providing additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the Group's consolidated financial position and financial performance;
- Making an assessment of the Group's ability to continue as a going concern.

Management is also responsible for:

- Designing, implementing and maintaining an effective and sound system of internal controls, throughout the Group;
- Maintaining adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the consolidated financial position of the Group, and which enable them to ensure that the consolidated financial statements of the Group comply with IFRS;
- Maintaining statutory accounting records in compliance with the local legislation and accounting standards;
- Taking such steps as are reasonably available to them to safeguard the assets of the Group;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended December 31, 2015 were approved by the Group's management on April 20, 2016.

On behalf of the Management:



Roman Savushkin
Chief Executive Officer
PJSC RPC UWC

INDEPENDENT AUDITOR'S REPORT

To: Shareholders and Board of Directors of PJSC RPC UWC

We have audited the accompanying consolidated financial statements of PJSC RPC UWC and its subsidiaries (the "Group") which comprise the consolidated statement of financial position as at December 31, 2015 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for the year then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of these consolidated financial statements based on our audit. We conducted our audit in accordance with Russian Federal Auditing Standards and International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the fair presentation of these consolidated financial statements.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2015, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards.

April 20, 2016
Moscow, Russian Federation

Andrew Sedov, Partner
(Qualification certificate No. 01-000487 dated February 13, 2012)

ZAO Deloitte & Touche CIS

Audited entity: PJSC RPC UWC

State Registration Certificate 77 No. 017552796
issued on May 28, 2014 by Interdistrict Inspectorate of the Federal Tax Service No.46 for Moscow.

Primary state registration number: 1147746600539

Address: 7/11 Novokuznetskaya St., Bld. 1, Moscow, 115184

Independent Auditor: ZAO Deloitte & Touche CIS

Certificate of State Registration No. 018.482 issued by the Moscow Registration Chamber on October 30, 1992

Primary state registration number: 1027700425444

Certificate of registration in the Unified State Register of Legal Entities: series 77 No. 004840299 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 39 for Moscow on November 13, 2002.

Certificate of membership in NP Audit Chamber of Russia (auditors' SRO) of May 20, 2009 No. 3026, ORNZ 10201017407.

PJSC RPC UWC CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE

for the year ended December 31, 2015

(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	2015	2014
Revenue	20	42 087 945	17 057 489
Cost of sales	21	(37 865 512)	(14 984 530)
Gross profit		4 222 433	2 072 959
Selling, general and administrative expenses	22	(2 993 548)	(1 644 648)
Share of profit/(loss) of associates and joint ventures	9	188 065	(157 219)
Other operating income, net		264 777	153 281
Operating profit		1 681 727	424 373
Finance income	23	1 441 870	647 313
Finance costs	24	(10 091 105)	(6 516 137)
Foreign exchange (loss)/gain, net		(3 172 189)	4 604 625
Loss before income tax		(10 139 697)	(839 826)
Income tax benefit	25	463 221	1 389 146
(Loss)/profit and total comprehensive (loss)/income for the year		(9 676 476)	549 320
(Loss)/profit and total comprehensive (loss)/income attributable to:			
Shareholders of the Group		(9 675 680)	557 373
Non-controlling interests		(796)	(8 053)
Earnings per share			
Weighted average number of ordinary shares outstanding		103 739 536	100 000 000
(Loss)/earnings per share, RUB		(93)	5

The notes on pages 84-115 form an integral part of these consolidated financial statements.

PJSC RPC UWC CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at December 31, 2015
(in thousands of Russian Rubles, unless otherwise indicated)

	Notes	December 31, 2015	December 31, 2014
ASSETS			
Non-current assets			
Property, plant and equipment	8	71 428 836	68 483 344
Prepayments for property, plant and equipment		1 029 400	2 336 192
Intangible assets and goodwill	7	13 992 750	2 838 785
Deferred tax assets	25	2 643 706	1 852 555
Investments in associates and joint ventures	9	752 501	158 838
Loans receivable	13	1 353 829	1 658 939
Other receivables		-	30 000
Finance lease receivables		243 665	260 818
Restricted cash	14	1 781 709	-
Total non-current assets		93 226 396	77 619 471
Current assets			
Inventories	10	8 524 986	266 972
Trade and other receivables	11	4 003 435	7 578 533
Finance lease receivables		17 152	8 803
Loans receivable	13	5 187 614	16 255 261
Prepayments to suppliers and other assets	12	1 566 070	705 374
VAT receivable		4 150 385	1 653 166
Cash and cash equivalents	14	3 207 466	2 386 595
Total current assets		26 657 108	28 854 704
TOTAL ASSETS		119 883 504	106 474 175
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital issued	15	105 556	10
Share capital issued but not registered	15	-	99 990
Additional paid-in capital	15	16 158 720	12 428 965
Accumulated deficit		(14 644 817)	(4 969 137)
Total equity attributable to shareholders		1 619 459	7 559 828
Non-controlling interests		652	668
Total equity		1 620 111	7 560 496
Non-current liabilities			
Long-term loans and borrowings	16	55 835 462	44 493 124
Bonds – non-current portion	17	15 000 000	27 891 700
Long-term finance lease liabilities		1 683	2 637
Deferred tax liabilities	25	915 953	1 200 984
Other payables		188 617	-
Total non-current liabilities		71 941 715	73 588 445
Current liabilities			
Short-term loans and borrowings	16	15 286 129	16 953 742
Trade and other payables	18	12 697 270	6 357 576
Advances received and other current liabilities	19	4 231 504	1 395 571
Short-term finance lease liabilities		2 825	19 384
Bonds – current portion	17	14 103 950	598 961
Total current liabilities		46 321 678	25 325 234
TOTAL LIABILITIES		118 263 393	98 913 679
TOTAL LIABILITIES AND EQUITY		119 883 504	106 474 175

The notes on pages 84-115 form an integral part of these consolidated financial statements.

PJSC RPC UWC CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended December 31, 2015
(in thousands of Russian Rubles, unless otherwise indicated)

	Share capital issued	Share capital issued but not registered	Additional paid-in capital	Accumulated deficit	Total share- holders' equity	Non- controlling interests	Total equity
Balance at January 1, 2014	10	-	9 005 233	(5 526 510)	3 478 733	78 721	3 557 454
Profit and total comprehensive income for the year	-	-	-	557 373	557 373	(8 053)	549 320
Shareholder contributions	-	-	3 488 196	-	3 488 196	-	3 488 196
Additional share issue as part of restructuring	-	99 990	(99 990)	-	-	-	-
Effect of the acquisition of company under common control	-	-	35 526	-	35 526	-	35 526
Purchase of non-controlling interests	-	-	-	-	-	(70,000)	(70,000)
Balance at December 31, 2014	10	99 990	12 428 965	(4 969 137)	7 559 828	668	7 560 496
Loss and total comprehensive loss for the year	-	-	-	(9 675 680)	(9 675 680)	(796)	(9 676 476)
Registration of additional share issue as part of restructuring	99 990	(99 990)	-	-	-	-	-
Issue of additional shares during initial public offering, net of issuance costs (Note 15)	5 556	-	3 729 755	-	3 735 311	-	3 735 311
Increase of non-controlling interests	-	-	-	-	-	780	780
Balance at December 31, 2015	105 556	-	16 158 720	(14 644 817)	1 619 459	652	1 620 111

The notes on pages 84-115 form an integral part of these consolidated financial statements.

PJSC RPC UWC CONSOLIDATED STATEMENT OF CASH FLOWS

for the year ended December 31, 2015
(in thousands of Russian Rubles, unless otherwise indicated)

	2015	2014
OPERATING ACTIVITIES		
Loss before income tax	(10 139 697)	(839 827)
Adjustments for:		
Depreciation and amortization	5 321 371	3 119 976
Non-operating foreign exchange loss/(gain), net	3 172 189	(4 628 269)
Change in provision for doubtful receivables	426 220	(36 886)
Loss on disposal and write-off of property, plant and equipment	122 260	14 171
Impairment of loans receivable	88 226	-
Share of (profit)/loss of associates and joint ventures	(188 065)	157 219
Impairment of property, plant and equipment	31 797	27 309
Finance costs	10 091 105	6 516 140
Finance income	(1 441 870)	(647 313)
Operating profit before changes in working capital	7 483 536	3 682 520
Movements in working capital:		
Decrease/(increase) in trade and other receivables	3 919 836	(7 075 851)
Increase in prepayments to suppliers and other assets	(611 231)	(284 099)
(Increase)/decrease in VAT receivable	(2 324 326)	166 413
Increase in inventories	(2 914 189)	(172 056)
(Decrease)/increase in trade and other payables	(96 155)	838 310
Increase in advances received and other current liabilities	2 603 341	418 597
Cash flows from/(used in) operating activities	8 060 812	(2 426 166)
Income tax paid	(369 977)	(34 190)
Finance costs paid	(10 095 400)	(4 947 025)
Net cash used in operating activities	(2 404 565)	(7 407 381)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, including prepayments	(4 092 270)	(15 598 986)
Proceeds from disposal of property, plant and equipment	21 654	-
Purchase of intangible assets	(2 190 430)	(295 305)
Loans granted	(14 781 798)	(16 924 040)
Proceeds from redemption of loans granted	24 892 668	9 422 914
Interest received	1 301 269	111 388
Net cash outflow on acquisition of subsidiaries	(3 812 194)	(499 824)
Cash paid on acquisition of investments in associates	(410 522)	-
Net cash from / (used in) investing activities	928 377	(23 783 853)

The notes on pages 84-115 form an integral part of these consolidated financial statements.

	2015	2014
FINANCING ACTIVITIES		
Shareholders' capital contribution, net	3 735 311	3 865 920
Proceeds from loans and borrowings	6 528 091	67 058 348
Repayment of loans and borrowings	(5 894 569)	(55 841 729)
Proceeds from issuance and sale of bonds	3 173 491	17 861 705
Purchase of own bonds	(2 748 991)	-
Finance lease payments	(15 753)	(26 579)
Cash deposited in accordance with covenants (Note 14)	(1 781 709)	-
Net cash from financing activities	2 995 871	32 917 665
Net increase in cash and cash equivalents	1 519 683	1 726 431
Effect of foreign exchange changes including effect of revaluation of cash and cash equivalents	(698 812)	(50 643)
Cash and cash equivalents, beginning of the year	2 386 595	710 807
Cash and cash equivalents, end of the year	3 207 466	2 386 595

The notes on pages 84-115 form an integral part of these consolidated financial statements.

PJSC RPC UWC

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
FOR THE YEAR ENDED DECEMBER 31, 2015

(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 December 26, 2011 and is a public joint stock company from March 3, 2015. The Company's registered and business address is 7/11 Novokuznetskaya St., Bld. 1, Moscow.

As at December 31, 2015, 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 ("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. In 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 December 31, 2015 Ownership interest, %	At December 31, 2014 Ownership interest, %
United Wagon PLC	49.98%	100%
Open Joint Stock Company RONIN Trust	13.10%	-
Other shareholders	36.92%	-

As at 31 December 2015 and 2014, ultimate control of the Group was divided between individual shareholders, with Alexander Nesis holding the largest share.

