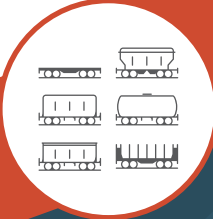


GROWTH TRACKS

Annual Report 2018





INTRODUCTION

PJSC RPC UWC is the leading freight car builder in Russia¹ and a global supplier of new generation rolling stock, castings, and components. The railway holding is an integrated provider for the manufacturing, operating lease, engineering, and maintenance of new generation freight cars as well as transportation services.

About the Report

The Annual Report of Public Joint-Stock Company Research and Production Corporation United Wagon Company (hereinafter PJSC RPC UWC, RPC UWC, UWC, the Company, the Holding, or the Group) includes the performance results of PJSC RPC UWC and its subsidiaries. PJSC RPC UWC is the parent company of the Group and presents consolidated information about the operational and financial activities of the Group's key assets in this Annual Report.

The Report was prepared based on an analysis of operational data and consolidated IFRS financial indicators. The information presented in the Report has been confirmed by the Internal Auditor and approved by the Board of Directors and the Annual General Meeting of Shareholders of the Company.

The text of the Annual Report may contain errors in the calculation of shares, interest, and other amounts due to rounding. The data in the Annual Report may differ slightly from preliminary operating and financial indicators published earlier.



[All annual reports are available on the Company's website](#)

¹ According to the data of INFOLine-Analytics.

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ABOUT THE COMPANY

UWC designs, manufactures, sells, leases, and services freight cars with enhanced performance features and is the leading railcar manufacturer in Russia and the CIS. The Company also provides transportation services using railcars that it designed and manufactured itself. The new generation rolling stock features greater carrying capacity, longer service life, increased operational reliability, and lower life cycle costs, which gives it an economic advantage compared with standard railcar models.

Businesses



ENGINEERING

The Company designs freight cars and components with enhanced performance features for the Russian and foreign markets based on the needs of its customers and the latest freight market trends at its own design facility, the All-Union Research Center for Transport Technologies (VNICTT).

Hereinafter, the figures for 2018 and their increase compared to 2017 are shown.

786

patents in Russia and abroad
(+63%)

57

certificates for its railcars
(+12%)



For more, see p. 38



MANUFACTURING

UWC includes modern enterprises that manufacture all types of new generation freight cars, railcar castings, and other components. The Group's enterprises are capable of producing up to 22,000 railcars per year. Over the past three years, UWC has been the largest manufacturer of freight cars in Russia.

NO. 1

freight car producer in Russia¹

19,700

railcars produced in 2018
(+3%)

¹ According to the data of INFOLine-Analytics.



For more, see p. 46



LEASING

UWC utilizes multiple sales channels for its products, which ensures the Company can operate efficiently under any market conditions. One of these channels is the operating lease (rental) of railcars. The group of leasing companies under the common brand RAIL 1520 is one of the top ten organizations specializing in the operating lease of rolling stock on the Russian market.

¹ According to the data of INFOLine-Analytics.

11,900

railcars fully owned and leased railcars
(-10%)

86%

of the fleet consists of new generation railcars
(+5 p. p.)



For more, see p. 56



OPERATION

The Group includes the company UNICON 1520, which specializes in transport services and multimodal logistics for bulk, including hazardous, cargo. Its fleet is primarily comprised of tank containers that transport chemical and petrochemical freight and liquefied hydrocarbon gases, high-capacity well cars, including cars manufactured by UWC, as well as tank cars.

1,098

tank containers in fleet
(+72%)

305,100 TONS

of freight transported
(+564%)



For more, see p. 58



SERVICE

UWC has built up an extensive service network that provides after-sales service for the freight cars it produces. The main service center is Tikhvin Assembly Plant Titran-Express (TAP Titran-Express), which is responsible for all types of repairs on the entire range of the Holding's freight cars.

72 centers

in the authorized service network
(+9%)

2,900

railcars repaired at TAP Titran-Express
(+81%)



For more, see p. 60

Core principles and values

Leadership

To be the best in all its business segments and to set the pace and a new industrial standard for business and production technologies.

Sustainability

To make informed decisions in economic and social affairs, environmental protection as well as manufacturing and product safety.

Honesty and integrity

To remain committed to the idea of respect and integrity, above all as regards its own employees as well as the Company's customers, partners, and suppliers. The Company's reputation is extremely important to us.

Workforce

To attract gifted and talented employees who make every effort for their own development within the Company and to create a favorable working environment so that each employee's contribution has a positive impact on the business's growth.

Focus on innovation

To continuously evolve while striving to efficiently utilize resources and to maintain a high technological level of production and a professional team as a crucial competitive advantage.

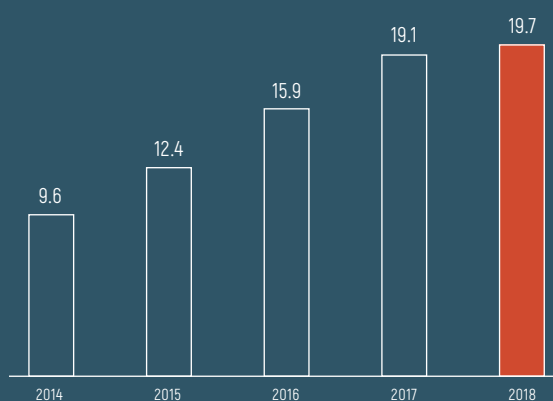


RESULTS OF 2018: HIGHLIGHTS



Production grows as demand increases

Railcar production, thousand units



UWC boosted railcar production by 3% in 2018 compared with the previous year, marking the seventh year in a row that this indicator has increased. Production is expanding based on growing market demand for new railcars and the systematic development of new models.

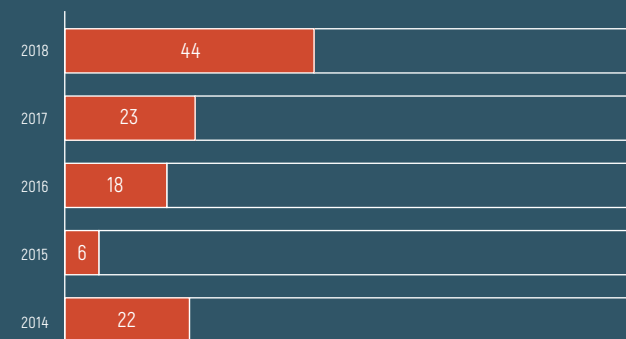


For more, see the "Production" section on p. 46



Specialized railcars drive sales

Proportion of specialized rolling stock in overall railcar production, %



The key driver of growth in 2018 was specialized rolling stock (hopper cars, tank cars, timber flatcars, boxcars, etc.). The proportion of specialized railcars in the overall production of UWC has increased more than sevenfold since 2015 and is now up to 44%.

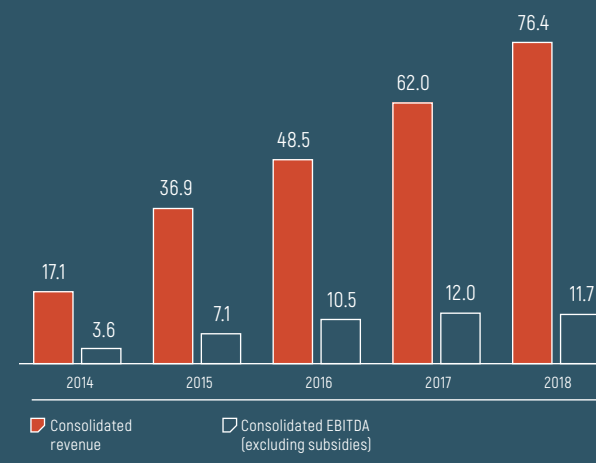


For more, see the "Growth tracks" section on p. 8



Rapid growth in revenue

Changes in key financial indicators, RUB bln



The Group's consolidated revenue increased by 23% in 2018 to RUB 76.4 billion due to growth in railcar sales, selling prices, and rental rates. Revenue from the sale of castings and components skyrocketed (by more than ten-fold compared with 2017), primarily as a result of increased supplies of castings to the U.S. and the sale of wheelsets to UWC railcar users. Excluding subsidies, consolidated EBITDA declined by 2% due to rising production costs and payroll expenses.

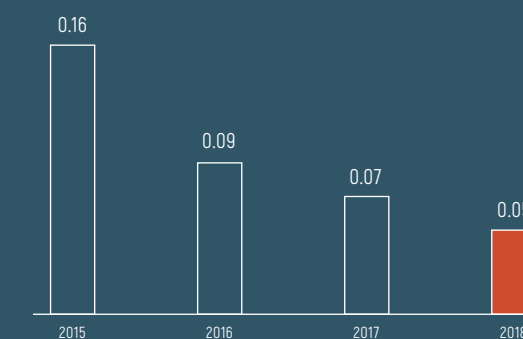


For more, see the "Financial Report" section on p. 64



Safety is UWC's top priority

Changes in LTIFR¹



The development of a safety culture at UWC enterprises and the introduction of international railway industry safety standards have helped to significantly reduced the injury rate.



For more, see the "Industrial and occupational safety" section on p. 70

¹ LTIFR is a coefficient describing the frequency of accidents with temporary loss of working days. For more on the calculation of LTIFR, see the subsection "Industrial and occupational safety" on p. 77.



GROWTH TRACKS



CHALLENGE

Demand peaked on the Russian market in 2018 for the most common type of freight car – gondolas – due to growth in coal transportation and a localized shortage of rolling stock. This shortage was neutralized over the course of the year with the increased production of gondola cars.

The Company anticipates demand for gondola cars will decrease as shipments on the network become more efficient and coal loading growth rates decline. At the same time, demand for highly efficient specialized rolling stock is expected to rise due to the extensive decommissioning of specialized railcars (hopper cars, flatcars, boxcars, and tank cars) and an increase in the freight loads they carry.

Changes in the production structure of UWC railcars, %



- Tank cars
- Flat cars
- Gondolas
- Other
- Hoppers



For more, see the "Market overview" section on p. 18



SOLUTION

Given the growing market demand for specialized rolling stock, UWC switched one of its gondola production lines to hopper cars. In addition, the TikhvinChemMash and TikhvinSpetsMash plants had available capacity for production. Thus, the Company was ready for the increase in demand for any kinds of specialized railcars.

The proportion of specialized rolling stock in the overall structure of production was already up to 44% from 23% in 2018. UWC expects this trend to intensify in the future.



Flat cars

- All-purpose car
- Well car

Companies: UNICON 1520, Eurosis SPb, Rhenus, State Transport Leasing Company, Kronospan.

- Logging

Companies: Lokotrans, Kronospan, Vologda Timber Merchants Group, DV Real Trans Group, ARKHBUM, Sibirsky Krai, Mondi Syktyvkar, VIC, Eurosis SPb, Kastamonu, Transles, Laude Smart Intermodal, and UPM-Kymmene.



For more, see the "Production" section on p. 46



Hopper cars

+108%

Flat cars

+62%

Tank cars for chemical freight

+34%

Boxcars

+558%



Gondola cars

- With unloading hatches
- With solid-bottom bodies

Companies shipping freight in UWC railcars: Siberian Coal Energy Company, State Transport Leasing Company, First Heavy Haul Company, EN+Logistics, Alfa-Leasing, Logistics 1520, VM-Trans, Kuzbass Fuel Company, and Kuzbassrazugol' Coal Company.