Information about the Company's subsidiaries and their principal activities is set out below:

Company name	Place of incorporation	Principal activity	Ownership interest	
			December 31, 2015	December 31, 2014
Rail Holding LTD	BVI	Investment company	100%	100%
Rail 1520 (BVI) LTD	BVI	Investment company	100%	100%
RAIL 1520 Finance Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL1520 LLC	Russian Federation	Operating lease of railcars	100%	100%
RAIL 1520 Service (BVI) LTD	BVI	Investment company	100%	100%
RAIL 1520 Service Finance Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Service Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL1520 Service LLC	Russian Federation	Operating lease of railcars	100%	100%
RAIL 1520 (BVI) Leasing LTD	BVI	Investment company	100%	100%
RAIL 1520 Cyprus Leasing LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Leasing LLC	Russian Federation	Finance lease of railcars	100%	100%
RAIL 1520 Wagon LTD	BVI	Investment company	100%	100%
RAIL 1520 Wagon Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL1520 Wagon LLC	Russian Federation	Finance lease of railcars	100%	100%
Kintonia Investments LTD	BVI	Investment company	100%	100%
Ovilleno Holdings LTD	Cyprus	Investment company	99%	99%
VNICIT LLC	Russian Federation	Engineering and construction bureau	99%	99%
TH UWC LLC	Russian Federation	Trading of railcars and equipment	99%	99%
Springs Industrial Technology Center LLC	Russian Federation	Springs production	99%	99%
Restadiana Ventures LTD	Cyprus	Investment company	99%	99%
Vostok 1520 LLC	Russian Federation	Provision of cargo transportation services	99%	99%
RAIL1520 (BVI) Management Company LTD	BVI	Investment company	100%	100%
RAIL1520 Cyprus Management Company LTD	Cyprus	Investment company	100%	100%

Company name	Place of incorporation	Principal activity	Ownership interest	
			December 31, 2015	December 31, 2014
UWC Finance LLC	Russian Federation	Debt securities issuer, commercial consulting	100%	100%
RAIL 1520 Tank Cars (BVI) Holding LTD	BVI	Investment company	100%	100%
Heavy Engineering Works JSC	Russian Federation	Railcar manufacturing	99%	99%
TikhvinSpecMash Closed Joint Stock Company	Russian Federation	Railcar manufacturing	100%	99%
RAIL 1520 Tank Cars Cyprus Holding LTD	Cyprus	Investment company	99%	99%
TikhvinChemMash Closed Joint Stock Company	Russian Federation	Manufacturing of tank railcars	99%	99%
Holme Services Limited	BVI	Investment company	100%	100%
Pegadisa Management LTD	Cyprus	Investment company	100%	100%
RAIL 1520 IP LTD	Cyprus	Investment company	100%	100%
Raygold Limited	Cyprus	Investment company	99,97%	99,97%
AFCT Advanced Freight Car Technology Limited	Cyprus	Development of production technology for the plant	99,93%	99,93%
DEANROAD Limited	Cyprus	Development of production technology for the plant	99%	99%
Tikhvin Railway Car Building Plant Joint Stock Company (TVSZ JSC)	Russian Federation	Railcar manufacturing plant	99,97%	99,97%
TM-Energosbyt LLC	Russian Federation	Power supply services	0%	100%
NeoTech LLC	Russian Federation	Development of production technology	0%	100%
Transmashenergo LLC*	Russian Federation	Power generation	99%	0%
Titran-Express TAP JSC**	Russian Federation	Transport machinery plant	100%	0%

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

These consolidated financial statements have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

Basis of preparation

The entities of the Group maintain their accounting records in accordance with laws, accounting and reporting regulations of the jurisdictions in which they are incorporated and registered. The accounting principles and financial reporting procedures in these jurisdictions may differ substantially from those generally accepted under IFRS. Accordingly, financial statements of the entities of the Group were adjusted to ensure that they are presented in accordance with IFRS.

These consolidated financial statements of the Group have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for leasing transactions that are within the scope of IAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realizable value in IAS 2 or value in use in IAS 36.

In addition, for consolidated financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Going concern assumption

These consolidated financial statements have been prepared 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 December 31, 2015, the Group's current liabilities exceeded its current assets by RUB 19 664 570 thousand. In 2015 and 2014, the Group incurred losses before tax and had negative cash flows from operating activities.

* In December 2015, the Group acquired a 100% stake in Transmashenergo LLC (Note 6).

** In December 2015, the Group obtained control over 100% shares of Titran-Express TAP JSC (Note 6).

In April 2016, the bondholders of Series 01 bonds of the Group (as at December 31, 2015, the short-term debt amounted to RUB 14 103 950 thousand) agreed to extend the maturity of bonds from 3 to 8 years, i.e. to extend the maturity of the bonds until 2021. As at December 31, 2015, the Group also had available unused credit facilities in the amount of RUB 10 297 929 thousand which, together with maturity extension of bonds, allows the Group to settle liabilities in the normal course of business. The 2015 volume of production (12 360 railcars) was in line with initial plans and significantly higher than is required under the loan agreements with TVSZ JSC (the Group's subsidiary comprising the railcar manufacturing plant) (10 000 railcars). Based on management forecasts, the minimum expected production volume of TVSZ JSC in 2016 will exceed 15 000 railcars.

The management of the Group expects demand for the railcars to increase in 2016 due to the need to replace significant portion of old railcar fleet in the Russian Federation and the beginning of a gradual recovery in the railcar lease and transportation services market. The management also expects a significant reduction in interest expenses on bonds in subsequent reporting periods as the coupon rate is linked to the Russian CPI and the CBR repo rate which reached their maximum in 2015 and are expected to decline.

The management believes that these factors taken together will allow the Group to generate profit and turn to positive cash flows from operating activities in 2016.

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's subsidiaries is the Russian Ruble ("RUB"). The presentational currency of the consolidated financial statements is the Russian Ruble. These consolidated financial statements are presented in thousands of Russian rubles ("RUB '000"), except when otherwise indicated.

Foreign currency transactions

In preparing the financial statements of each individual Group entity, transactions in currencies other than the entity's functional currency (foreign currencies) are recognized at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences on monetary items are recognized in profit or loss in the period in which they arise.

Exchange rates used in the translation were as follows:

Currency	2015	2014
At the end of the reporting period		
RUB/ USD	72.88	56.26
RUB/ EUR	79.70	68.34
Average exchange rate for the reporting period		
RUB/ USD	60.96	38.42
RUB/ EUR	67.78	50.82

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through December 31 of each year. Control is achieved when the Company:

- Has power over the investee;
- Is exposed, or has rights, to variable returns of the investee; and
- Has the ability to use its power to affect variable returns.

The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- The size of the Company's holding of voting rights relative to the size and dispersion of holdings of other vote holders;
- Potential voting rights held by the Company, other vote holders or other parties;
- Rights arising from other contractual arrangements; and
- Any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Intragroup balances and any unrealized gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

Non-controlling interest in consolidated subsidiaries is identified separately from the Group's equity therein. Total comprehensive income / (loss) is attributed to non-controlling interests even if this results in the non-controlling interest having a deficit balance.

Changes in the Group's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in profit or loss and other comprehensive income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated to the extent they do not represent an impairment loss on the Group's non-current assets. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition-related costs are generally recognized in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognized at their fair value, except that:

- Deferred tax assets or liabilities and assets or liabilities related to employee benefit arrangements are recognized and measured in accordance with IAS 12 and IAS 19, respectively;
- Liabilities or equity instruments related to share-based payment arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquiree are measured in accordance with IFRS 2 at the acquisition date; and
- Assets (or disposal groups) that are classified as held for sale in accordance with IFRS 5 are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interest in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable, on the basis specified in another IFRS.

The consideration transferred by the Group in a business combination is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with corresponding adjustments against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the 'measurement period' (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with IAS 39 and IAS 37, as appropriate, with the corresponding gain or loss being recognized in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Company reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period, or additional assets or liabilities are recognized, to reflect new information obtained about facts and circumstances that existed at the acquisition date that, if known, would have affected the amounts recognized at that date.

Acquisitions of entities under common control (non-cash payment)

If the acquisition of entities under common control is performed by the exchange of shares, any other non-cash method or for a symbolic compensation, such transactions are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Group. For material common control transactions the consolidated financial statements of the Group are retroactively restated to reflect the effect of the acquisition as if it occurred at the beginning of the earliest period presented. In 2014, as a result of the legal restructuring, PJSC RPC UWC acquired all its subsidiaries from United Wagon PLC in exchange for 99 990 000 additionally issued ordinary shares. The transaction was classified as the acquisition of entities under common control and was accounted for retroactively starting from the earliest period presented in these consolidated statements.

Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business less accumulated impairment losses, if any.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro rata based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognized directly in profit or loss. An impairment loss recognized for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Investments in associates and joint ventures

An entity is considered an associate if the Group has significant influence over its financial and operating activities. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

A joint venture is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method, except when the investment is classified as held for sale, in which case it is accounted for in accordance with IFRS 5. Under the equity method, an investment in an associate or a joint venture is initially recognized in the consolidated statement of financial position at cost and adjusted thereafter to recognize the Group's share of the profit or loss and other comprehensive income of the associate or joint venture. When the Group's share of losses of an associate or a joint venture exceeds the Group's interest in that associate or joint venture (which includes any interests that, in substance, form part of the Group's net investment in the associate or joint venture), the Group discontinues recognizing its share of further losses. Additional losses are recognized only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate or joint venture.

An investment in an associate or a joint venture is accounted for using the equity method from the date on which the investee becomes an associate or a joint venture. On acquisition of the investment in an associate or a joint venture, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognized as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognized immediately in profit or loss in the period in which the investment is acquired.

The requirements of IAS 39 are applied to determine whether it is necessary to recognize any impairment loss with respect to the Group's investment in an associate or a joint venture. Any impairment loss recognized forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognized in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate or a joint venture, or when the investment is classified as held for sale. When the Group retains an interest in the former associate or joint venture and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition.

The Group continues to use the equity method when an investment in an associate becomes an investment in a joint venture or an investment in a joint venture becomes an investment in an associate. There is no remeasurement to fair value upon such changes in ownership interests.

When the Group reduces its ownership interest in an associate or a joint venture but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognized in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate or a joint venture of the Group, profits and losses resulting from the transactions with the associate or joint venture are recognized in the Group's consolidated financial statements only to the extent of interests in the associate or joint venture that are not related to the Group.

Intangible assets

Intangible assets acquired separately are carried at cost less accumulated amortization and accumulated impairment losses. Amortization is recognized on a straight-line basis over their estimated useful lives. The estimated useful life and amortization method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis. Intangible assets with indefinite useful lives that are acquired separately are carried at cost less accumulated impairment losses.