- For wood chips

Company: Kronospan.



Hopper cars

- For grain
- For mineral fertilizers

Companies: United Grain Company, PhosAgro, Tehnotrans, Rusagrotans, Logistics 1520, AZOT Scientific Production Association Trading House, Uralkali, and State Transport Leasing Company.



Boxcars

- For the transportation of a wide range of cargo

Companies: Lokotrans, Kuchukterminal, and Fintrans GL.



Tank cars

- For chemical freight

Companies: Metafrax, URALCHEM, Kuybyshevazot, BSK, Khimprom, PhosAgro, UGMK-Holding, Gazpromtrans, GATX, and Karabashmed.





GROWTH TRACKS



CHALLENGE

The freight car manufacturing market in Russia is cyclical. Demand for freight cars is expected to decline in the medium term (primarily for gondola cars) due to the saturation of the market in previous years.



SOLUTION

UWC is stepping up exports in order to maintain stable production in the cyclical market. The Company has already established itself on foreign markets due to the high quality of its railcars and components. UWC has been supplying components to the U.S. and railcars to the Middle East and Africa since 2017.

The Company concluded several large contracts in 2018. In particular, it won an international tender held by Deutsche Bahn for the supply of well cars. In 2019, UWC plans to expand the supply of railcars and components to the markets where it operates and gain a foothold on new markets.



For more, see the "Market overview" section on p. 18



For more, see the "Production" section on p. 46

515

railcars delivered to foreign markets in 2018

42

USD mln export revenue

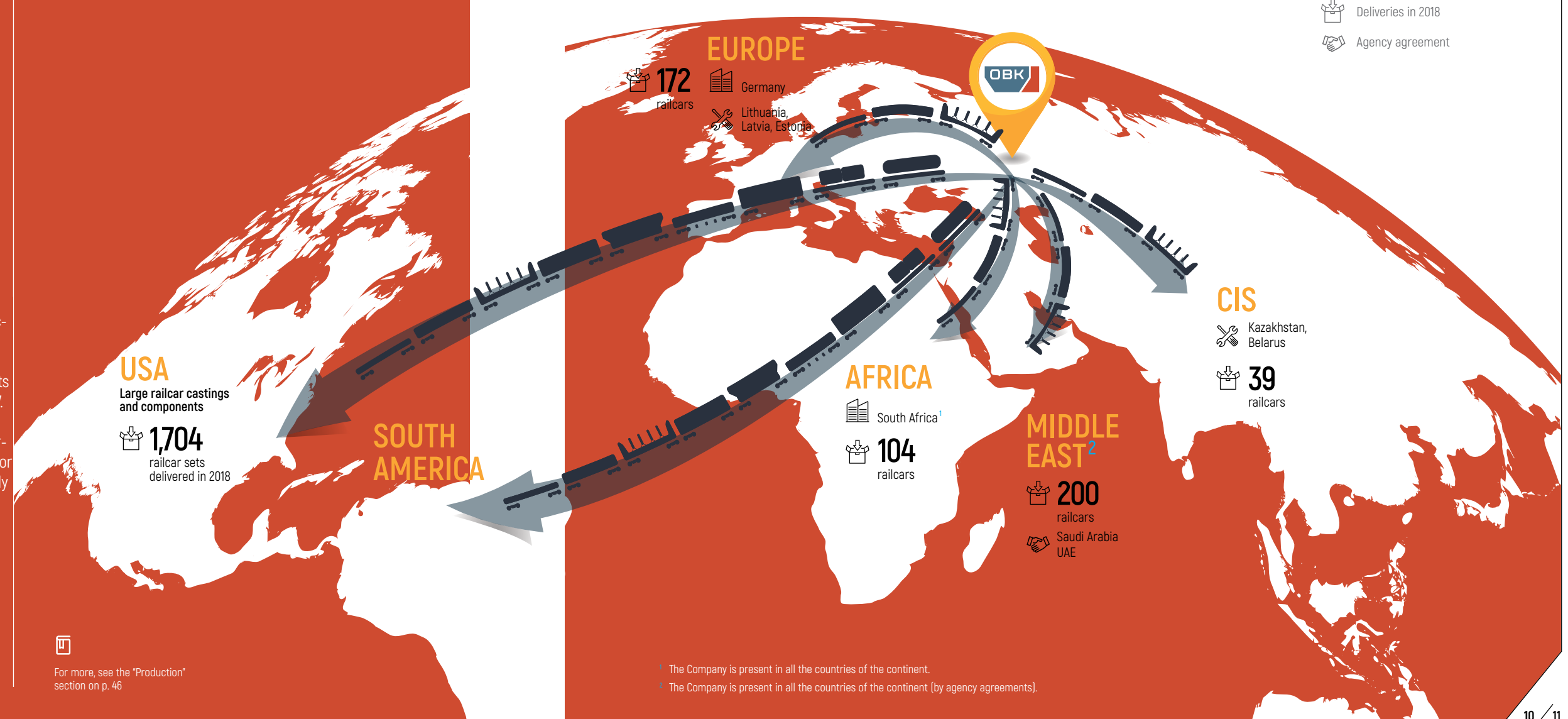
>4,000

railcars delivery plan for the next 5 years

1,700

casting railcar sets

- Representative office
- Service centers
- Deliveries in 2018
- Agency agreement



¹ The Company is present in all the countries of the continent.

² The Company is present in all the countries of the continent (by agency agreements).

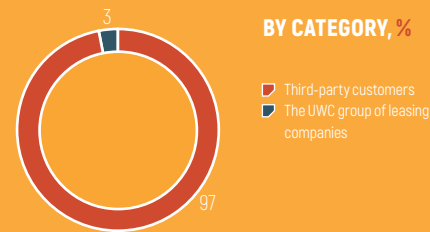
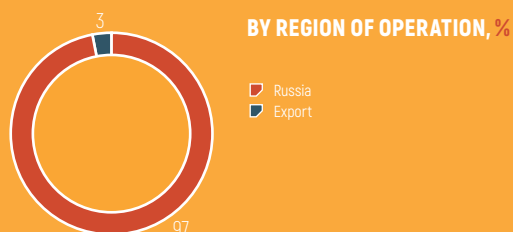
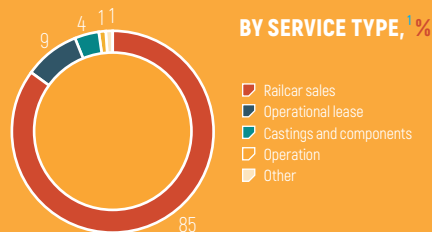


BUSINESS MODEL

CUSTOMERS

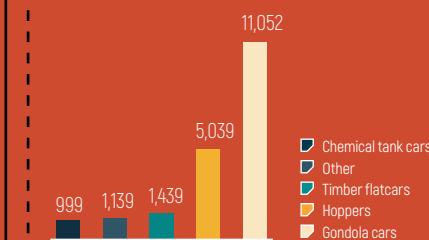
THE 2018 RESULTS

UNITS



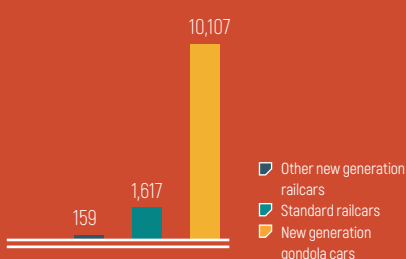
- Revenue
- - -> External flow of products and services
-> Internal flow of products and services

6 new railcar models designed



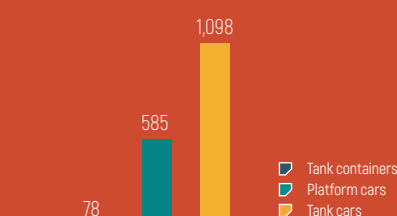
68.2 RUB bln
(including RUB 64.8 bln from railcar sales and RUB 3.4 bln from castings and components sales)

11,883 railcars owned and under financial lease



6,7 RUB mln

305,100 t of chemical freight transported

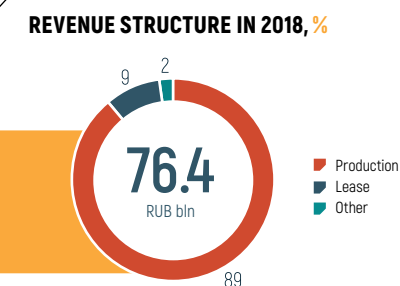


1,761 railcars owned
0.7 RUB mln

72 service centers in the network

2,900 railcars repaired (including 2,200 railcars of third-party customers)

0,9 RUB bln (other revenue, including service)



THE R&D CENTER

Design and certification of new railcar models based on customer needs

Read more on p. 38



RAILCARS AND COMPONENTS PRODUCTION

Production of railcars with enhanced performance features and components for them

Read more on p. 46

659 railcars leased



OPERATING LEASE

Railcar lease to third-party customers and the UWC operator

Read more on p. 56

158 railcars leased



OPERATION

Chemical freight transportation by the Company's railcar fleet

Read more on p. 58



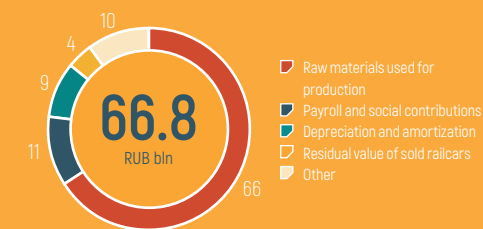
SERVICE

Prompt and high-quality repairs of any type in partner service centers and at the Company's own assembly plant

Read more on p. 60

700 own railcars repaired

COST STRUCTURE IN 2018, %





MESSAGE FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

MESSAGE FROM THE CEO



Dear Shareholders, Partners, and Colleague,

In March 2019, the UWC Board of Directors was completely revamped. Seven people joined the Board, including four representatives of PJSC Otkritie Financial Corporation Bank, the Company's largest shareholder and lender. Consequently, the Board of Directors now views restructuring the loan portfolio in an effort to reduce the Company's debt burden as a major priority in its partnership with the bank. We will also improve the corporate governance and decision-making system and are taking steps to reduce operating costs.

The UWC Board of Directors is committed to observing the best corporate governance practices and works to make informed decisions that meet the interests of shareholders and support the Company's efficiency.

We can now report that UWC has completed its phase of active growth, so we are setting long-term and global strategic objectives for the Holding, such as introducing new products, strengthening our positions on foreign markets, providing quality service, optimizing production costs, and maintaining and developing relations with existing partners.

I am confident that the partnerships and work we are pursuing as part of our approved strategy are guarantees for the achievement of our joint goals.

Alexander Sokolov
Chairman of the UWC Board
of Directors



Dear Shareholders, Partners, and Colleagues,

Over the seven years of its existence, UWC has undergone a phase of active growth with a high level of investment expenditures: in addition to Tikhvin Freight Car Building Plant, two specialized freight car manufacturing enterprises have been built and put into operation, a high-tech spring production facility has been purchased, technologies have been introduced for the widespread operation of heavy haul railcars on the Russian railway network, international joint ventures have been launched, and key export markets have been developed.

The Company has boosted production each year, sold over 80,000 new generation railcars for more than RUB 200 billion, and remained the industry leader in Russia over the past four years. Thanks to the demand for railcars with increased carrying capacity, the production program for 2019 was fully contracted during the reporting period.