Internally-generated intangible assets – research and development expenditure – The Group recognizes intangible assets arising out of development when it can demonstrate all of the following:

- The technical feasibility of completing the intangible asset so that it will be available for use or sale;
- Its intention to complete, use or sell the asset;
- The ability to use or sell the intangible asset;
- It is probable that the asset will generate future economic benefits;
- The availability of adequate technical, financial and other resources to complete, use or sell the asset; and
- Its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Expenditure on research activities is recognized as an expense in the period in which it was incurred. Development expenditure, that does not meet the criteria of intangible assets, is charged to the statement of comprehensive income when incurred.

Subsequent to initial recognition, internally-generated intangible assets are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

No amortization is charged for intangible assets that are in the phase of development. Amortization begins when the asset is available for use, that is, when the asset is in the location and condition necessary for it to be capable of operating in the manner intended by management. Intangible assets which have been transferred from intangible assets under development to intangible assets subject to amortization are represented with patents and are amortized over the useful economic lives of the patents ranging between 51 to 174 months. Know-how and production technology development costs are considered to have indefinite useful lives. Such assets are not amortized and are carried at cost less accumulated impairment losses. The ERP system development and installation costs are amortized over 120 months which is the best estimate of their useful economic lives.

Expenditure, which enhances or extends the performance of intangible assets beyond their original specifications is recognized as a capital improvement and added to the original cost of the intangible asset.

Intangible assets acquired in a business combination – Intangible assets acquired in a business combination and recognized separately from goodwill are initially recognized at their fair value at the acquisition date (which is regarded as their cost). Subsequent to initial recognition, intangible assets acquired in a business combination are reported at cost less accumulated amortization and accumulated impairment losses, on the same basis as intangible assets that are acquired separately.

Property, plant and equipment

Property, plant and equipment acquired by the Group are recorded at purchase or construction cost, less accumulated depreciation and accumulated impairment. The costs of day to day servicing of property, plant and equipment, including repairs and maintenance expenditure, are expensed as incurred.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Construction In-Progress is carried at cost, less any recognized impairment loss. Cost includes capital expenditures directly related to the construction of property, plant and equipment including an appropriate allocation of directly attributable variable overheads including capitalized borrowing costs on qualifying assets. Depreciation of these assets, on the same basis as for other property assets, commences when the assets are ready for their intended use. Construction in-progress items are reviewed regularly to determine whether their carrying value is fairly stated.

The Group recognizes in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. The assets being replaced are written off immediately. All other costs are recognized in the consolidated profit or loss as an expense as incurred.

The gain or loss arising on the disposal or retirement of an asset is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognized in the consolidated profit or loss.

Depreciation is recognized so as to write off the cost or valuation of assets (other than freehold land and properties under construction) less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Freehold land and assets under construction are not depreciated.

Depreciation is charged as from the time when an asset is available for use over the following useful economic lives:

	Useful life, years
Office equipment and furniture	1-10
Equipment and motor vehicles	2-31
Railcars	22-32
Production plant and buildings	20-50

The residual value of an asset is the estimated amount that the Group would currently obtain from disposal of the asset less the estimated costs of disposal, if the asset were already of the age and in the condition expected at the end of its useful life. Residual values of assets and their useful lives are reviewed and adjusted at each balance sheet date, if necessary.

Impairment of non-financial assets

At each reporting date, the Group reviews the carrying amounts of its non-current assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs to sell and value in-use. In assessing value in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (cash-generating unit) is reduced to its recoverable amount.

An impairment loss is recognized immediately in the consolidated profit or loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (cash-generating unit) in prior years. Any reversal of that impairment loss is recognized immediately in the consolidated profit or loss.

Leases

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at the inception date, specifically, on whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Amounts due from lessees under finance leases are recognized as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

Rental income from operating leases is recognized on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognized on a straight-line basis over the lease term.

Group as a lessee

Assets under finance leases are recognized as assets at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

Minimum lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability. Contingent rentals are recognized as expenses in the periods in which they are incurred.

Payments under operating leases are recognized as an expense on a straight-line basis over the term of the lease. Lease incentives received are recognized as a liability and a reduction to expense on a straight-line basis. Contingent rentals under operating leases are recognized as an expense in the period in which they are incurred.

Financial assets

Financial assets are classified into the following categories: financial assets 'at fair value through profit or loss', investments 'held-to-maturity', 'available-for-sale' financial assets and loans and receivables. The classification of financial assets depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. As at the reporting date the Group had only financial assets classified as loans and receivables.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest rate method. Gains and losses are recognized in the consolidated profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would be immaterial.

Offsetting

Financial assets or liabilities are offset and the net amount reported in the consolidated statement of financial position only when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or to realize the asset and settle the liability simultaneously.

Impairment of financial assets

The financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected. For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables where the carrying amount is reduced through the use of an allowance account (provision for impairment of receivables).

If, in a subsequent period, the amount of the impairment loss for assets carried at amortized cost decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss and other comprehensive income to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset or liability and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial instruments.

Inventories

Inventories are stated at lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses. The cost of inventory is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, balances with banks, short-term interest-bearing deposits and short-term bank overdrafts with original maturities of not more than three months. Restricted cash balances are not considered as part of cash and cash equivalents for the purposes of the statement of cash flows. Balances restricted from being exchanged or used to settle a liability for at least twelve months after the financial year-end date are included in other non-current assets.

Accounts payable and other financial liabilities

Accounts payable and other financial liabilities are initially recognized at cost, which is the fair value of the consideration received, taking into account transaction costs. After initial recognition, financial liabilities are carried at amortized cost. Interest expense is calculated using the effective interest method. As normally the expected term of accounts payable is short, the value is stated at the nominal amount without discounting, which corresponds with fair value.

Provisions

Provisions are recognized when, and only when, the Group has a present obligation (legal or constructive) as a result of a past event, and it is probable (i.e. more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Where the Group expects a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate. Where the effect of the time value of money is significant, the amount of a provision is the present value of the cash flows required to settle the obligation.

Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognized in the consolidated profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax liabilities (assets) for the current and prior periods are measured at the amount expected to be paid to (recovered from) the taxation authorities, using the tax rates (and tax laws) that have been enacted or substantially enacted by the reporting date. Provisions in respect of uncertain tax positions which relate to income tax are included in current income tax at an amount expected to be payable including penalties, if any.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, associates and joint ventures to the extent that the parent is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be utilized in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates that are expected to apply in the period when the liabilities are settled or the assets realized.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are not discounted.

Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of value added taxes, estimated rebates and discounts. The revenue is recognized in the amount which is probable that the economic benefits associated with the transaction will flow to the Group, the amount of revenue can be measured reliably.

(i) Sales of railcars

Revenue from the sale of goods is recognized when significant risks and rewards incidental to ownership are transferred to the customers. According to supply contracts, the title for goods passes to customers at the moment of signing an Acceptance Act at the manufacturing plant.

(ii) Rental income

Rental income is generated principally from leasing of railcars and is recognized on a straight-line basis over the term of the relevant lease.

(iii) Rail-based freight transportation services and other services

Rail-based freight transportation services provided by the Group primarily include provision of railcars for transportation. The Group recognizes revenue in the amount of fees for provision of railcars, while charges for railway infrastructure services (railway freight tariff of PJSC Russian Railways) are borne directly by the customers.

Revenues from these services are recognized in the accounting period in which the services are rendered, by reference to stage of completion of the specific transactions assessed on the basis of the actual service provided as a proportion of the total services to be provided.

(iv) Interest income

Interest income is accrued on a time basis, by reference to the principal outstanding and at the applicable effective interest rate.

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of an asset that necessarily takes a substantial period of time to get ready for its intended use or sale are capitalized and amortized over the useful life of the asset. Other borrowing costs are recognized as an expense in the period in which they are incurred.

Government grants

Government grants comprise compensation of interest expense under bank loans. Grants from the government are recognized at their fair value where there is reasonable assurance that the grant will be received and the Group will comply with all attached conditions. Government grants relating to compensation of interest expense under bank loans are credited to profit or loss and other comprehensive income over the periods of the related interest expense unless this interest was capitalized into the cost of property, plant and equipment in which case they are deducted from the cost of the respective items of property, plant and equipment and credited to the profit or loss and other comprehensive income on a straight-line basis over the expected lives of these assets.

Share capital

Ordinary shares are classified as share capital. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

Additional paid-in capital

Equity contributions made by shareholders, whereby shares are not issued, are recorded as additional capital within equity whereby such capital contributions do not carry any interest and any future return to shareholders is at the Group's discretion.

Loan granted to the parent

Loans granted to the parent and other companies under common control and other accounts receivable from these companies are recognized as an asset or a decrease in equity based on the substance of each separate transaction giving rise to such debt. Usually, loans receivable from the parent and other companies under common control are presented as a decrease in equity. These loans may be recognized as an asset where all material arrangements of this transaction (including interest, repayment terms, intention and practical ability to repay the debt, size and adequacy of collateral, etc.) are comparable with the market ones, and they are expected to be repaid in a relatively short period of time.

Employee benefits

The Russian companies of the Group are obliged to make defined contributions to the State Pension Fund of the Russian Federation in accordance with the effective Russian legislation. Contributions to the Pension Fund of the Russian Federation related to a defined contribution plan are recognized in the profit or loss in the period to which they relate.

In the Russian Federation all payments to extra-budgetary funds including contributions to the State Pension Fund are collected through social security charges calculated by the application of a rate from 10% to 30% to the annual gross remuneration of each employee. The rate of the contribution to the State Pension Fund of the Russian Federation varies from 10% to 22%. If the annual gross remuneration of an employee exceeds the limit of RUB 711 thousand (2015 limit) the rate of 10% is applied to the excess amount to determine the amount of the respective contributions.

Contractual commitments

Contractual commitments comprise legally binding trading or purchase agreements with stated amount, price and date or dates in the future. The Group discloses significant contractual commitments in the notes to the consolidated financial statements.

Contingencies

Contingent liabilities are not recognized in the consolidated financial statements unless they arise as a result of a business combination. Contingencies attributed to specific events are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Adoption of new and revised Standards and Interpretations

The Group has adopted all of the new and revised Standards and interpretations that are mandatory for adoption in annual periods beginning on January 1, 2015. The adoption did not have a material impact on the Group's consolidated financial statements.

3. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (“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 date ¹ - For annual reporting periods starting on or after
IFRS 9 Financial Instruments	January 1, 2018
IFRS 15 Revenue from Contracts with Customers	January 1, 2018
IFRS 16 Leases	January 1, 2019
Amendments to IFRS 11 Accounting for Acquisitions of Interests in Joint Operations	January 1, 2016
Amendments to IAS 1 – Disclosure Initiative Project	January 1, 2016
Amendments to IAS 16 and IAS 38 Clarification of Acceptable Methods of Depreciation and Amortization	January 1, 2016
Amendments to IFRS 10 and IAS 28 Sale or Contribution of Assets between an Investor and its Associate or Joint Venture	Date to be determined by the IASB ²
IFRS 14 Regulatory Deferral Accounts	January 1, 2016
Amendments to IAS 27 Equity Method in Separate Financial Statements	January 1, 2016
Annual Improvements to IFRSs 2012-2014 Cycle.	January 1, 2016
Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealised Losses	January 1, 2017

¹ Early application is permitted for all new and revised standards and interpretations. Earlier application of IFRS 16 is permitted provided that IFRS 15 Revenue from Contracts with Customers is applied.

² The amendments were issued in September 2014 and were to become effective from January 1, 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.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In the application of the Group's accounting policies, which are described in Note 2, management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the current period if the revision affects only that period, or in the period of the revision and future periods.

Critical accounting estimates

The key assumptions concerning the future, and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below.

Compliance with tax legislation

Russian tax, currency and customs legislation is subject to varying interpretations and changes occurring frequently. Management's interpretation of such legislation in applying it to business transactions of the Group may be challenged by the relevant regional and federal authorities enabled by law to impose fines and penalties. It is possible that the tax treatment of transactions that have not been challenged in the past may be challenged. Fiscal periods remain open to review by the tax authorities in respect of taxes for the three calendar years preceding the year of tax review. Under certain circumstances reviews may cover longer periods. While the Group believes it has provided adequately for all tax liabilities based on its understanding of the tax legislation, the above facts may create additional financial risks for the Group (see Note 27).

Related party transactions

In the normal course of business the Group enters into transactions with its related parties. Identification of related parties calls inevitably for the application of management's professional judgment. The related party disclosures in these consolidated financial statements, in the opinion of the management, provide all information necessary to attract attention to the potential effect of the Group's transactions and outstanding mutual payment balances with related parties on its financial position and financial performance (Note 26).

IAS 39 requires initial recognition of financial instruments based on their fair values. Judgment is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analysis. Terms and conditions of related party balances are disclosed in Note 26.

Useful lives of property, plant and equipment

The Group assesses the remaining useful lives of items of property, plant and equipment at least annually at the end of each reporting period. If expectations differ from previous estimates, the difference is recognized as a change in accounting estimates, in accordance with IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. These estimates may have a material impact on the amount of the carrying values of property, plant and equipment and on depreciation expense for the period.

Impairment of property, plant and equipment and intangible assets

The Group reviews at each reporting date the carrying amounts of its property, plant and equipment and intangible assets to determine whether there is any indication that assets are impaired. This process involves judgment in evaluating the cause for any possible reduction in value, including a number of factors such as changes in current competitive conditions, expectations of growth in the industry, increased cost of capital, changes in the future availability of financing, technological obsolescence, discontinuance of service, current replacement costs and other changes in circumstances that indicate impairment may exist.

Whenever such indications exist management makes an estimate of the asset's recoverable amount to ensure that it is not less than its carrying value. If the asset's fair value is not readily determinable or is less than asset's carrying value plus costs to sell, management necessarily applies its judgment in determining the appropriate cash generating unit to be evaluated, estimating the appropriate discount rate and the timing and value of the relevant cash flows for the value-in-use calculation.

The Group carried out a review of the recoverable amount of railcars, property, plant and equipment in the “Sales” segment as part of its impairment review of non-current assets at the reporting date. For this purpose, the recoverable amount of railcars was determined based on value in use calculations. Value in use calculation uses cash flow projections based on actual operating results and business plan approved by management and corresponding discount rate which reflects time value of money and risks associated with the Group's operations. Key assumptions management used in their value in use calculation are as follows:

- The Group estimated its future cash flows for the period from 2016 to 2020, after which it assumed a constant amount of cash flow in real terms for the remaining average useful life of the existing assets.
- Cash inflow projections are based on the average daily contractual revenue, which is calculated by management as average daily leasing rate for leased rail cars.
- Prices for rail car repairs are expected to remain at a level of prices effective in 2015 in real terms.

The pre-tax discount rate used in the calculations was equal to 7.42% in real terms. It has been determined with reference to the estimated weighted average cost of capital of the Group.

Values assigned to key assumptions and estimates used to measure the unit's value-in-use are consistent with external sources of information and historic data for each cash-generating unit. Management believes that the values assigned to the key assumptions and estimates represent the most realistic assessment of future trends.

For the year ended December 31, 2015 an impairment loss of RUB 31 797 thousand was recognized (2014: RUB 27 309 thousand).

The above estimates are particularly sensitive to the changes in the following assumptions:

- An increase in discount rate to 10.5% increases the impairment loss to approximately RUB 90 087 thousand;
- A 5% decrease in future planned operating revenues increases the impairment loss to approximately RUB 88 465 thousand.

Impairment of goodwill and intangible assets with indefinite useful lives

Determining whether goodwill and intangible assets with indefinite useful lives are impaired requires an estimation of the value in use of the cash-generating units to which goodwill and the intangible assets have been allocated. The value in use calculation requires management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

The goodwill and intangible assets with indefinite useful lives have been allocated to the Group's railcar building cash-generating unit, which constitutes the “Production” segment of the Group's operations. At the same time, in 2015 the impairment analysis excluded goodwill from business combinations as well as cash flows of the mentioned companies, as the acquisition took place in December 2015 and were recognized in the consolidated financial statements at the estimated preliminary value and, therefore, goodwill was not allocated to the Group's CGUs as at the date of the consolidated financial statements.

The recoverable amount was determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by the management covering a five-year period, and a pre-tax RUB discount rate of 17% in nominal terms.

Cash flow projections during the forecast period are based on growing gross margins and raw materials price inflation throughout the forecast period. The expected increase in gross margins is based on achievement of the plant full production capacity and putting into operation of the 4th production line. The cash flows beyond that five-year period have been extrapolated using a steady 3.5% per annum growth rate which is the projected long-term average growth rate for the industrial market of the Russian Federation.

The management believes that any reasonably possible change in the key assumptions on which recoverable amount is based would not cause the aggregate carrying amount to exceed the aggregate recoverable amount of the cash-generating unit.

Critical judgements in applying accounting policies

Classification of inventories and trade accounts payable of TVSZ JSC

Prior to 2015, most of the railcars produced by the manufacturing unit in Tikhvin were used internally by the operating lease business unit. Therefore, inventories of TVSZ JSC including raw materials and materials for railcar production were accounted for as a part of construction in progress and the respective trade accounts payable were recognized as payables for property, plant and equipment.

In 2015 the Group significantly increased sales of railcars to third parties, which currently make up a predominant share of shipments, and, therefore, reclassified inventories of TVSZ JSC from construction in progress to either finished goods (railcars) or raw materials and components for railcar production and the respective accounts payable from payables for property, plant and equipment to trade payables.

Classification of acquisitions of entities under common control

In 2015 the Group acquired two companies under common control for the total consideration of RUB 7 954 848 thousand (Note 6). The management believes that the consideration is in line with an approximate market value of the businesses acquired and, therefore, the acquisitions are accounted for using the purchase method.

If the transactions were accounted for on a carryover basis, the goodwill on the acquisitions in the amount of RUB 8 863 697 thousand would have been recognized as a decrease in the Group's equity.

5. 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 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.

Segment information for the years ended on the indicated dates is presented as follows:

December 31, 2015	Production segment	Sales segment	Operation segment	Other segments	Total segments	Adjustments and eliminations	Consolidated
Revenue	32 058 482	4 294 762	6 201 417	3 338 206	45 892 867	(3 804 922)	42 087 945
including inter-segment revenue	501 851	928 489	6 166	3 073 171	4 509 677	(4 509 677)	-
Cost of sales, including:	(29 791 081)	(2 568 113)	(5 994 541)	(2 744 703)	(41 098 438)	3 232 926	(37 865 512)
- Raw materials	(20 212 465)	(1 212)	(2 352)				
- Payroll and social contributions	(3 858 190)	-	-				
- Property tax	-	(618 766)	-				
- Maintenance and repairs	-	(253 752)	-				
- Freight costs	-	-	(3 052 769)				
- Operating lease of railway cars	-	-	(2,939,420)				
- Depreciation and amortization	(3 474 280)	(1 621 025)	-				
- Other	(2 246 146)	(73 358)	-				
EBITDA	4 170 939	2 779 417	(34 869)	(36 163)	6 879 324	155 571	7 034 895
Finance income	15 859	2 718 857	3 380	5 618 937	8 357 033	(6 915 163)	1 441 870
Finance costs	(2 209 659)	(9 120 430)	(8 593)	(5 667 676)	(17 006 358)	6 915 253	(10 091 105)
Depreciation and amortization	(3 520 936)	(1 621 025)	-	(169 257)	(5 311 218)	(10 153)	(5 321 371)
Foreign exchange gain/(loss)							(3 172 189)
Impairment loss							(31 797)
Loss before income tax							(10 139 697)

December 31, 2014	Production segment	Sales segment	Other segments	Total segments	Adjustments and eliminations	Consolidated
Revenue	23 166 418	4 379 058	2 876 357	30 421 833	(13 364 344)	17 057 489
including inter-segment revenue	11 025 806	646 858	1 732 435	13 405 099	(13 405 099)	-
Cost of sales, including:	(24 292 988)	(2 115 677)	(3 009 165)	(29 417 830)	14 433 300	(14 984 530)
- Raw materials	(17 153 217)	(296 062)				
- Payroll and social contributions	(3 672 928)	-				
- Property tax	-	(214 784)				
- Maintenance and repairs	-	(124 845)				
- Depreciation and amortization	(3 113 561)	(1 428 903)				
- Other	(353 282)	(51 083)				
EBITDA	1 292 502	3 348 689	(632 099)	4 009 092	(437 434)	3 571 658
Finance income	6 416	1 113 153	2 115 108	3 234 677	(2 587 364)	647 313
Finance costs	(1 943 679)	(4 953 708)	(2 344 446)	(9 241 833)	2 725 696	(6 516 137)
Depreciation and amortization	(3 113 561)	(1 428 903)	(67 283)	(4 609 747)	1 489 771	(3 119 976)
Foreign exchange gain/(loss)						4 604 625
Impairment loss						(27 309)
Loss before income tax						(839 826)

Breakdown of the Group's revenue by types of goods and services is presented in Note 20. In 2015, the key external customer of the Production segment was NitroChemProm LLC which accounted for more than 90% of the segment's external sales. In 2015, the key external customers of the Sales and Operation segments were SUEK JSC and UGMK-Trans LLC, respectively, which accounted for 32% and 67% of the segments' sales.

Segment assets and liabilities are not disclosed, as this information is not provided to the chief operating decision maker.

6. ACQUISITION OF SUBSIDIARIES

Transmashenergo LLC

In December 2015, the Group obtained control over Transmashenergo LLC, a power station under construction, by acquiring 100% interest in the company's charter capital for RUB 6 004 000 thousand from companies under common control with the Group.

The assets and liabilities acquired were recognized on a provisional basis at their carrying values at the date of the acquisition. The Group is using external appraisers to establish the fair value of the long-term assets acquired and will update the provisional valuation in its next annual financial statements upon completion of the valuation.