In our next stage of development, we will focus on improving the Holding's corporate governance, optimizing production costs, and reducing the debt burden. We will also consolidate the results we have achieved in all strategic segments. We will continue to roll out new products with high added value for the consumer, including multi-axle railcars, and we will find new export destinations and develop the service network.

As part of the goal of reducing our debt burden, the Company is working together with its largest shareholder and lender – PJSC Otkritie Financial Corporation Bank. In April 2019, the bank lowered the interest rate on loans by RUB 39 billion. We expect to complete another stage of restructuring by the end of this year, which will result in changes to the debt repayment schedule. These measures will bolster the financial sustainability of UWC, help increase its business efficiency, and strengthen its market positions.

In 2019, the Company plans to provide its shareholders with an updated Development Strategy for the next three years.

Timofey Khryapov
CEO of UWC



GROWTH TRACKS

Hopper car



STRATEGIC REPORT



- 18 Market Overview
- 30 Development Strategy
- 34 Key Investment Appeal Factors



MARKET OVERVIEW

UWC, Russia's largest manufacturer¹ of freight cars, bolstered its position on the domestic market and expanded its global presence in 2018 by supplying rolling stock with enhanced performance features to promising markets abroad.

Russian market

Demand on the Russian railcar market remained high in 2018 as the volume of freight increased and old rolling stock was decommissioned in moderate numbers. Railcar purchases picked up as rental rates returned to the market level. In the medium term, demand is expected to shift towards specialized rolling stock.

Handling and freight turnover set a new record

Handling on the Russian Railways network reached its highest levels over the past nine years in 2018 (1.3 billion tons, a 2% increase from the previous year). Freight turnover set a new all-time record of 2.6 trillion ton-kilometers (up 4% from 2017).

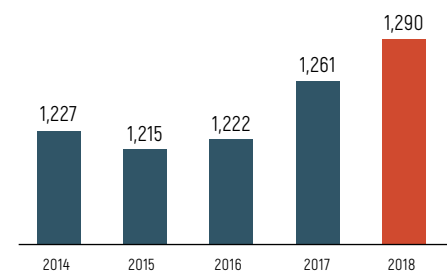
All key freight categories saw an increase in handling, except for building materials and cement. Coal shipments grew to a record level (5% higher than in 2017), mainly to export destinations, given the favorable global market situation. Russian President Vladimir Putin has set the goal of further increasing the carrying capacity of the railway infrastructure of the Baikal-Amur Mainline and the Trans-Siberian Railway to 210 million tons by 2025, including to 195 million tons for coal supplies (double the current level).

Shipments of ferrous metals and iron ore also reached record-highs in 2018. Russian products were in demand on both the domestic and foreign markets. Russia increased ferrous metal exports to Turkey, Italy, and the United States during the reporting year. The Russian Railways investment program for 2019–2021, which has been approved by the Russian government and calls for the reconstruction of 17,000 km of railway tracks, could become a significant driver for the transportation of ferrous metals and ore.

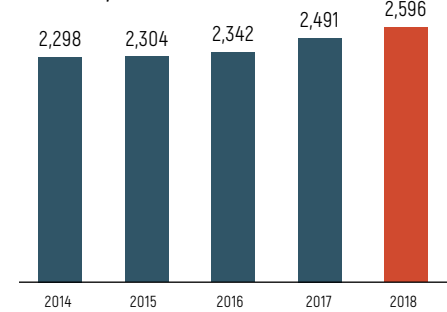
In 2018, a new record was also set for the handling of grain freight, primarily as a result of an increase in shipments to Egypt. However, exports began to decline starting in September 2018 due to the record grain harvest of 2017, which made it possible to export surplus grain and build up high carryover stocks, as well as the moderate harvest of 2018.

The decline in the transportation of construction materials and cement is attributable to weak activity in the construction industry (where the volume of housing construction in Russia decreased by 5% in 2018) given the new rules for working on the market (switching from shared-equity construction to escrow accounts starting from July 1, 2019).

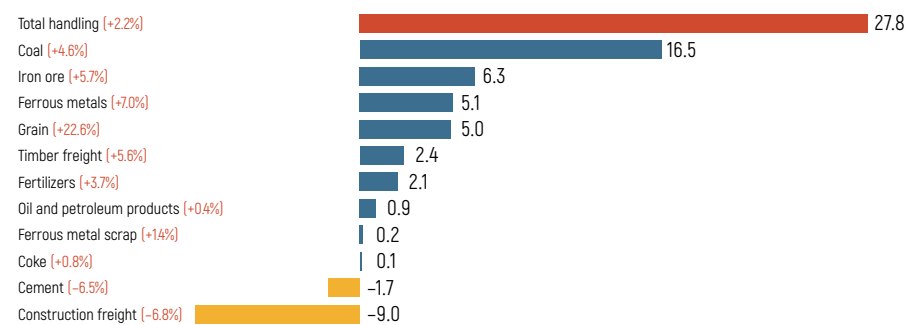
Changes in handling on the RZD network, mln t



Changes in freight turnover on the RZD network, bln tkm



Changes in the handling structure vs. 2017, mln t



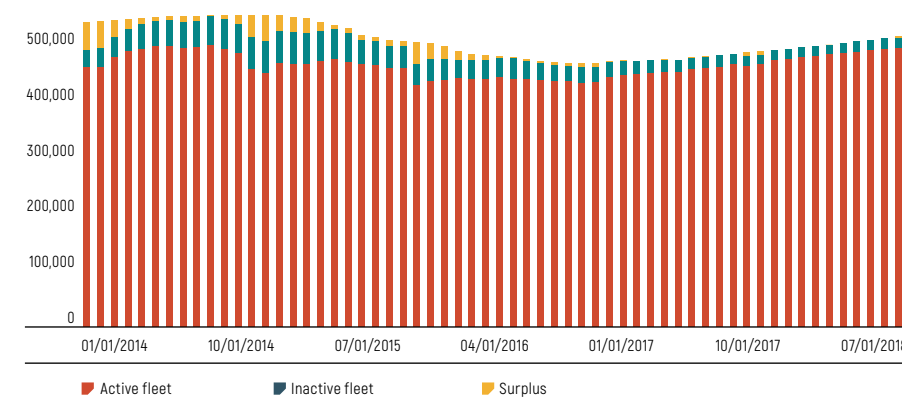
Railcar sales hit a record-high

The number of railcars that were decommissioned in 2018 was relatively low at around 29,400 units (including 6,300 gondola cars). At the same time, Russian factories produced an all-time high of 68,800 new railcars (including 42,300 gondola cars), which is almost 20% higher than in 2017.

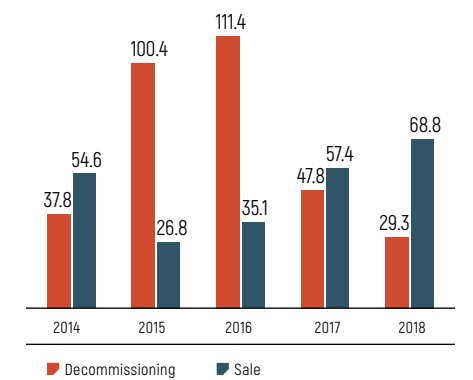
The active growth in the cargo base resulted in extremely high demand for gondola cars, which pushed rental rates up to RUB 1,925 per day.

The high rental rates made it possible to service and repair railcars in a timely manner. As a result, the inactive fleet remained low at around 17,000–18,000 units in 2018. There was no surplus in the gondola car segment in 2018.

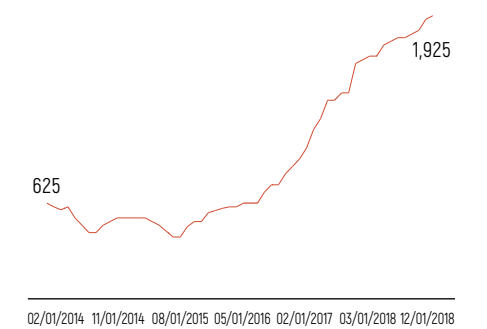
Balance of the gondola car fleet, thousand units



Changes in the decommissioning and sale of railcars in Russia, thousand units



Changes in rental rates for gondola cars, RUB/day



In 2018, the freight train route speed declined by 6%, while railcar turnaround increased (for the first time since 2014) to 15.3 days. This boosted demand for the fleet by 10,000–20,000 gondola cars. The main reasons for this were:

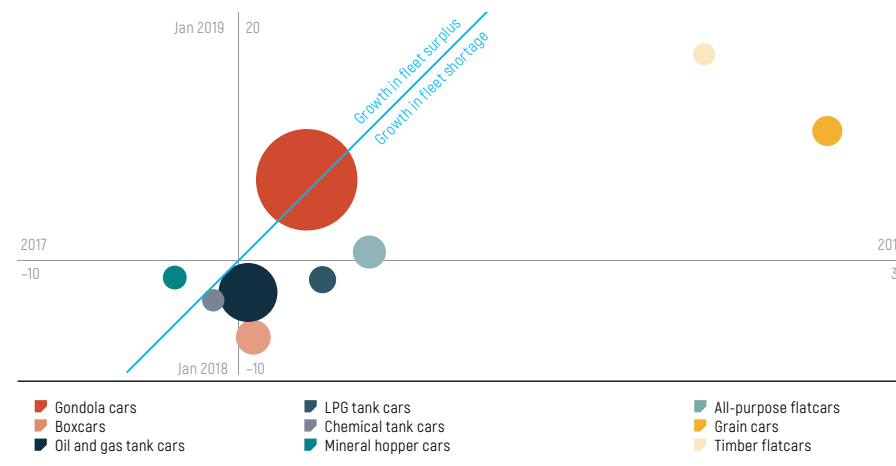
- ➔ The increase in the number of railcars on the Russian Railways network to 1.1 million units combined with the need to renovate the locomotive fleet and redirect the main cargo traffic led to a shortage in haulage. In addition, the increase in exports along with the reduction in domestic traffic put more pressure on the locomotive fleet, primarily on shunting locomotives. According to INFOLine Analytics CEO Mikhail Burmistrov, the situation with the availability of locomotive haulage will worsen in 2019, when the introduction of new technical regulations will result in 2,200 shunting locomotives losing the right to leave private tracks and operate on public tracks.

¹ According to the data of INFOLine-Analytics.



- In 2018, heavy repairs that require the long-term closure of infrastructure (reconstruction, overhaul, continuous rail relaying) were conducted on 5,730 km of tracks, an 8% increase from the previous year.
- The railcar turnaround period was impacted by a lack of spare parts. As a result, repair downtime increased as trains waited for large castings and solid-rolled wheels. According to Burmistrov, there were virtually no solid-rolled wheels available on the Russian market in the fourth quarter of 2018 even though their cost doubled over the course of the year to RUB 40,000–45,000.

Ratio of fleet size and cargo turnover by railcar type, %



High coal export prices also supported interest in gondola cars, which kept market rates from falling. The Russian government's plans to increase coal exports also created additional demand for gondola cars in the reporting year.

The fleet attained a balance in the hopper car segment in 2018, although the high number of hopper cars slated for decommissioning in future periods will preserve demand in the segment: the service life of more than 20,000 hopper cars will expire over the next five years. In addition, the cargo base is also increasing due to the huge harvests that have resulted from the development of agribusiness in Russia. As a result, grain shipments from regions that had not previously exported grain increased in 2018, which created higher demand for the fleet.