Carrying values of assets and liabilities of Transmashenergo LLC at the acquisition date are presented below:

	Value as recognized on acquisition
Property, plant and equipment	6 646 326
Advances for property, plant and equipment	23 747
Deferred tax assets	344 368
Inventories	42 331
Trade receivables	34
Advances paid and other current assets	32 577
VAT receivable	148 260
Cash and cash equivalents	461
Total assets	7 238 104
Long-term loans and borrowings	5 896 500
Deferred tax liabilities	241 718
Short-term loans and borrowings	1 051 208
Accounts payable	405 478
Advances received and other current liabilities	4 516
Total liabilities	7 599 420
Net liabilities acquired	(361 316)
Goodwill arising on acquisition	6 365 316
Total purchase consideration	6 004 000
Cash and cash equivalents of subsidiaries acquired	(461)
Consideration remained unpaid as at December 31, 2015	(4 104 000)
Net outflow of cash and cash equivalents on the acquisition date	1 899 539

The subsidiary was acquired at the end of the year ended December 31, 2015 and, therefore, didn't contribute any revenue or profit for the year ended December 31, 2015. Transmashenergo LLC had no operating activities in 2015 and, therefore, if the acquisition had occurred on January 1, 2015, the Group's consolidated revenue and loss for the year ended December 31, 2015 would not have changed significantly.

Titran-Express TAP JSC

In December 2015, the Group obtained control over Titran-Express TAP JSC, a car repair depot, by acquiring a call option to acquire 100% of the company's shares from companies under common control with the Group.

The assets and liabilities acquired were recognized on a provisional basis at their carrying values at the date of the acquisition. The Group is using external appraisers to establish the fair value of the long-term assets acquired and will update the provisional valuation in its next annual financial statements upon completion of the valuation.

Carrying values of assets and liabilities of Titran-Express TAP JSC at the acquisition date are presented below:

	Value as recognized on acquisition
Property, plant and equipment	494 421
Intangible assets	6 079
Deferred tax assets	106 537
Inventories	252 905
Trade receivables	610 331
Advances paid and other current assets	35 156
VAT receivable	24 652
Cash and cash equivalents	27 989
Total assets	1 588 070
Long-term loans and borrowings	851 028
Deferred tax liabilities	7 013
Short-term loans and borrowings	170 569
Accounts payable	1 040 753
Advances received and other current liabilities	36 240
Total liabilities	2 105 603
Net liabilities acquired	(547 533)
Goodwill arising on acquisition	2 498 381
Total purchase consideration	1 950 848
Cash and cash equivalents of subsidiaries acquired	(27 989)
Consideration remained unpaid as at December 31, 2015	(10 204)
Net outflow of cash and cash equivalents on the acquisition date	1 912 655

The subsidiary was acquired at the end of the year ended December 31, 2015 and, therefore, didn't contribute any revenue or profit for the year ended December 31, 2015. In 2015 the most of sales of Titran-Express TAP JSC comprised services rendered and repair works performed to subsidiaries of the Group and, therefore, if the acquisition had occurred on January 1, 2015, the Group's consolidated revenue for the year ended December 31, 2015 would not have changed significantly.

If the acquisition had occurred on January 1, 2015, consolidated loss of the Group for the year ended December 31, 2015 would have increased by approximately RUB 119 228 thousand.

7. GOODWILL AND INTANGIBLE ASSETS

Movements in the carrying amount of intangible assets were as follows:

	Goodwill	Intangible assets at the development stage	Know-how and patents	Software	Total
Cost					
As at January 1, 2014	107 535	85 091	2 532 461	222 199	2 947 286
Additions	-	188 895	25 905	34 876	249 676
Transfers	-	(44 702)	44 702	-	-
At December 31, 2014	107 535	229 284	2 603 068	257 075	3 196 962
Additions	-	2 522 559	8 137	31 823	2 562 519
Acquisition of subsidiaries	8 863 697	-	6 043	36	8 869 776
Disposal of subsidiaries	-	(200)	-	(202)	(402)
Transfers	-	(1 651 893)	1 646 205	5 688	-
At December 31, 2015	8 971 232	1 099 750	4 263 453	294 420	14 628 855
Accumulated amortization					
As at January 1, 2014	-	-	163 188	15 055	178 243
Amortization charge	-	-	159 218	20 716	179 934
At December 31, 2014	-	-	322 406	35 771	358 177
Amortization charge	-	-	248 318	29 645	277 963
Disposal of subsidiaries	-	-	-	(35)	(35)
At December 31, 2015	-	-	570 724	65 381	636 105
Net book value					
At December 31, 2014	107 535	229 284	2 280 662	221 304	2 838 785
At December 31, 2015	8 971 232	1 099 750	3 692 729	229 039	13 992 750

The Group is engaged in research and development of freight rolling stock technologies. Intangible assets at the development stage include capitalized expenses for development of casting and railway car building technologies for future use in production of the new generation railway cars in the town of Tikhvin. During 2015 and 2014 the Group registered patents with regards to exclusive rights to utility models and to know-hows by means of technical specifications. The registered intangible assets are transferred from intangible assets under development to know-how and patents, and are amortized over their useful economic lives ranging from 51 to 174 months.

Production technologies development costs are considered to have indefinite useful lives and are carried at cost less accumulated impairment losses. The total amount of know-hows and patents with indefinite useful lives was RUB 1 063 280 thousand and RUB 981 712 thousand as of December 31, 2015 and 2014, respectively.

Software mainly relates to the ERP system implemented at TVSZ JSC and amortized over a period of 120 months. Intangible assets pledged as collateral are disclosed in Note 16.

In 2015 the Group acquired Transmashenergo LLC and Titran-Express TAP JSC and recognized goodwill in the amount of RUB 8 863 697 thousand (Note 6). The acquisitions were recorded at the carrying value of assets and liabilities as a provisional amount and, therefore, the amount of the goodwill is provisional and subject to change after completion of purchase price allocation.

8. PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment were as follows:

	Railcars	Equipment and motor vehicles	Production plant and buildings	Office equipment and furniture	Construction in progress (i)	Total
Cost						
As at January 1, 2014	24 748 429	17 782 752	13 648 009	129 102	7 366 250	63 674 542
Additions	2 277 130	343 433	153 849	818	24 891 951	27 667 181
Acquisition of companies	-	-	231 409	-	102 065	333 474
Transfers	22 581 958	2 269 467	252 139	69 837	(25 172 590)	811
Write-offs	-	(13 603)	(11 217)	(2 906)	(4 188)	(31 914)
Transfer to goods for sale	(10 165 534)	-	-	-	-	(10 165 534)
At December 31, 2014	39 441 983	20 382 049	14 274 189	196 851	7 183 488	81 478 560
Additions	-	13 989	-	-	8 429 050	8 443 039
Acquisition of companies	-	203 393	251 801	45 598	6 639 955	7 140 747
Transfers	1 928 523	1 599 583	118 249	83 285	(3 729 640)	-
Reclassification	-	152 639	(152 489)	(150)	-	-
Transfer to inventories	-	-	-	-	(4 769 205)	(4 769 205)
Write-offs	(7 895)	(21 599)	(9 786)	(389)	(111 933)	(151 602)
Transfer to goods for sale	(2 468 265)	-	-	-	-	(2 468 265)
At December 31, 2015	38 894 346	22 330 054	14 481 964	325 195	13 641 715	89 673 274
Accumulated amortization						
As at January 1, 2014	6 446 520	1 172 182	657 568	33 016	(50 589)	8 258 697
Amortization charge	1 652 420	2 713 554	434 818	50 750	-	4 851 542
Write-offs	-	(6 700)	(9 036)	(2 007)	-	(17 743)
Transfer to goods for sale	(124 589)	-	-	-	-	(124 589)
Impairment losses (ii)	27 309	-	-	-	-	27 309
At December 31, 2014	8 001 660	3 879 036	1 083 350	81 759	(50 589)	12 995 216
Amortization charge	1 784 491	3 050 159	419 385	65 533	-	5 319 568
Write-offs	(1 483)	(20 354)	(7 505)	-	-	(29 342)
Reclassification	-	13 427	(13 377)	(50)	-	-
Transfer to goods for sale	(72 801)	-	-	-	-	(72 801)
Impairment losses (ii)	31 797	-	-	-	-	31 797
At December 31, 2015	9 743 664	6 922 268	1 481 853	147 242	(50 589)	18 244 438
Net book value						
At December 31, 2014	31 440 323	16 503 013	13 190 839	115 092	7 234 077	68 483 344
At December 31, 2015	29 150 682	15 407 786	13 000 111	177 953	13 692 304	71 428 836

(i) Construction in progress includes primarily expenses for the construction of the railway car manufacturing plant and equipment being prepared for installation, as well as the power station under construction.

(ii) In 2015 and 2014 the Group carried out a review of the recoverable amount of railway cars and construction in progress. The review led to the recognition of an impairment loss of RUB 31 797 thousand and RUB 27 309 thousand, respectively, which has been recognized in profit or loss (Note 4).

Information on capitalized borrowing costs and interest rates used for calculation is presented in Note 16. Information on property, plant and equipment pledged as collateral is also disclosed in Note 24.

9. INVESTMENTS IN JOINT VENTURES AND ASSOCIATES

The Group's significant associates and joint ventures include:

Name	Type of investment	Place of incorporation and operation	Ownership and voting interest of the Group	
			December 31, 2015	December 31, 2014
MRC 1520 LLC	Joint venture	Moscow, Russia	50%	50%
Timken UWC LLC	Associate	Tikhvin, Russia	49%	-
JC Wabtec UWC LLC	Associate	Tikhvin, Russia	49%	-

During 2012, the Company entered into a joint venture agreement with MRC 1520 LLC and Mitsui Corporation and acquired a 50% share in IMRCR Limited, the owner of MRC 1520 LLC. The joint venture commenced its operations in 2013. The joint venture's primary business is operating lease and sale of railcars to transportation and manufacturing companies within Russia.

The Group's share in profit/(loss) of the joint venture for 2015 and 2014 recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 157 928 thousand and RUB 149 700 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.

	December 31, 2015	December 31, 2014
Cash and cash equivalents	701 390	215 928
Other current assets	5 025	17 313
Non-current assets	716 430	1 520 552
Short-term loans and borrowings	(525 500)	(1 407 248)
Other current liabilities	(255 936)	(28 869)
Non-current liabilities	(8 565)	-
Net assets of the joint venture	632 844	317 677
Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	316 422	158 838

	2015	2014
Revenue	1 310 773	273 486
Profit/(loss) and total comprehensive income/(loss) for the year	315 855	(299 400)

The above profit/(loss) for the year includes the following:

	2015	2014
Depreciation and amortization	(83 098)	(102 694)
Interest income	-	500
Interest expense	(22 862)	(77 381)
Income tax expense	(77 703)	70 312

In 2015 the Company entered into agreement with Timken UWC LLC and Timken Lux Holdings II S.A.R.L. and acquired a 49% share in TUBC Limited, the owner of Timken UWC LLC. The associate commenced its operation in 2015. The principal activity of the associate is the production of bearings for freight railcars. Timken UWC LLC is an associate of the Group as the Group has significant influence over its financial and operating activities, i.e. the Group has decision-making powers but cannot control activities of Timken UWC LLC.

Summarized below is the financial information on the associate of the Group. This information reflects amounts of the associate reported in accordance with IFRS.