The market remains highly interested in chemical tank cars. In 2018, Russian factories produced a record number of tank cars at more than 2,000 units with almost 20 models.

In 2019, demand is expected to shift to specialized rolling stock as more efficient new generation models enter the market. Experts reckon demand for rolling stock will amount to around 50,000–60,000 railcars in 2019, while the number of railcars decommissioned will decline to roughly 20,000–25,000 railcars.



Learn more:

[New generation tank cars and tank containers to replace the outdated fleet](#)

[Wood chip market has enormous potential](#)

The freight car construction market is almost consolidated

The top three rolling stock manufacturers on the Russian Railways network include UWC, JSC RPC Uralvagonzavod (UVZ), and JSC Altaivagon. In 2018, the proportion of railcars with enhanced performance features in the sales structure of their products declined to 39% due to the following factors:

- Altaivagon left the rolling stock market for 25 ton-force (tf) bogies. The plant switched to the production of a standard fleet as a result of UVZ restricting the former's access to castings.
- UVZ switched to the production of standard railcars, although it announced plans to return to the production of railcars on a 25-tf bogie in 2019.
- As global coal prices increased, gondola cars saw extremely high demand, which exceeded the capacity of railcar building factories for the production of new generation railcars. Consequently, some consumers met their needs using the standard fleet.

UWC outpacing its competitors

UWC is the leader on the Russian market compared with competing companies. At the end of 2018, the Company's market share stood at 29%.¹

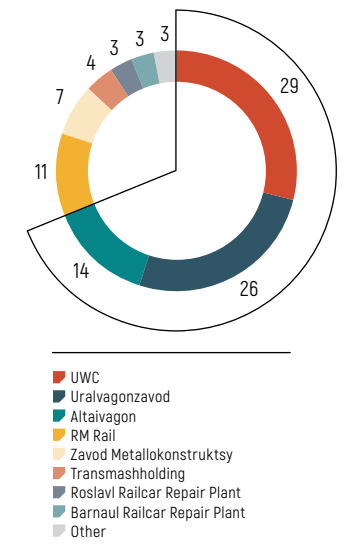
UWC's main competitors on the Russian freight car building market:

- JSC RPC Uralvagonzavod (Sverdlovsk Region) – the second largest manufacturer of freight rolling stock in Russia. It is part of the Rostec State Corporation and brings together around 40 industrial enterprises, research institutes, and design offices in Russia and Europe.
- JSC Altaivagon (Altai Territory) – one of Russia's leading plants for the production of railway freight rolling stock. It is a part of the Siberian Business Union holding, which unites enterprises in the coal mining, machine building, energy, and chemical industries, among others. Altaivagon has three production sites: JSC Altaivagon and the Rubtsovsk branch (both located in the Altai Territory) as well as Kemerovokhimmash (a branch in the Kemerovo Region).
- OJSC Ruzkhimmash (Republic of Mordovia) – a railcar building plant that specializes in the production of tank cars. It is part of the RM Rail Group, an integrated full cycle manufacturer of freight rolling stock for railways as well as products for the gas and petrochemical industries.
- Zavod Metallokonstruktsy (Saratov Region) – a manufacturer of railway rolling stock (flatcars, dump cars, gondolas, and boxcars) along with metal structures for bridges and construction.

UWC is able to maintain its market position due to a number of competitive advantages:

- its specialization in the production of new generation rolling stock
- having its own bogie model
- a diversified range of rolling stock
- having its own foundry capacity
- having its own enterprises for the production of critical components
- modern, highly efficient production facilities
- having its own integrated design office

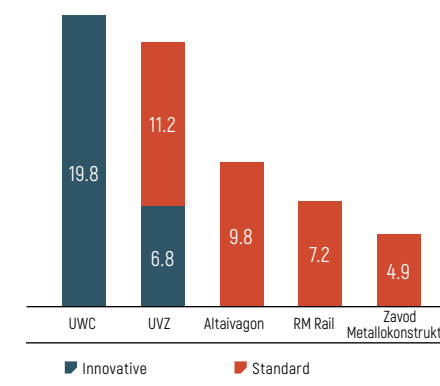
Manufacturers' shares of the Russian railcar market by sales in 2018, %



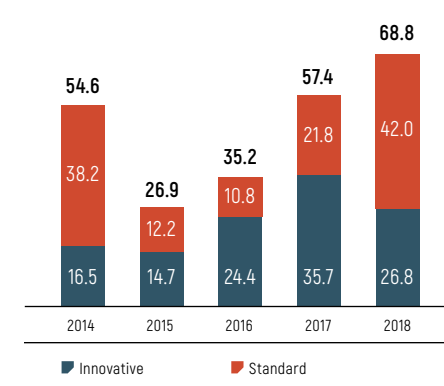
29%

UWC's share of the Russian railcar market (by production volume)

Structure of railcar sales by major producers in 2018, thousand units²



Changes in the production of innovative and standard railcars in Russia, thousand units



¹ According to the data of INFOline-Analytics.

² According to the data of Industrial Freight information service.



Global market

UWC is able to successfully compete globally as a result of its high quality standards and wide range of products. In 2018, the Company significantly bolstered its position on the European freight car market, expanded the supply of component parts and railcar castings to the United States, and secured a foothold in several other promising regions.

Results of 2018 in the regions of operation

The North American freight car market is the largest in the world with a fleet of 1.85 million units.¹ Uniform AAR standards are applied to railcars in the region, which operates on a railway gauge of 1,435 mm.

A total of 48,000 railcars were produced on the North American market in 2018. More and more manufacturers have started purchasing freight car components on foreign markets. There is high demand in the U.S. for products from Russia due to their lower costs versus U.S. components and their higher quality compared with China.

UWC strengthened its foothold in North America in 2018 by increasing the supply of large railcar castings and components to freight car manufacturers from the United States. Going forward, UWC plans to increase the supply of freight car components and expand its product line, and then eventually switch to more complex components and parts with high added value.

In September 2018, the Company closed its U.S. representative office that it had opened in 2017 after successfully completing its objectives of studying the market in detail and establishing relationships with target consumers. Since the end of 2018, UWC has outsourced the further development of the contracts it signed and its services to U.S. companies in terms of communications, logistics, and the storage of products in the U.S.

UWC now has contracts with Wabtec Corporation, a supplier of high-tech railway

products. The Company supplies large railcar casting to the U.S. market for the production of Barber S-2-HD bogies and high-strength railcar spring sets.

The freight car fleet in Europe is comprised of roughly 860,000 units. This region has stringent requirements for quality and product certification: it employs UIC standards and the prevailing gauge size is 1,435 mm (gauges of 1,520,² 1,524, and 1,668 mm are much less common).

The freight car market in Europe is picking up steam and this growth is expected to continue until the end of 2020. The main drivers behind demand in the region are:

- rapid growth in container traffic from China to Europe in 2017–2018
- the transition of freight from motor transport to railways
- growth in the EU economy

European operators are interested in purchasing freight cars both within and outside of the EU. At present, the market for freight car manufacturers in the EU is dominated by two major players (Tatavagonka and Greenbrier-Astra Rail) and several smaller ones. European transport companies are purchasing freight cars abroad to develop competition and cut costs.

In 2018, the Company significantly reinforced its foothold on the European market by signing contracts for the supply of railcars with Germany's largest operator, Deutsche Bahn, and the Polish company Laude Smart Intermodal. Talks are underway to supply railcars to other rolling stock operators in Europe.

UWC has developed a new articulated platform model for the European market. The Company also plans to design additional models, certify railcars for the European market, and start supplying railcars to major rolling stock operators in 2020.

Africa had moderate demand for new railcars in 2018 at around 1,000 units. The continent's total freight car fleet now stands at approximately 170,000 units. Major infrastructure projects to export minerals continue to be implemented in the region. Consequently, demand is projected to grow to several thousand freight cars using the standard gauge of 1,435 mm and narrow gauges of 1,000 mm and 1,067 mm in the medium term.

UWC delivered 114 hopper cars to Guinea in 2017–2018 to transport bauxite from the Dian-Dian deposit. The Company opened a representative office in the region in 2019 and is currently taking part in a number of tenders in different countries on the African continent.

The Middle East has a freight car fleet of roughly 35,000 units. U.S. and modified Russian standards prevail in the region, where the gauges are 1,435 mm. The freight railcar market is rapidly developing due to the construction of railways. In particular, Etihad Rail has signed a contract to implement the second phase of the construction of the Trans-Arabian Railway. Tenders for the purchase of rolling stock are expected to be announced in the near future.

Saudi Arabia is currently in the active phase of designing 5,500 km of railway lines (the Saudi Landbridge Project and SAR North-South Railway). Saudi Arabia's rail network development plans are driving the construction and development of infrastructure in the Middle East. The country has prioritized developing projects that will provide access to the open sea through ports close to resource deposits.

Oman also plans to build a 2,135-km railway network. A total of 650 km will be built in the medium term. Kuwait is planning to build a 550-km railway network. Meanwhile, Jordan is modernizing railway lines with a total length of 507 km. All these projects will require the purchase of several thousand freight cars.

UWC has already delivered 800 railcars to the Middle East since 2017. In 2019, the Company plans to take part in tenders for deliveries in 2020–2021.

CIS countries (except Russia) have a freight car fleet of more than 400,000 freight cars, although Ukraine accounts for roughly 171,000 of them and Russian companies are not currently supplying railcars to this country. The CIS has common standards and 1,520 mm gauges. UWC has great potential for development on this market due to its broad model range of railcars and the possible inclusion of traffic with an axle load of 25 tf in the countries of the region. The Company delivered 39 railcars to CIS countries in 2018.

South America's fleet currently stands at approximately 145,000 freight cars. The region employs AAR standards and gauges of 1,000, 1,067, 1,435, 1,600, and 1,676 mm. Demand on the freight car market is picking up thanks to the construction of railways for the export of minerals, wood, and agricultural products and is projected to grow by roughly 4,500 railcars per year.

UWC and TMH International AG, a subsidiary of JSC Transmashholding (TMH), signed a cooperation agreement in 2018 to develop freight rail traffic in South American countries. The companies will organize packaged supplies, including locomotives manufactured by Transmashholding, freight cars, and components manufactured by UWC to Argentina, Uruguay, Bolivia, and Paraguay.

UWC exports by region of operation

Region	Supplies	2017	2018
Europe	Railcars, units	1	172
	In monetary terms, RUB mln ³	3	552
Middle East	Railcars, units	600	200
	In monetary terms, RUB mln	1,773	671
Africa	Railcars, units	10	104
	In monetary terms, RUB mln	46	512
North America	Components, railcar sets ⁴	192	1,704
	In monetary terms, RUB mln ⁵	69	742
CIS	Railcars, units	–	39
	In monetary terms, RUB mln	–	137
Total	Railcars, units	611	515
	Components, railcar sets ⁶	192	1,704
	In monetary terms, RUB mln	1 891	2,614

¹ Henceforth data on the fleet size is given for 2017.

² The 1,520-mm railway gauge is mainly used in the countries of the former USSR. The 1,435-mm railway gauge is mainly used in North America, the Middle East, and Europe (except for CIS countries, the Baltic states, Finland, Ireland, Spain, and Portugal).

³ The average annual exchange rates of the Central Bank of the Russian Federation are used to recalculate amounts in EUR and USD, see Appendix XX.