	December 31, 2015
Net assets of the associate	888 495
Carrying amount of the Group's interest in the associate	435 696

	2015
Profit and total comprehensive income for the year	61 504
Group's share in profit of the associate	30 137

In 2015 the Group entered into a joint venture agreement with JC Wabtec UWC LLC and Wabtec Corporation and acquired a 49% share in the joint venture. The principal activity of the joint venture is the development and production of innovative components for freight rolling stock, including the heavy one. As at the reporting date the joint venture did not commence its operations. At December 31, 2015, the carrying value of the Group's non-controlling interest in the associate amounted to RUB 383 thousand.

10. INVENTORIES

Inventories comprised:

	December 31, 2015	December 31, 2014
Raw materials and components for railcar production	7 081 812	-
Finished goods (railcars)	958 781	-
Other inventories	484 393	266 972
Total inventories	8 524 986	266 972

Significant increase in inventories relates to the reclassification of raw materials and components for railcar production (Note 4).

11. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following:

	December 31, 2015	December 31, 2014
Trade receivables from sale of railcars	3 621 497	6 064 610
Trade receivables from operating lease and rail-based freight transportation services	658 913	1 432 920
Other receivables	18 652	81 003
Provision for doubtful trade and other receivables	(295 627)	-
Total trade and other receivables	4 003 435	7 578 533

Management has determined the provision for impairment of receivables based on assessment of customers' credit quality, changes in industry trends, subsequent receipts and historical experience. The status of trade receivables that are past due but not impaired at the reporting date is as follows:

	December 31, 2015	December 31, 2014
Past due 31 - 90 days	28 179	199 445
Past due 90-180 days	14 377	144 711
Past due 181 - 365 days	5 135	194 344
Past due over 365 days	50 420	443 328
Total	98 111	981 828

Movements in the provision for doubtful trade and other receivables during the years ended December 31, 2015 and 2014, were as follows:

	2015	2014
Balance at the beginning of the year	-	36 886
Use of the provision for impairment of trade accounts receivable	-	(36 886)
Movements in the provision for impairment of trade accounts receivable	295 627	-
Balance at the end of the year	295 627	-

12. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS

Prepayments to suppliers and other assets comprised:

	December 31, 2015	December 31, 2014
Prepayments to suppliers	1 077 908	353 671
Government grants receivable	347 766	35 441
Prepaid expenses	208 899	197 832
Prepayment to customs	49 677	90 334
Taxes receivable	12 413	28 096
Provisions for doubtful prepayments	(130 593)	-
Total prepayments to suppliers and other assets	1 566 070	705 374

13. LOANS RECEIVABLE

Loans issued including interest accrued were as follows:

	Currency	Rate, %	December 31, 2015	December 31, 2014
Loans to related parties				
Re Test Cyprus LTD	USD	6.4%	286 061	104 742
United Wagon PLC	USD	7%	276 656	11 133 877
United Wagon PLC	USD	6.4%	230 592	168 118
Test Center Holding	USD	6.4%	33 275	24 019
TTC RT LLC	RUB	7.50%	6 777	26 286
Re Test LTD	USD	6.4%	3 479	2 027
TH RCC LLC	USD	6.6%	-	310 390
Loans to third parties				

	Currency	Rate, %	December 31, 2015	December 31, 2014
Doland Business Ltd	RUB	11%	5 129 065	-
SZIZhK LLC	RUB	11%	390 370	-
Business Engineering LLC	RUB	11%	127 039	-
SZIPK LLC	RUB	9%	31 200	31 590
BLK-Proekt LLC	RUB	10%	26 905	34 418
NitroChemProm LLC	RUB	9%	-	1 029 553
Doland Business Ltd	USD	3.5%	-	5 046 574
Other			24	2 606
Total loans receivable			6 541 443	17 914 200
Short-term loans				
			5 187 614	16 255 261
Long-term loans				
			1 353 829	1 658 939
Total loans receivable			6 541 443	17 914 200

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

14. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

	December 31, 2015	December 31, 2014
Current accounts in Euro	2 032 723	6 505
Deposits in RUB	978 767	1 879 003
Current accounts in RUB	190 274	490 467
Current accounts in USD	5 701	10 599
Cash in transit	1	21
Total cash and cash equivalents	3 207 466	2 386 595

As at December 31, 2015, the Group placed cash in overnight deposits to gain interest income. The interest rate on the deposits ranges from 5% to 15.5%.

In July 2015, 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 December 23, 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 6 months. As at December 31, 2015, the deposited funds in the amount of RUB 1 781 709 thousand were recorded in non-current assets in the line item "Restricted cash".

15. SHARE AND ADDITIONAL PAID-IN CAPITAL

As at December 31, 2015, the Company's issued and registered share capital amounted to RUB 105 556 thousand, divided into 105 556 000 ordinary non-certificated registered shares with par value of RUB 1 each. The share capital was fully paid for as at the reporting date.

As at December 31, 2014, the Company's issued and registered share capital amounted to RUB 10 thousand, divided into 10 000 ordinary shares with par value of RUB 1 each. In December 2014 the Group's shareholders made a decision on additional issue of 99 990 000 shares with par value of RUB 1 each. As at December 31, 2014 the Company reported RUB 99 990 thousand as issued but not registered share capital, as the issue was officially registered only on March 17, 2015.

On March 5, 2015, the Group's shareholders approved a decision to make an increase of the share capital of the Group by means of additional issue of 5 556 000 ordinary shares. In April 2015 the Group held an initial public offering of 5 556 000 shares by listing its shares on the Moscow stock exchange for RUB 3 889 200 thousand (based on the issuance price of RUB 700 per share with a par value of RUB 1). The difference between the issuance price and the par value was recorded in additional paid-in capital of the Company in the amount of RUB 3 729 755 thousand less issuance costs in the amount of RUB 153 889 thousand.

16. LOANS AND BORROWINGS

Loans and borrowings comprised:

	Maturity	Interest rate (at December 31, 2015)	December 31, 2015	December 31, 2014
Secured borrowings, at amortized cost, including:				
RUB-denominated				
Sberbank PJSC	2021-2023	Fixed 10.2%-10.95%*	18 530 229	19 699 565
Vnesheconombank and EDB	2022	Fixed 11.8%	17 542 200	17 910 686
Otkritie FC Bank PJSC	2016	Floating MosPrime 3m +4%	9 280 646	9 238 192
Otkritie FC Bank PJSC	2017	Fixed 10.7%-14%	5 480 327	-
Khanty-Mansiysk Bank Otkritie PJSC	2018-2020	Floating MosPrime 3m +2.5%	5 304 487	2 429 647
Gasprombank (JSC)	2022	Fixed 12.15%	2 166 160	2 290 783
TM-Energo Finance LLC	2019	Fixed 9%	1 899 773	-
Otkritie FC Bank PJSC	2020	Floating MosPrime 3m +1.5%	1 350 000	-
RUSNANO Group	2016-2017	Fixed 14%	799 548	996 953
Railways Development Ltd	2016	Fixed 8.5%	584 275	-
Otkritie FC Bank PJSC	2020	Floating Key rate of the CBR +1.5%	500 000	-
Khanty-Mansiysk Bank Otkritie PJSC	2017	Fixed 13.5%	161 203	221 209
United Wagon PLC	2018	Fixed 6.5%	7 792	7 350
Eurasian Development Bank (EBD)	2015	Fixed 12%	-	3 010 000
EUR-denominated				
Otkritie FC Bank PJSC	2022	Fixed 10%	6 467 016	5 642 481
Khanty-Mansiysk Bank Otkritie PJSC	2016	Fixed 4.7%	1 047 935	-
Total loans and borrowings			71 121 591	61 446 866
Less: current portion			15 286 129	16 953 742
Long-term loans and borrowings			55 835 462	44 493 124

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

Under the terms of the borrowing agreements as at December 31, 2015, the Group provided the following types of security:

- Property, plant and equipment with a carrying value of RUB 51 545 178 thousand (Note 8);
- Intangible assets with a carrying value of RUB 81 642 thousand (Note 7);
- Inventories with a carrying value of RUB 1 000 697 thousand (Note 10);
- Shares in subsidiaries (TVSZ JSC (100%), Advanced Freight Car Technology Limited (100%), DEANROAD Limited (100%), Raygold Limited; RAIL1520 LLC (100%), RAIL1520 Service LLC (100%); Transmashenergo LLC (100%), RPC UWC PJSC (24.53%), RAIL 1520 Cyprus Ltd (100%), RAIL1520 BVI Ltd (100%), Springs Industrial Technology Center LLC (100%), TikhvinChemMash CJSC (100%).

The schedule of repayments on loans and borrowings for five years ending December 31, 2020 and thereafter is as follows:

Year ended December 31	
2016	15 286 129
2017	10 458 576
2018	7 430 322
2019	8 167 972
2020	12 101 968
Thereafter	17 676 624
Total	71 121 591

Covenants

Under the terms of the borrowing agreements, the Group is required to comply with a number of covenants and restrictions, including maintenance of certain financial ratios and other non-financial conditions. Non-compliance with these covenants may result in negative consequences for the Group, including declaration of default. As at December 31, 2015 the Group complied with these covenants, however, in 2015 a Group subsidiary breached a Debt to EBITDA covenant contained in one of its debt agreements. The Group signed an additional agreement with a bank, according to which the above mentioned covenant was attenuated for 2015 which allowed the Group to be in compliance with all of its existing covenants as at the reporting date.

Available credit facilities

As at December 31, 2015 the Group's total unused credit facilities amounted to RUB 10 927 929 thousand and related to the following credit lines:

	Maturity	Interest rate	Available till	Amount
Eurasian Development Bank (EBD)	2018	12.0%	03.07.2018	3 000 000
Khanty-Mansiysk Bank Otkritie PJSC	2017	13.5%	22.12.2017	798
Otkritie FC Bank PJSC	2022	10.5%	25.05.2017	1 557 517
Otkritie FC Bank PJSC	2024	10.5%	30.10.2017	5 739 614
Total				10 297 929

17. BONDS

In 2014 and 2013 the Group issued and placed 30 000 000 bonds (Series BO 01 and Series O1) at par value of RUB 1 thousand each on the MICEX. As at December 31, 2015 and 2014, subsidiaries of the Group held bonds for RUB 1 683 800 thousand and RUB 2 108 300 thousand, respectively, for a purpose of their future resale on the market.

The annual coupon rate of the bonds was set at:

- 8.7% for bonds of Series O1 for the first half-year period and Russia CPI + 3% thereafter with interest being paid semi-annually. In 2015 the following coupon rates were used:
 - 10.56% from 01/01/2015 to 02/06/2015;
 - 27.36% from 03/06/2015 to 01/12/2015;
 - 9.08% from 02/12/2015 to 31/12/2015;
- 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 2015 the following rates were used:
 - 12.5% from 01/01/2015 to 16/03/2015;
 - 16.0% from 17/03/2015 to 14/09/2015;
 - 15.5% from 15/09/2015 to 31/12/2015;

The bonds are guaranteed by certain entities of the Group.