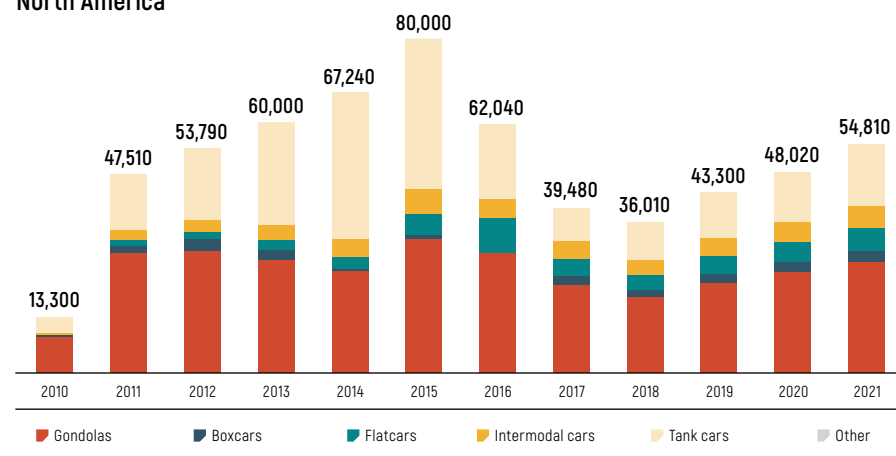
⁴ Only large casting railcar sets are indicated.

⁵ Large casting railcar sets and other components.

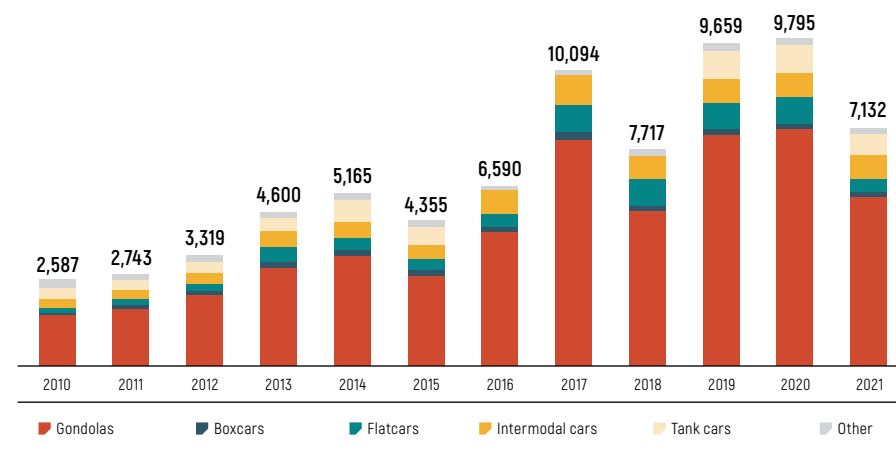
⁶ Only large casting railcar sets are indicated.

Forecast for the development of railcar markets in regions of operation¹

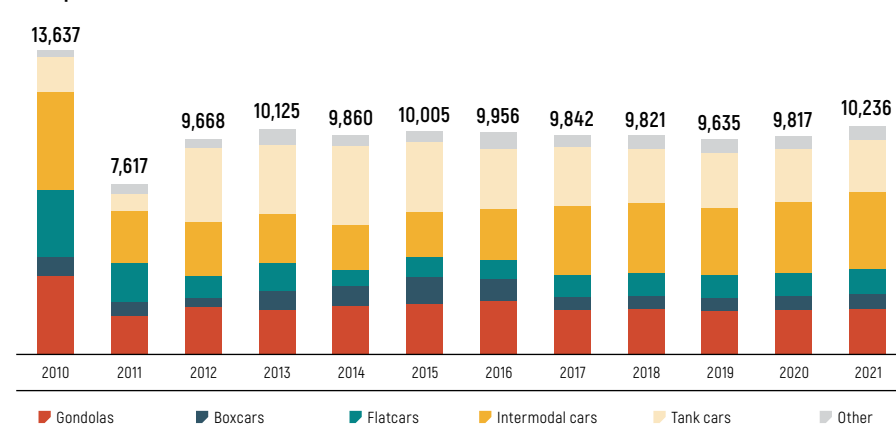
North America



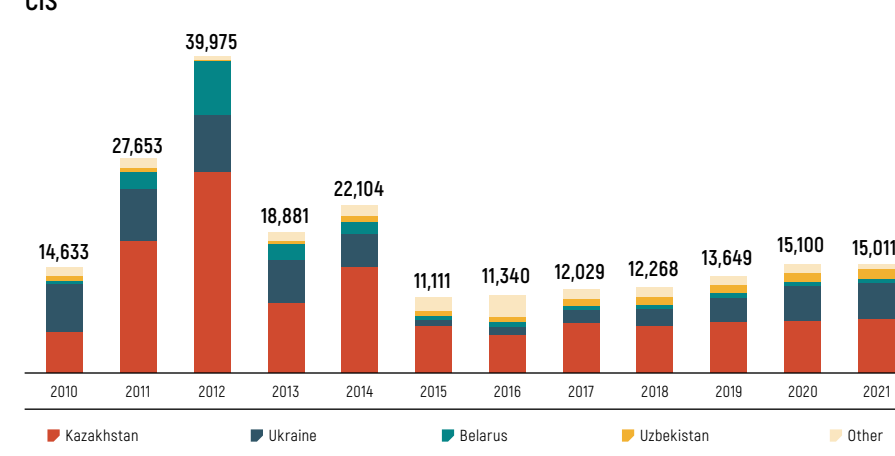
Africa and the Middle East



Europe



CIS



Export goals in the short and medium term

Region	Type	Planned sales volume by year, units	
		2019	Medium term
Railcars			
Europe	PL 40ft/60ft	400	260-500 per year
	PL 80ft (articulated)		
CIS	Articulated oil and gas tank cars	-	300-900 per year
	Articulated LPG tank cars	328	
Africa	Gondola/hopper	-	50-200 per year
Total railcars		728	-1,000-1,200 per year
Components			
North America	Components, USD mln	15	~20 per year

¹ Source: SCI Verkehr GmbH research (2017).





UWC CAN DESIGN AND DEVELOP THE PRODUCTION OF A RAILCAR FOR ANY GAUGE

UWC Deputy CEO for Business Development Maxim Kuzemchenko in comments on the state and prospects of the railcar market.¹



Maxim Kuzemchenko,
UWC Deputy CEO for Business Development

L

UWC's strategy on the global market

Utilizing production capacity with orders for the international market provides UWC with additional stability in its railcar production dynamics. The Company's long-term goal is to increase the share of exports in revenue to 20%.

UWC started out on the international arena by establishing relations with the main consumers of railcar products. At present, the key regions for us are North America, the Middle East, Europe, and Africa. Our products are already present there. We are constantly monitoring the current demand on the global market and, based on the results of this analysis, we have formed the Holding's network of agents and representative offices where we see places to grow our presence.

UWC positions itself as a universal manufacturer that can design and develop the production of railcars for any gauge according

to any railway standards. We offer a railcar of reliable quality with high operational performance indicators at a competitive price. We do not give big discounts and do not try to compete with Chinese manufacturers in this regard. We offer cars that are much better in terms of their consumer properties.

We cooperate with such reliable partners as Amsted Rail, Wabtec Corporation, and Knorr-Bremse, among others. This provides UWC with an opportunity to offer the global market optimal solutions that suit even the most demanding consumers. And our in-house research and development unit VNICTT has a wide range of R&D expertise. It is capable of designing and putting into production any types of railcars based on any requirements of international standards or customer demand.

Exports allow for diversifying both the Holding's production program and its sales channels. This is an effective tool to achieve a balance of supply and demand. Demand on the Russian market is cyclical; its saturation point is bound to be reached at some point in the future. That is why UWC wastes no time developing exports so as to focus on external orders should a natural recession occur and quickly increase this component.

Geography of representative offices

At the end of 2018, the Company had a representative office in Europe. In addition, the UWC representative office in North America was conducting a detailed study of the market and establishing relationships with target consumers on the North American market from 2016 until September 2018. This goal was successfully achieved, the representative office was closed, and the further development of the contracts that were signed and service was outsourced to U.S. companies. The work performed by these representative offices resulted in breakthroughs in relations and new contracts.

A model in which agents are used is more suitable for countries where there is no regular demand. For example, in Africa the market is highly fragmented and about 30 countries purchase rolling stock. It is impossible to hire a single agent or company that would represent our interests throughout the continent. We currently have eight agents working there. These are individuals or companies that we select very carefully and constantly supervise their work.

In South America, we recently signed an agreement with TMH International AG, a subsidiary of Transmashholding. It represents our interests in Argentina and neighboring countries.

Main foreign competitors

Our competitors can be split into three groups. The first is Chinese manufacturers with which we have a hard time competing in terms of price. But there is a flip side here – the quality of the product. By contrast, railcars produced by UWC have high standards on the global market.

The second group consists of Russian companies that are trying to use a relatively low ruble exchange rate to enter foreign markets. They offer railcars made from domestic components, which are built for the 1,520 mm gauge. They have to spend a lot of time and financial resources to properly adapt their products to international requirements.

Unlike other Russian manufacturers, UWC works in close cooperation with global suppliers of bogies, brakes, and other components. As a result, we can develop almost any railcar rather quickly. For example, when we designed a car for Guinea, we used a bogie with an axial load of 32.5 tf, which is much higher than in Russia. International cooperation has enabled us to easily produce a railcar of this kind. The delivery has now been completed, the acceptance was a success, and our hoppers are already transporting bauxite from African deposits.

The third group of competitors is local companies in countries where we come with our proposals. They have one undeniable advantage: they do not need to factor logistics costs into the cost of their products. So local companies come out on top in terms of price, although sometimes they are unable to produce railcars of the proper quality and in the right quantity.

Collaboration with key partners

We supply large railcar castings for U.S. Barber S-2-HD bogies in cooperation with Wabtec. This is a major project. Thanks to Wabtec, not only are we further utilizing our casting facilities, we are also gaining unique experience in the production of components for international markets.

Another area of cooperation with Wabtec is our joint participation in global procurements and tenders. Wabtec has been operating on numerous railway markets for a long time and has solutions for almost any brake system specification. This speeds up the implementation of new projects for us.

With Timken, we have a joint venture in Russia that produces modern bearings. They are installed on railcars for the domestic market. But they utilize a number of high-tech solutions that would be of interest to foreign markets, so the potential for the sale of these components is quite large. After the joint venture reaches its design capacity, we can start thinking about exporting.

Plans to enter new markets

We are extremely interested in the European market. In 2018, we were successfully audited and granted the status of a quality supplier for Deutsche Bahn, the largest railway company in Europe, which is known for having a very strict approach to quality. We hope that the high rating from Deutsche Bahn will serve as a signal for the entire European market. After all, today UWC is the only railcar building company outside the European Union that has the right to supply railcars to the EU.

In Europe, multimodal transportation is currently growing faster than anything else. We plan to enter this market with a flatcar as our core product since multimodal transportation involves the use of flatcars and containers that can be easily loaded on all types of transport. But we are discussing other

rolling stock options – for the transportation of gases, bulk cargo, and other freight. We are open to suggestions and requests, although we believe that the flatcar will soon be a bestseller, so it is essential to gain a foothold in this segment from day one. But since we have become familiar with EU regulations and standards, now we can quickly develop almost any railcar and master it at our facilities.