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

	Maturity	Effective interest rate for 2015	December 31, 2015	December 31, 2014
Series O1	30.11.2016	18.82%	13 316 200	15 000 000
Series BO 01	10.09.2019	15.12%	15 000 000	12 891 700
Total			28 316 200	27 891 700

The amount of interest accrued as at December 31, 2015 and 2014 in the amount of RUB 787 750 thousand and RUB 598 961 thousand, respectively, is included in the consolidated statement of financial position as the short-term portion of the bonds.

18. TRADE AND OTHER PAYABLES

Trade and other payables comprised:

	December 31, 2015	December 31, 2014
Trade payables	7 399 814	515 535
Payables for acquisition of subsidiaries	4 118 251	-
Payables for property, plant and equipment	1 179 205	5 842 041
Total trade and other payables	12 697 270	6 357 576

Significant movements in balances of payables for property, plant and equipment and trade payables relate to the reclassification of payables for supply of raw materials and components for railcar production (Note 4) previously included in payables for property, plant and equipment.

As at the reporting date, the Group's payables for acquisition of subsidiaries amounted to RUB 4 118 251 thousand, RUB 4 108 048 thousand of which (including interest accrued in the amount of RUB 4 047 thousand) represent payables for acquired interest in Transmashenergo LLC in the form of a commercial loan granted by the seller with maturity on December 31, 2016 at 9% per annum. Interest accrued for the period of the commercial loan is recognized in profit or loss.

19. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

Advances received and other current liabilities comprised:

	December 31, 2015	December 31, 2014
Advances received from customers, including:	1 280 449	381 842
<i>Advances received for sale of goods</i>	864 523	10 693
<i>Operating lease prepayments</i>	183 499	96 417
<i>Advances received for rail-based freight transportation services</i>	210 480	66 040
Taxes payable	2 046 044	595 715
Provisions and accrued expenses	555 672	352 260
Payables for acquisition of intangible assets	183 069	-
Other short-term payables to employees	166 270	65 754
Total advances received and other current liabilities	4 231 504	1 395 571

20. REVENUE

Revenue comprised the following:

	2015	2014
Sales of railcars	32 306 209	12 224 768
Rail-based freight transportation services	6 195 252	1 198 990
Operating lease of railcars	3 447 763	3 473 472
Other revenue	138 721	160 259
Total revenue	42 087 945	17 057 489

21. COST OF SALES

Cost of sales comprised the following:

	2015	2014
Raw materials used in production	20 724 922	8 744 580
Depreciation and amortization	5 305 456	3 087 284
Payroll and social contributions	3 916 389	1 861 439
Freight costs	3 052 769	544 336
Operating lease of railcars	2 012 161	134 870
Property tax	627 601	214 819
Railcar repair and maintenance	318 141	124 845
Other	1 908 073	272 357
Total cost of sales	37 865 512	14 984 530

22. SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

Selling, general and administrative expenses comprised the following:

	2015	2014
Payroll and social contributions	757 314	517 181
Operating lease expense	631 611	201 494
Provision for doubtful accounts receivable	426 220	-
Information, consulting and audit services	296 099	278 773
Transportation costs for the delivery of railcars to the buyer	150 461	66 187
Other staff costs	132 560	71 762
Disposal and write-off of property, plant and equipment	122 260	14 171
Loss on sale of inventories	76 781	81 203
Advertising expenses	62 393	70 640
Travel expenses	47 917	29 489
Depreciation and amortization	15 915	32 692
Change in railcar warranty provision	(14 384)	83 953
Other	288 401	197 103
Total selling, general and administrative expenses	2 993 548	1 644 648

23. FINANCE INCOME

Finance income comprised the following:

	2015	2014
Interest income from financial assets	1 354 782	633 796
Interest income on cash and equivalents	87 088	13 517
Total finance income	1 441 870	647 313

24. FINANCE COSTS

Finance costs comprised the following:

	2015	2014
Interest expense on loans and borrowings	7 729 136	6 189 477
Interest expense on bonds	4 400 795	1 773 095
Bank commissions	330 131	257 472
Government grants	(1 800 947)	(1 448 814)
Less: amounts included in the cost of qualified assets:		
Capitalized interest expense	(570 617)	(348 499)
Capitalized government grants	2 607	93 406
Total finance costs	10 091 105	6 516 137

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.

25. INCOME TAX

Income tax benefit/(expense) recorded in the statement of profit or loss and other comprehensive income comprises the following:

	2015	2014
Current income tax	(410 788)	(70 427)
Deferred income tax benefit	874 009	1 459 573
Income tax benefit for the year	463 221	1 389 146

As of December 31, 2015, the income tax rates applicable to the entities of the Group were as follows:

- Russian companies – 20%;
- Cyprus companies – 12.5%;

Below is a reconciliation of income tax calculated using the income tax rate effective in the Russian Federation and the actual income tax recorded in the consolidated statement of profit or loss and other comprehensive income:

	2015	2014
Loss before income tax	(10 139 697)	(839 826)
Theoretical tax credit at statutory tax rate of 20%	2 027 939	167 965
Tax effect of items which are not deductible or assessable for taxation purposes:		
Unrecognized tax losses of foreign companies for the year	(1 000 839)	(139 707)
Exclusion of foreign exchange differences from taxable profit of foreign companies	(401 473)	1 563 176
Effect of different income tax rates applicable to foreign companies	(160 400)	(109 621)
Taxes accrued for prior years	(32 961)	-
Share of profit/(loss) of joint venture	37 613	(31 444)
Other items	(6 658)	(61 223)
Income tax benefit	463 221	1 389 146

Deferred taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for tax purposes.

Deferred tax assets/(liabilities) as at December 31, 2015 and 2014 are presented as follows:

	2015	2014
Tax losses carried forward in Russian companies of the Group	6 422 426	5 253 892
Less: valuation allowance for Russian companies of the Group	(3 004 461)	(3 004 461)
Accounts receivable	68 100	(11 234)
Accruals	39 333	8 797
Property, plant and equipment	(1 379 034)	(1 244 491)
Loan commission	(121 144)	(120 970)
Intangible assets	(323 563)	(271 725)
Other	26 096	41 763
Deferred tax asset, net	1 727 753	651 571

The movements in deferred tax during the years ended December 31, 2015 and 2014 were as follows:

	2015	2014
Deferred tax asset/(liability) at the beginning of the year, net	651 571	(809 036)
Deferred tax benefit	874 009	1 459 573
Deferred tax liability acquired through business combination	202 173	1 034
Deferred tax asset at the end of the year, net	1 727 753	651 571

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as at December 31, 2015 and 2014:

	2015	2014
Deferred tax asset	2 643 706	1 852 555
Deferred tax liability	(915 953)	(1 200 984)
Deferred tax asset, net	1 727 753	651 571

As at December 31, 2015 and 2014, temporary differences associated with undistributed earnings of subsidiaries are not recognized in the consolidated financial statements as the Group is able to control the timing of the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

As at December 31, 2015 the Group has unrecognized potential deferred tax assets in respect of unused tax loss carry forwards of RUB 3 004 461 thousand. Tax loss carry forward period expires in 10 years after the year the loss is incurred (major losses were incurred in 2013 and 2012).

The above tax assets may be recognized by the Group when there is certainty over their recoverability.

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 sale and purchase of railcars spare parts or financing and investing transactions.

The nature of the related party relationships for those related parties, with whom the Group entered into significant transactions or had significant balances outstanding at December 31, 2015 are the parent, entities under common control with the Group and joint venture. As at December 31, 2015 and 2014 the Group had the following balances with its related parties:

	December 31, 2015	December 31, 2014
Trade and other receivables		
Entities under common control	22 415	668 781
Prepayments for property, plant and equipment		
Entities under common control	-	103 868
Loans granted		
Parent company	507 248	11 301 995
Entities under common control	417 817	467 718
Prepayments		
Entities under common control	11 951	11 136
TOTAL ASSETS	959 431	12 553 498
Loans and borrowings		
Parent company	7 792	7 349
Entities under common control	1 899 773	-
Trade and other payables		
Parent company	-	189
Entities under common control	16 337	748 660
Payables for acquisition of subsidiaries		
Entities under common control	4 118 251	-
TOTAL LIABILITIES	6 042 153	756 198

For the years ended December 31, 2015 and 2014 the Group's transactions with its related parties were as follows:

	2015	2014
Sales of railcars and inventories		
Entities under common control	306 701	209 053
Sales of electric power		
Entities under common control	1 131	47 474
Income from consulting activities		
Joint venture	27 555	21 019
Entities under common control	203	155
Lease and other income		
Parent company	20	-
Entities under common control	848	-
Purchase of inventories for railcar production		
Entities under common control	364 211	471 467
Operating lease expenses		
Entities under common control	40	20 268
Cost of goods sold (other) and maintenance		
Entities under common control	199 199	172 678
Expenses on consulting activities		
Parent company	64 259	-
Interest income		
Parent company	233 718	534 542
Entities under common control	31 387	2 592
Interest expense		
Parent company	443	323 380
Foreign exchange gain/(loss)		
Parent company	152 226	6 188 250
Entities under common control	90 509	-
Acquisition of subsidiaries		
Entities under common control	7 954 848	-

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 year ended December 31, 2015 equaled RUB 94 939 thousand (2014: RUB 102 885 thousand), including RUB 13 705 thousand of social contribution payments (2014: RUB 13 255 thousand).

27. COMMITMENTS AND CONTINGENCIES

Capital expenditure commitments

As at December 31, 2015 the Group had contractual capital expenditure commitments in respect of property, plant and equipment totaling 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 receivable are presented as follows:

	December 31, 2015	December 31, 2014
Less than one year	3 066 940	3 550 120
Later than 1 year and not longer than 5 years	8 342 379	10 654 131
Over 5 years	3 114 360	3 479 508
	14 523 680	17 683 759

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 prices of oil and gas on the world market. During 2014-2015 and 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 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, slackening of the economic growth rates 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.

Taxation

The Russian business legislation continues to be subject to rapid changes. 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 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 preceding the year of tax audit. Under certain circumstances reviews may cover longer periods.

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.

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. 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. FINANCIAL RISK MANAGEMENT

Risk management is being carried out by the Group in relation to financial (credit, market, currency, liquidity and interest rate), operating and legal risks. The main purpose of financial risk management is to determine risk limits and to further uphold the limits determined. Operating and legal risk management shall provide reliable performance of internal policy and procedures of the Group to minimize these risks.

Main categories of financial instruments

The Group's financial assets and liabilities at the reporting dates comprised the following:

	December 31, 2015	December 31, 2014
Financial assets		
Loans receivable	6 541 443	17 914 200
Trade and other receivables	4 003 435	7 608 533
Cash and cash equivalents	3 207 466	2 386 595
Restricted cash	1 781 709	-
Finance lease receivables	260 817	269 621
Financial liabilities at amortized cost		
Loans and borrowings	71 121 591	61 446 866
Bonds	29 103 950	28 490 661
Trade and other payables	13 235 236	6 423 330
Provisions and accrued expenses	555 672	352 260
Finance lease liabilities	4 508	22 021

Fair value of financial instruments that are not measured at fair value on a recurring basis but for which fair value disclosures are required

The carrying amounts and fair values of the Group's loans borrowings as at December 31, 2015 and 2014 were presented as follows:

	December 31, 2015		December 31, 2014	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and borrowings*	71 121 591	71 278 060	61 446 866	56 181 800
	71 121 591	71 278 060	61 446 866	56 181 800

* For the fair value estimation the Group used 11.73% as market rate of cost of debt. That rate of the cost of debt excludes the effect of subsidies.