Working on international markets: initial results

When we initially entered foreign markets, it was hard at first. We were surprised at how conservative the markets are and how unprepared they were for new opportunities and suppliers. Nobody knew UWC despite the fact that objectively we are one of the largest companies in the world in terms of production capacity and output.

We had to spend a lot of time promoting our brand. Recognition increased at trade and industry exhibition events around the world, at one-on-one meetings, and by sending out direct mails with information about our production capabilities. Now these activities have begun to bear fruit. We spend a lot of time trying to figure out the rules for how to successfully interact with each specific market, but then we know how to work effectively on it.



Learn more:
[No Compromise on Quality Interview](#)

¹ Left Company in May 2018.



SUPPLIES OF FLATCARS FOR DEUTSCHE BAHN

In 2018, UWC was granted the status of a supplier for Deutsche Bahn, the largest railway operator in the EU. Deutsche Bahn specialists conducted an audit of the quality management systems of UWC, the All-Union Research and Development Center for Transportation Technology (VNICTT), and Tikhvin Freight Car Building Plant (TVSZ).

The audit gave high marks to the development and production of new railcar models, product quality as well as warranty and after-sales service. In total, the German company studied more than 20 aspects of UWC's activities. The final score was calculated as the sum of points for all criteria on a 100-point scale. UWC Holding received a score ranging from 90 to 100 points in 18 positions and from 80 to 90 points in five positions. Based on the audit results, the Company was assigned Q2 quality status.

In addition to Deutsche Bahn's assessment, Tikhvin Freight Car Building Plant was also successfully certified according to the European (regional) standard EN 15085 "Welding of Railway Vehicles and Components." The audit was conducted by the German division of one of the world's leading certification bodies, TÜV Rheinland. TVSZ employees underwent additional training followed by certification according to European standards for welding, non-destructive testing, and the quality management system and were assigned the status of international specialists.

In 2018, UWC was also declared the winner of a Deutsche Bahn tender for the supply of 130 Sggrs80 articulated well cars platforms with an option for an additional 350 units. The railcars will be manufactured at the industrial site in Tikhvin. Railcar assembly production will be certified for compliance with the European TSI standards by the end of 2019. The delivery of the railcars is planned in the first half of 2020.



Read more about articulated flatcars for the European market on p. 44



Maxim Kuzemchenko

UWC Deputy CEO for Business Development

We could have entered the European market with simpler railcar designs, but we decided to take the most difficult route. Deutsche Bahn is the most demanding company in terms of the quality of processes and execution.

When we agreed to the audit, we understood that we would be tested according to the most stringent quality system in the railway industry around the world. But our experience told us that UWC products could properly compete in international markets and supply the required high-quality range.

The status we have been granted as a supplier of Deutsche Bahn is independent confirmation of this. Today, UWC is the only railcar building company outside the European Union that has the right to supply railcars to the EU.



ARTICULATED TANK CARS: DEBUT ON CIS MARKETS

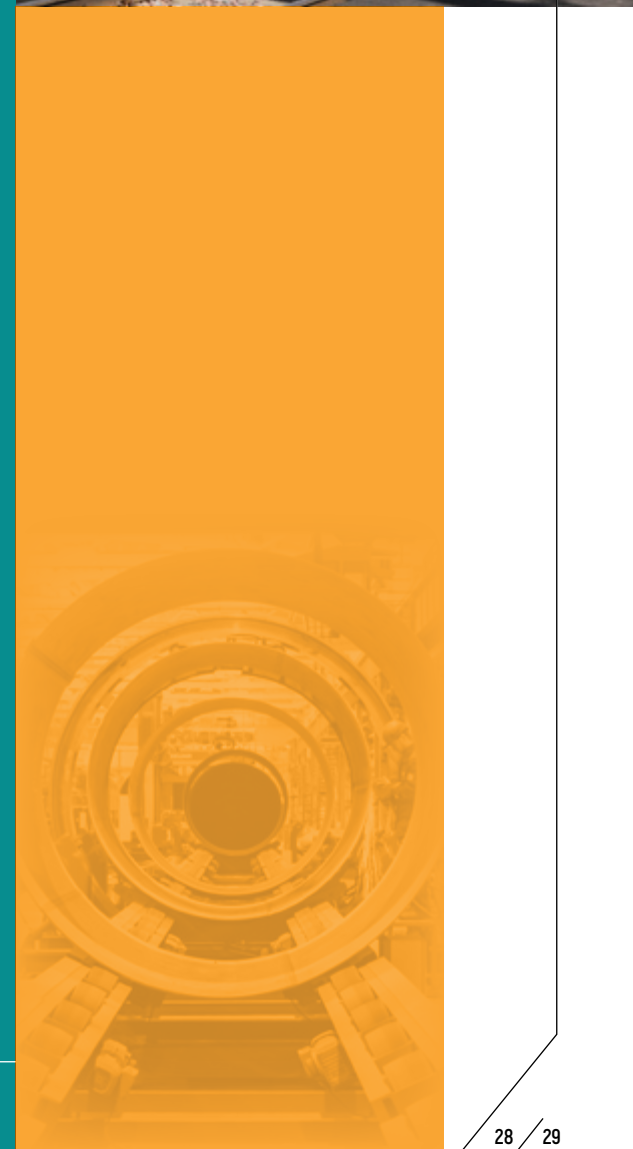
In early 2019, UWC and the TEXOL Group (one of the largest railway operators and freight car fleet owners in Kazakhstan) signed a contract for the supply of 400 articulated tank cars to transport liquefied petroleum gas (LPG). The model was developed by VNICTT specialists and manufactured at TikhvinChemMash. In the TEXOL fleet, the tank cars will transport the cargo of Irkutsk Oil Company.

The articulated tank car is a unique freight car model for the CIS market, which has no analogues in terms of its technical and operational features. It can carry two times the amount of freight that a standard LPG railcar can. The tank car consists of two boilers connected by an articulated joint that is designed for increased longitudinal and vertical loads. The fitting layout is unified with standard railcars, so UWC's articulated tank cars can be serviced at standard terminals. The braking system is mounted directly on the bogies, which ensures safe and effective braking.



KEY FEATURES

24 m Railcar length	161.1 m³ Tank car boiler volume	90 t Carrying capacity
6 Number of axles	25 tf Axial load	



DEVELOPMENT STRATEGY



UWC'S MISSION

is to help boost carrying capacity and improve traffic safety on railway transport.

Strategic goals

- To maintain the position of the leading domestic innovative railcar builder.
- To create synergy through collaborative work between the Holding's industrial enterprises that produce freight cars, bogies, and components, leasing and transportation companies, the engineering center, and the service unit.

- To actively participate in the technology development program for heavy haul transportation and upgrade rolling stock by producing high value-added railcars.
- To develop global markets, build economic relations with major transnational railway companies, and directly export products made by the Holding's industrial enterprises.

The Company intends to achieve its strategic goals by implementing core objectives that are consistent with its strategic priorities. In an effort to conduct an annual assessment of the implementation of its objectives and the motivation of its employees, UWC has developed a KPI System that includes a list of KPI used to objectively assess the fulfillment of its plans.

Strategy priorities

Priority objectives	KPI	Plans for 2018	Progress report	Risks that could hinder implementation of strategy
1. Development of new high added-value products				
<ul style="list-style-type: none"> • Expansion of the range of railcar types produced • Improvement to existing modifications • Increased specialization of rolling stock 	<ul style="list-style-type: none"> • Revenue • Railcar margin • Number of certified railcar modifications • Coverage percentage of the railcar product line 	Development, production launch, and commissioning of new models of general-purpose and specialized railcars with an axle load of 27 tf and six-axle articulated railcars	Partially completed	<ul style="list-style-type: none"> • Increased competition • Reduced demand for transportation in selected industries due to a general decline in business activity in Russia • Transition of freight traffic to other types of transport
		Expansion of the model range of railcars on a 25 tf bogie	Completed	
		Development of railcars and components for exports	Completed	
		Development and commissioning of T14 and T20 tank containers, swap bodies, and flatcars for the transportation of grain, mineral fertilizers, timber, and coiled steel	Partially completed	
		Certification of 12 new railcar models and modifications, two tank containers, and three types of swap bodies	Partially completed	
2. Export development				
<ul style="list-style-type: none"> • Building a positive image through initial supplies and obtaining recommendations • Price competition taking into account aspects of state support • Accepting offers from Russian banks for export financing • Developing the supply of components and localizing railcar production in regions to gain an advantage 	<ul style="list-style-type: none"> • Share of export revenue • Number of export projects 	Increase export revenue to more than USD 40 mln	Completed	<ul style="list-style-type: none"> • Change in exchange rates • Increased competition on international markets
		Expand the Company's presence in key regions – the U.S. and Europe	Completed	
		Work on at least 20 export projects (tenders and requests) in the countries of North America, Europe, the Middle East, Africa, and South America	Completed	



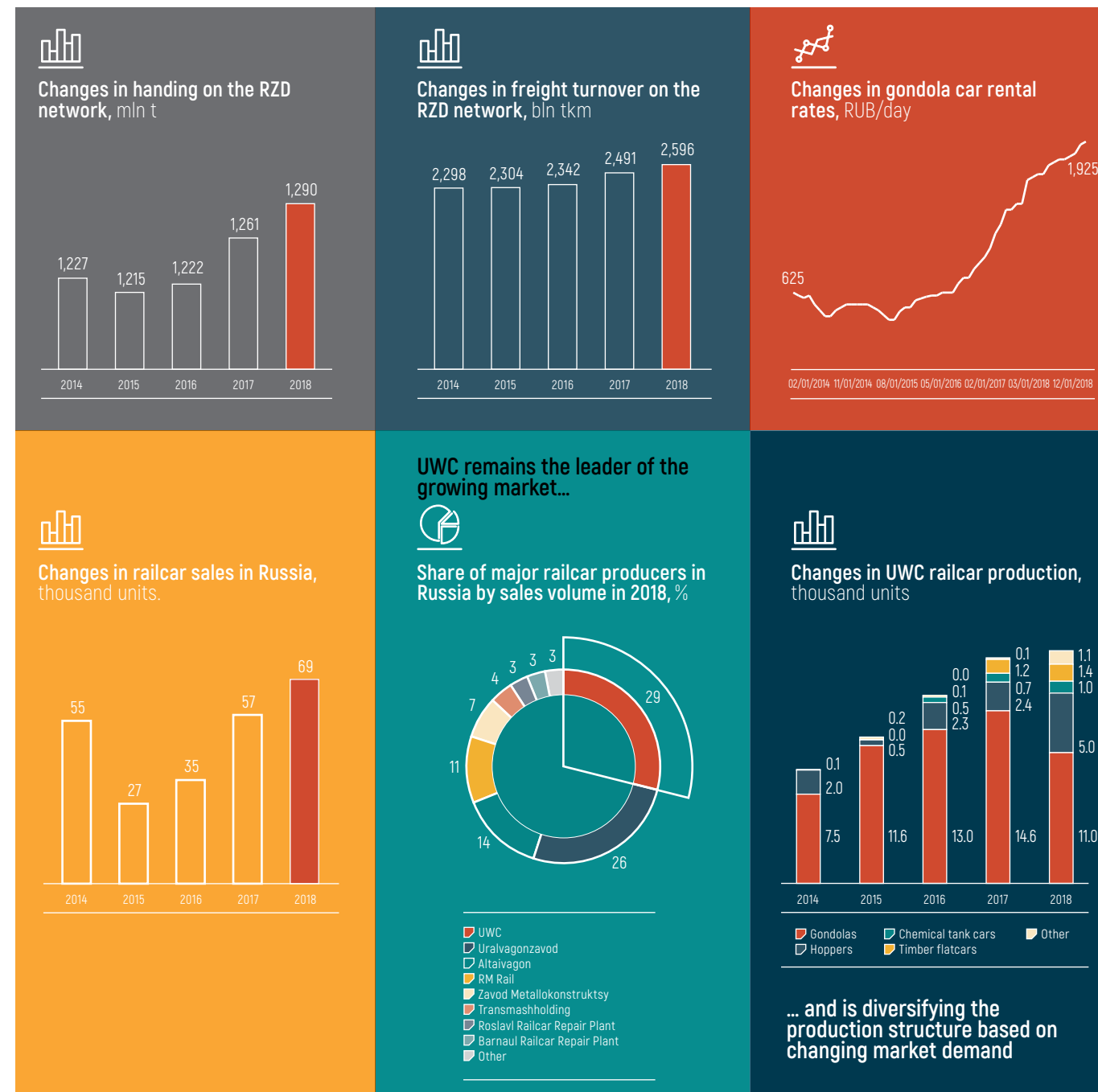
Priority objectives	KPI	Plans for 2018	Progress report	Risks that could hinder implementation of strategy
3. Ensuring timely and high-quality service of all types				
<ul style="list-style-type: none"> Expanding the expertise of service centers Expanding the geography of the service center network 	<ul style="list-style-type: none"> Railcar downtime for repairs Number of Category 1 service centers 	Assign Category 1 to 5 new service centers on the West-Siberian, East-Siberian, and Moscow Railways	Completed <ul style="list-style-type: none"> 11 service centers assigned Category 1 17 – the number of Category 1 service centers at the end of the year (2.8-fold increase) 72 – total number of service centers at the end of the year (+ 9.1%) 	
4. Improving operating efficiency				
<ul style="list-style-type: none"> Increased productivity of assembly lines and blank production Increased productivity of small foundry production Implementation of cost-cutting projects Waste reduction at all facilities Automation of operations Reduction in labor intensity 	<ul style="list-style-type: none"> Maximum productivity Time required to switch to new products Railcar production costs Overall equipment efficiency 	Maintain maximum production output while preserving quality level	Completed <ul style="list-style-type: none"> 19,700 railcars produced (+3.2%) 	<ul style="list-style-type: none"> Delays in equipment delivery and installation Increased metal prices
		Reduce the time required to transition to new products at TikhvinSpetsMash (from 2 days to 1 day) and at TVSZ (from 14 to 7 days)	Partially completed <ul style="list-style-type: none"> 10 days – changeover period at TVSZ at the end of the year 2 days – changeover period at TikhvinSpetsMash at the end of the year 	
		Further reduce mass production costs	Completed <ul style="list-style-type: none"> A number of measures have been taken to reduce mass production costs and increase production efficiency 	
		Reduce equipment downtime by 15%, Automate the repair planning process in the ERP system	Completed <ul style="list-style-type: none"> 16% – decrease in downtime 	
		Equip large foundry production with the auxiliary equipment required to produce 30,000 large casting railcar sets per year	Automated maintenance and repair system: <ul style="list-style-type: none"> completion of cycle (basic work) maps based on the type of maintenance by equipment unit introduction of maintenance scenarios automatic planning of equipment maintenance for specified scenarios generating demand for materials and consumables cost accounting for equipment maintenance and repairs 	
			Partially completed <ul style="list-style-type: none"> 70% – current project execution level End of 2019 – planned completion date 	

In 2018, the Company implemented most of its plans for the year. In addition, the phase of active business development has been completed. In 2019, UWC plans to approve the updated Strategy for three years. The Company will continue to pursue the development priorities listed below, although now that the stage of rapid growth has concluded, it will shift its focus to improving business efficiency and calculate its plans for the long term.



KEY INVESTMENT APPEAL FACTORS

Demand for railway transportation is on the rise so rental rates and railcar sales have reached record-highs



The Company has a number of advantages that ensure its further successful development



GROWTH TRACKS

Tank cars for chemical freight (methanol)



OVERVIEW OF BUSINESS ACTIVITIES

UWC is a vertically integrated holding that unites engineering and production facilities as well as assets that handle sales, operating lease, operating services, and maintenance.



- 38 Engineering and Innovation
- 46 Production
- 56 Operating Lease
- 58 Operation
- 60 Service
- 63 Investment Activities



ENGINEERING AND INNOVATION

UWC develops various types of new railcar models at its own engineering center, which is the key to the Company's success under any market conditions.

Results of 2018

The patents UWC has obtained best describe the results of its work to protect intellectual property. In 2018, the Company obtained 306 patents for railcars and their components. As a result, the total number of existing patents in Russia and abroad was up by 63% to 786 patents as of December 31, 2018.

In addition, six railcar models and modifications were certified in 2018. The total number of certificates for the railcars it has manufactured has grown to 57 (a 12% increase from 2017), including 45 current certificates.

VNICTT portfolio as of December 31, 2018:



786
patents



57
certified railcar models



Engineering infrastructure

All-Union Research and Development Center for Transportation Technology (VNICTT, St. Petersburg)

The engineering center is a modern R&D and design facility that specializes in railway freight rolling stock. The main goal of the R&D conducted by VNICTT is to create railcar building products with high added value that ensure economic and technological efficiency during operation compared with other railcars. Fourteen of the center's employees have a post-graduate degree (candidates and doctors of science).

Key activities of VNICTT:

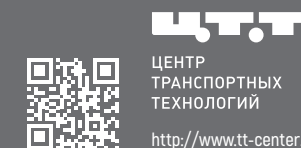
- design of new generation railcars for 1,520 mm gauge tracks, chassis, automatic coupling devices, and components
- design of railcars and components for exports
- development of projects to modernize and expand the scope of operational fleet railcars and new railcars
- support for the product life cycle and the development and introduction of technologies to repair railcars and chassis
- development of technologies to manufacture freight car casting components and research on advanced materials with special properties
- support of projects to reduce serial production costs, optimize foundry technologies, and utilize new design solutions

Scientific and Technical Council

UWC has an Advisory Scientific and Technical Council whose goal is to resolve issues associated with establishing the Company's unified innovation, scientific, and technical policy as well as solve scientific and technical problems.

Main objectives of the council:

- take part in creating the conceptual provisions of the UWC innovation, scientific, and technical policy
- review and evaluate advanced technical ideas and technological solutions in the design and operation of freight cars and prepare recommendations for their implementation to develop the Company's scientific and technical potential
- improve UWC's economic performance
- review and evaluate trends in the global railcar building industry and the situation on global transport markets



VNICTT

ЦЕНТР
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<http://www.tt-center.ru>



OUR JOB IS TO ANTICIPATE THE NEEDS OF THE MARKET

Anna Orlova, UWC Deputy CEO for Scientific and Technical Development and Executive Director of VNICTT, talks about the results of 2018 and new projects.



Anna Orlova
Executive Director
of VNICTT



Results of 2018

In 2018, VNICTT put six new freight car models and twelve new component models into production at the railcar building enterprises of the UWC Holding. A lot of work went into these dry figures: from the technical idea to its implementation – first in electronic form as 3D models and drawings, and then as technological equipment and prototypes along with their testing and the certification procedure.

The first Russian-made articulated export flatcar for container transportation was developed for the European market and exhibited at the 2018 InnoTrans in Berlin.

Synergy in the development of new products

There are two models used to organize work for the development of new products: based on a customer's requirements or at the Holding's initiative. UWC employees monitor the market, predict the decommissioning of various types of railcars and trends in new types of transportation, and interact with potential customers in terms of the design and supply conditions.

For its part, VNICTT deals with technical issues that arise, prepares railcar design proposals to ensure their performance advantages, and interacts with customers to ensure the railcar is compatible with loading and unloading infrastructure. These joint efforts culminate in a railcar that not only fully complies with the demands of a specific customer, but of the market as a whole, with possible modifications for a specific transportation technology.

One example of such synergy is the new specialized gondola car for wood chips, which was built based on an order from the global particle board production leader Kronospan. The railcar has the best combination of carrying capacity at 70 tons and body volume at 211 m³ on the market, which makes it possible to additionally load up to 30 m³ of freight compared with its counterparts. In addition to the usual operating domains within the CIS, the railcar has been granted permission to make scheduled trips through the territory of Finland.

The Holding is conducting independent research on certain advanced railcars for which we project a high margin based on our calculations, while simultaneously searching for a customer that is ready to test the new items on its transport routes.

Future projects

We are currently seeing great demand for different models of tank cars. Tank cars for the transportation of chemical freight are technologically outdated and have reached the end of their service life. New fields and gas refining enterprises are being opened, which has resulted in the emergence of additional routes and traffic volume. Other specialized railcars also need to be renovated: tank cars for foods and bulk cargo, dump cars, etc.

Gondola cars with an axle load of 27 tf, which we finished developing in early 2018, are also important for the development of the market. It's impossible to export the volume of coal set forth in Presidential Decree No. 204 "On the National Goals and Strategic Objectives for the Development of the Russian Federation in the Period until 2024" dated May 7, 2018 without using these railcars on dedicated routes from Kuzbass to the Far East. But their introduction has been delayed due to the state of the infrastructure.

Additionally, we are working on articulated railcar designs to develop heavy-haul traffic to increase railway capacity. They have an increased linear and useful (ratio of carrying capacity to the number of axles) axial load. The product line of such rolling stock includes all the main types of general-purpose and specialized cars: tank cars for liquefied gases and petroleum products, gondola cars with floor-based unloading hatches and a solid-bottom body, flatcars, and hoppers for grain and mineral fertilizers.

We are working on a project for a six-axle flatcar with swap bodies in order to develop freight transportation through ports that are not equipped with specialized infrastructure to unload gondola cars and hoppers. When using lifting equipment, the bodies can be unloaded directly into a vessel's cargo hold and the bodies can be replaced with the corresponding cargo in the event of changes to the range of products being transported. Not only Russian, but European consumers as well, see this technology as the future.

Special aspects of developing railcars and components for export

Export markets have their own regulatory documents with requirements for rolling stock and their own technical procedures, which include both testing and verifying the state of production and the quality of the manufacturer's management system.

For example, we developed an 80-foot long articulated flatcar for Deutsche Bahn. For us, this was a unique experience to create a fundamentally new product. It differs from commercially produced railcars due to the absence of a truss rod, the design and location of the brake equipment, an original coupling device and articulated joint as well as the chassis.

German specialists have repeatedly evaluated our design documentation and technological capabilities for compliance with their requirements. When the railcar design was finalized, one of the world's largest international certification centers, TÜV Rheinland, conducted an audit of our production. They checked the operation of the quality management system and the monitoring of technological welding processes. The auditors gave high marks to the UWC Holding's production work, and now we are working on the design of two more railcar models for the European market.



Major achievements of 2018



Gondola car with increased body volume

The most significant achievement of 2018 was the completion of gondola car model 12-9548-02 with a 27-tf axle load bogie, unloading hatches, increased body volume, and 1-VM dimensions. This gondola car is designed specifically to transport coal from the Kuzbass region to the ports of the Far East.