Inputs of Level 3 of the fair value hierarchy were used to measure the fair value of bank loans and borrowings received from third parties and related parties. The fair value of financial liabilities was determined in accordance with generally accepted valuation techniques based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the weighted average interest rate on loans (in Rubles and with maturities of over 3 years) received by non-financial organizations from credit institutions.

The bonds issued by the Group have a floating rate correlating with the consumer price index (CPI) or CBR REPO rate (Note 17), and, therefore, their carrying amounts approximate their fair values as at the reporting date.

As the majority of loans issued (RUB 5 187 614 thousand) will be redeemed in 2016 (Note 13), and the remaining financial assets are short-term, the management of the Group considers that the carrying amounts of financial assets as at December 31, 2015 approximate their fair values.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to settle all liabilities as they fall due. The Group's liquidity position is carefully monitored and managed by the treasury function. Management controls current liquidity based on expected cash flows and revenue receipts through establishing and maintaining a cash fund sufficient to cover its contractual obligations for the period of three to six upcoming months. Such funds are normally kept as highly liquid short-term bank deposits, and are available on demand. In addition, the Group's policy is to continually maintain a diversified portfolio of open credit lines with reputable banks, which serve to secure for the Group a stable ad hoc borrowing capability.

The following tables detail the Group's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

	Less than 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 2015				
Fixed interest rate instruments	15 564 523	39 721 943	11 502 211	66 788 677
Variable interest rate instruments	16 549 528	50 421 353	26 317 387	93 288 268
Finance lease liabilities	2 825	1 683	-	4 508
Non-interest bearing liabilities	13 235 236	-	-	13 235 236
Provisions and accrued expenses	555 672	-	-	555 762
Total	45 907 784	90 144 979	37 819 598	173 872 451

	Less than 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 2014				
Fixed interest rate instruments	21 832 552	33 638 361	17 191 969	72 662 882
Variable interest rate instruments	3 411 839	41 127 190	11 706 026	56 245 055
Finance lease liabilities	19 384	2 637	-	22 021
Non-interest bearing liabilities	6 423 330	-	-	6 423 330
Provisions and accrued expenses	352 260	-	-	352 260
Total	32 039 365	74 768 188	28 897 995	135 705 548

The following tables detail the Group's expected maturity for its financial assets, except for cash and cash equivalents. The table has been drawn up based on the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets.

	Less than 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 2015				
Fixed interest rate instruments	5 755 073	987 796	960 034	7 702 903
Non-interest bearing assets	4 003 435	-	1 781 709	5 785 144
Finance lease receivables	54 166	216 664	182 810	453 640
Total	9 812 674	1 204 460	2 924 553	13 941 687

	Less than 12 months	From 1 to 5 years	Over 5 years	Total
December 31, 2014				
Fixed interest rate instruments	17 311 201	539 299	2 253 614	20 106 114
Non-interest bearing assets	7 578 533	30 000	-	7 608 533
Finance lease receivables	47 927	216 664	236 976	501 567
Total	24 939 661	785 963	2 490 590	28 216 214

Market risk

The Group is exposed to the risks of changes in foreign currency exchange rates and interest rates. The Group does not use any derivatives to manage its exposure to foreign currency and interest rate risk. Management sets limits on the value of risk that may be accepted, which is monitored on a monthly basis.

There have been no changes as to the Group's exposure to market risks or the manner in which these risks are managed and measured.

Sensitivities to market risks included below are based on a change in a factor while holding all other factors constant. In practice this is unlikely to occur and changes in some of the factors may be correlated – for example, changes in interest rates and changes in foreign currency rates.

Currency risk

Foreign currency risk is the risk that the financial results of the Group will be adversely impacted by changes in exchange rates to which the Group is exposed. During 2015 and 2014 the Group entered into certain transactions denominated in USD and EUR.

The table below summarizes the Group's exposure to foreign currency exchange rate risk at the reporting date relative to the functional currency of the respective entities of the Group:

	December 31, 2015			December 31, 2014		
	Monetary financial assets	Monetary financial liabilities	Net monetary position	Monetary financial assets	Monetary financial liabilities	Net monetary position
USD	954 686	281 684	673 001	16 789 747	(333 727)	16 456 020
EUR	2 033 979	8 235 597	(6 201 618)	6 488	(5 853 089)	(5 846 601)
Total	2 988 665	8 517 282	(5 528 617)	16 796 235	(6 186 816)	10 609 419

The table below details the Group's sensitivity to weakening of Russian Ruble against the respective foreign currencies by 10%, all other variables being held constant. The analysis was applied to monetary items at the reporting dates denominated in respective currencies.

	USD - impact		EUR - impact	
	December 31, 2015	December 31, 2014	December 31, 2015	December 31, 2014
Gain/(loss)	67 300	1 645 602	(620 162)	(584 660)

The strengthening of the Russian Ruble in relation to the same currencies by the same percentage will produce an equal and opposite effect on the consolidated financial statements of the Group to that shown above.

As at December 31, 2015 the Group does not have formal arrangements to hedge foreign exchange risks of the Group's operations. Management monitors all changes in the exchange rates and does not expect any material negative fluctuations in the medium-term. As for a significant part of agreements in currencies other than the functional currency of the Group, in 2015 the Group concluded additional agreements on their transfer to Russian Rubles.

In management's opinion, the sensitivity analysis is unrepresentative of the inherent foreign exchange risk because the year end exposure does not reflect the exposure during the year.

Interest rate risk

The Group is exposed to the interest rate risk because entities in the Group borrow funds at both fixed and variable interest rates. The Group manages the risk by maintaining an appropriate mix between fixed and variable rate borrowings. However, the Group is exposed to credit risk with respect to bonds with variable interest rates and to a certain extent to the effects of fluctuations of interest rates arising from changes in financial markets. This exposure extends to cash flow and fair value risks on its future borrowings and lease receivables. The Group reduces this risk by including in its lease agreements an option to increase lease rates in case of significant changes in market conditions.

The sensitivity analysis below has been determined based on the exposure to interest rates for bonds at the reporting date. The analysis assumed that the balance at the end of the period remained unchanged during the reporting period. A 3% increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 3% higher (lower) and all other variables were held constant, the Group's loss for 2015 would increase/(decrease) by RUB 1 328 million.

Credit risk

The Group is exposed to credit risk which is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Exposure to credit risk arises as a result of the Group's transactions with counterparties giving rise to financial assets.

The Group's maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets as follows:

	December 31, 2015	December 31, 2014	December 31, 2013
Loans receivable	6 541 443	17 914 200	2 282 434
Trade and other accounts receivable	4 003 435	7 608 533	1 078 235
Cash and cash equivalents	3 207 466	2 386 595	710 807
Restricted cash	1 781 709	-	-
Finance lease receivables	260 817	269 621	-
Total	15 794 870	28 178 949	4 071 476

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral, where appropriate, as a means of mitigating the risk of financial loss from defaults. The Group only transacts with entities with a reliable credit rating using publicly available financial information and its own trading records to rate its major customers. The Group's exposure and the credit ratings of its counterparties are continuously monitored and the aggregate value of transactions concluded is spread amongst approved counterparties to avoid excessive concentrations of risks. Credit exposure is controlled by credit limits that are reviewed and approved by the risk management committee annually.

With the exception of the largest customer (NitroChemProm LLC), the Group does not have significant credit risk exposure to any single counterparty. Receivables from NitroChemProm were repaid in March 2016.

The credit risk on liquid funds is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The credit risk associated with loans issued is limited because the counterparties for the majority of loans are related parties well known to the Group. The Group has also a significant concentration of credit risk with respect to loans issued to Doland Business Limited.

The Group does not hold any collateral to cover its credit risks associated with its financial assets.

Capital risk management

The Group manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through optimization of the debt and equity balance within the limits imposed by its providers or finance. The capital structure of the Group consists of net debt (borrowings and bonds as detailed in Notes 16 and 17, offset by cash and cash equivalents balances) and equity and reserves.

29. SUBSEQUENT EVENTS

On March 29, 2016, the Board of Directors of PJSC RPC UWC decided to increase the share capital of PJSC RPC UWC, a holding company of the Group, by placing through open subscription 8 500 000 additional ordinary shares with a par value of RUB 1 each.

On March 16, 2016, the holding company of the Group PJSC RPC UWC signed an agreement to pledge shares of a subsidiary TikhvinSpecMash CJSC, which accounts for 100% of the share capital of TikhvinSpecMash CJSC, with Otkritie FC Bank PJSC to guarantee the compliance of TikhvinSpecMash CJSC with the liabilities under the credit facility agreement with the bank.

On April 11, 2016, the general meeting of the holders of the bonds issued by UWC Finance LLC, a company of the Group, approved the extension of maturity of Series 01 bonds with state registration number 4-01-36430-R dated November 26, 2013 from 3 to 8 years, i.e. extended the maturity of the bonds until 2021.

No other material events occurred after the reporting date.

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DISCLAIMER

The Annual Report of Public Joint Stock Company “Research and Production Corporation “United Wagon Company” (hereafter – PJSC “RPC UWC”, RPC UWC, UWC, the Company, the Holding) was tentatively approved by the decision of the Board of Directors of PJSC “RPC UWC” dated 27 May 2016. The reliability of the data contained in the Annual Report has been confirmed by the Internal Auditor of PJSC “RPC UWC”. In this report, unless otherwise specified, operational and economic performance indicators were determined in accordance with the IFRS.

The analysis of the financial performance results shall be viewed in the context of the audited consolidated financial statements of PJSC “RPC UWC” for the year ended on 31 December 2015 and prepared under the IFRS. This Report may include forward-looking statements. Such statements may contain words such as “suppose”, “believe”, “intend”, “anticipate”, “expect”, “will”, “may”, “forecast”, “plan”, and other words of similar meaning. All statements included in this Report (other than statements of historical fact), including, among other things, statements that refer to financial standing, business strategy, plans and objectives of the management with regard to the

future operational activity (including development plans and goals) are forward-looking statements. Such forward-looking statements do not relate to historical or current facts; they cannot be objectively verified, they are based on assumptions and are subject to their inherent risks (known and unknown) and uncertainty. A number of important factors may lead to the fact that actual results, indicators or achievements may differ dramatically from future results, indicators or achievements, predictions, assumptions or forecasts contained in either express or implied form in such forward-looking statements. Such forward-looking statements are actual only on the date of this Report, and the Company expressly refuses (to the fullest extent permitted by law) to undertake any obligations in respect of any updates or changes in any forward-looking statements contained in this Report, reflecting any changes in forecasts contained in such statements or any changes in events, conditions or circumstances any such statements are based on.

One should not unduly rely on such forward-looking statements when making decisions related to the Company and/or its securities. Nothing in this Report shall be construed as profit forecast.