The railcar differs from similar models on the market due to its increased body volume and carrying capacity. To increase the volume, the floor level was lowered, the design of the side and end walls was optimized, and a new frame design with a cast cantilever arm was used. The draft sill with automatic coupler stops and a center plate are combined into a single compact unit. A new automatic coupler has been built with extended repair intervals and a new bogie that ensures the track impact by a railcar with gross weight of 108 tons is no more than for existing cars. The brake system has been switched to the bogies and designed in the form of a monoblock unit to free up additional cargo space.

The gondola car design maximizes the useful space to increase the amount of cargo carried while maintaining the standard 1-VM dimensions. The size and design of the body ensure unloading without any difficulties using existing car dumpers, defrosters, and other devices used on the Kuzbass–Far East operating domain. This makes it possible to efficiently transport a wide variety of bulk cargo and work on routes with large freight turnover without making any additional investments in infrastructure.

Making up trains using these types of railcars will help increase the weight load of the train by 19%. The gondola car passed an inspection by the interdepartmental acceptance commission and received a certificate of compliance. However, its introduction to the market has been delayed due to the state of infrastructure.



KEY FEATURES

103 m³
Body volume

82 t
Carrying capacity

27 tf
Axial load



Wood chip gondola car for Kronospan

In 2018, TikhvinSpetsMash began producing gondola car model 12-6995 for wood chips on bogie model 18-9855.

The gondola car for wood chip transportation was designed with Tpr dimensions that are greater compared with the 1-VM and 1-T dimensions and has technical features that are unique to the market (an optimal combination of carrying capacity and body volume), which ensure increased economic efficiency. Moreover, the increased loading does not result in higher tariff costs. The increased dimensions of the body's cross-section do not prevent the gondola car from being used on the popular Russia–Finland route. Hatches on the sides of the body to clean it after unloading operations provide an additional convenience.



KEY FEATURES

211 m³
Body volume

70 t
Carrying capacity

25 tf
Axial load

Additional load
30 m³
of wood chips
(compared with counterparts)

Run before first roundhouse servicing
1 million km
(eight years)

40 years
Service life



Learn more:
[Special design and production aspects of wood chip railcars](#)

Major achievements of 2018



Articulated flatcar for the European market

At the 2018 InnoTrans International Trade Fair for Transport Technology in Berlin, the Company introduced its new Sggrs well car model for the transportation of various sizes of ISO containers, tank containers, and intermodal swap bodies.

Articulated railcars allow for enlarging a train's mass without increasing its length and axial load (more can be loaded for each meter of the train's length). This is a common European container shipping technology.

The new UWC flatcar is in no way inferior to its European counterparts in terms of its technical features and assembly quality. The railcar meets the TSI requirements of EU Commission Regulation No. 321/2013. It is equipped with hinged container twist locks in compliance

with European standards for the accommodation of various combinations of containers (two 40-foot containers or four 20-foot containers).

This prototype served as the starting point for building the Sggrs80 articulated well car for delivery to Deutsche Bahn (DB), Europe's largest railway operator and infrastructure owner.



KEY FEATURES

107.5 t
Carrying capacity

80 feet
Length

6
Number of axles

25 tf
Axial load

up to 120 km/h
Travel speed

Learn more:

[Special design and production aspects of articulated railcars](#)

[Six-axle articulated flatcar for container transport](#)



Other developments

In 2018, the following were also certified on a 25-tf axle load bogie:

- general-purpose gondola car model 12-9853-04 with unloading hatches on bogie model 18-9836 Motion Control
- hopper car model 19-9549-01 for grain with cylindrical walls on bogie model 18-9855
- hopper car model 19-9549-04 for grain on bogie model 18-9836 Motion Control
- hopper car model 19-9835-01 for mineral fertilizers on bogie model 18-9855

Significant results were achieved in the development of components:

- bogie model 18-6863 with a TMH brake system was put into production
- work was conducted to localize the production of Timken cartridge bearing components
- the brake system of bogie model 18-6863 (TMH1) with increased reliability indicators was put into production and standard testing was conducted on the system components
- work was begun to localize components for the TMH brake system of bogies 18-6863 and 18-9855
- work was begun to develop and launch production of the Auto Mode ABO-12, a device that automatically adjusts a train's deceleration mode depending on the load of each car by altering the air pressure in the brake cylinders. Auto Mode ABO-12 is an in-house development of UWC as part of the localization of component production

Plans for 2019

Main objectives of 2019:

- to develop, manufacture, and certify articulated railcars with increased carrying capacity and body volume (tank cars for liquefied gas, gondola cars with floor-based unloading hatches and a solid-bottom body, and general-purpose flatcars)
- expand the model range of the tank cars manufactured by creating exclusive products on the 1,520-mm space (railcars to transport powdery goods and stainless steel tank cars for molasses)
- expand the model range of railcars manufactured with an axle load of 25 tf (two versions of dump cars and an 80-foot loading platform to transport refrigerated containers)
- launch production on and legalize T14 and T20 tank containers as well as a container for the transportation of coiled steel
- set up an export project for an articulated flatcar to transport containers per TSI requirements
- increase repair intervals for automatic coupling device components to 1 million km
- develop an advanced articulated railcar with swap bodies



PRODUCTION

UWC is the leading railcar manufacturer in Russia and the CIS. The Company manufactures products with enhanced performance features, thereby improving the efficiency of freight rail traffic and significantly contributing to the development of the transport industry in Russia.

The UWC production unit includes:



4

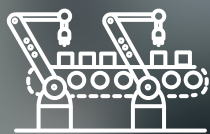
railcar and component manufacturing plants



2

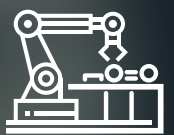
component manufacturing joint ventures

Manufacturing facilities include:



20

automatic and automated lines



100

industrial robots



Production assets



ТИХВИНСКИЙ
ВАГОНОСТРОИТЕЛЬНЫЙ
ЗАВОД



ТИХВИНХИММАШ



JSC Tikhvin Freight Car Building Plant (TVSZ)

TVSZ is one of the largest and most advanced transport engineering enterprises in Europe. It produces new generation freight cars (gondola cars, hopper cars, and flatcars) as well as components for these cars. The railcar assembly and foundry lines of the TVSZ plant, which are integrated into a single technological system, ensure the high performance and flexibility of production.

<http://www.tvsz.ru/>



Learn more:

[Tikhvin Freight Car Building Plant \(video\)](#)

[Tikhvin Railcars: Where, How, and Who Builds Them \(report\)](#)

JSC TikhvinChemMash

TikhvinChemMash produces new generation tank cars with improved carrying capacity that are designed to transport all kinds of chemical freight (sulfuric acid, methanol, ammonia, caustic soda, etc.). TikhvinChemMash also plans to produce articulated tank cars, which have no analogues in the CIS, and tank containers. The plant's production lines ensure a quick adjustment to the production of various types of tank cars depending on the customer's requirements.

<http://www.tcmash.ru/>



Learn more:

[Tikhvin Tank Cars: Where, How, and Who Builds Them \(report\)](#)

[Made in Russia. TikhvinChemMash Railway Tank Cars \(video by RBC-TV\)](#)

JSC TikhvinSpetsMash

TikhvinSpetsMash produces specialized new generation railcars, such as flatcars for the transportation of timber and timber products, boxcars, etc. Its flexible production lines ensure a quick adjustment to the production of various types of special railcars, including small batches.

<http://www.tsm-wagon.ru/>

LLC JV Wabtec-UWC (Wabtec-UWC)

Wabtec Corporation is a supplier of high-tech products, services, and integrated solutions for freight and passenger rail transportation. The joint venture with Wabtec – Wabtec-UWC – produces brake components for freight cars and joint assemblies.

LLC Springs Industrial Technology Center (NPC Springs, Izhevsk, Udmurt Republic)

NPC Springs produces high-quality springs for freight cars in compliance with strict performance requirements and design features for freight car bogies with enhanced performance features as well as springs for locomotives, electric trains, metro cars, trams, and car suspensions. The plant fully meets UWC's needs for springs.

<http://npc-springs.ru/>



Learn more:

[How product quality is verified at NPC Springs \(video\)](#)



BUSINESS MODEL OF THE PRODUCTION SEGMENT

CLIENTS

- Producers of rail equipment and automobiles
- Railcar repair depots
- Export
- Leasing companies
- Operators/Cargo shippers
- Export

PRODUCTION OF COMPONENTS



- Cast bogie parts and wheel sets

ut to **30** thsd
railcar sets of high-strength cast iron parts



- Bearings

ut to **80** thsd
integrated bearings



- Wheel sets and bogie assembly

ut to **90** thsd t
castings per annum – production capacity



- Brake components and joint assemblies



- Wheel sets and bogie assembly
- ut to **65** thsd
wheel sets



- Springs

ut to **30** thsd
railcar sets of rail springs

PRODUCTION OF COMPONENTS



- Gondolas, hopper cars, flatcars



- Tank containers



- Flatcars, boxcars, etc.

up to **22**
thsd railcars

>50%
components demand

RESOURCES

- Production staff is > 10 thsd people
- Partner educational institutions
- Own power plant

STATE

REGULATION

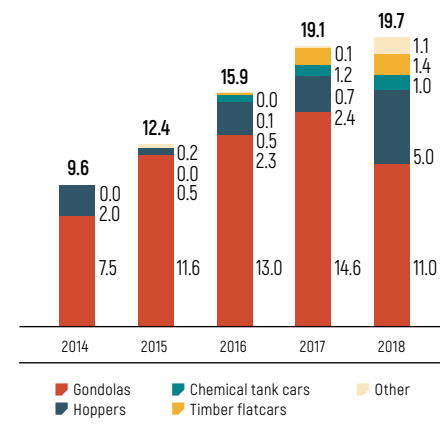
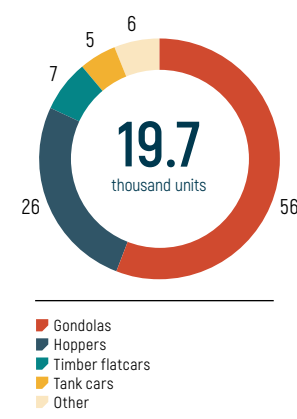
- Ministry of Industry and Trade of the Russian Federation
- Ministry of Transport of the Russian Federation

SUPPORT

- Preferential financing of TikhvinChemMash and TikhvinSpetsMash
- % rate subsidies of TVSZ and TAP Titran-Express
- Tax benefits from the Government of the Leningrad Region

SUPPLIERS OF PARTS AND MATERIALS

- Rolled metal products
- Axle boxes
- Solid-rolled wheels
- Other railcar bogie parts
- Brake equipment
- Scrap
- Cast iron
- Other

Changes in railcar production,
thousand units

Structure of railcar production
by type in 2018, %


Results of 2018

Railcar and casting production

UWC increased railcar output by 3% to 19,700 units in 2018, which is consistent with its planned targets.

An increase in specialized rolling stock production was the key driver of growth throughout the year. In particular, the Company increased the output of hopper cars by 108%, tank cars by 34%, and timber flatcars by 23%. The production of other railcars (boxcars, general-purpose and well cars, etc.) increased eight-fold.

In contrast, gondola car production decreased by 24% in 2018, which is entirely consistent with the market trend of a gradual shift in demand for specialized rolling stock. The share of gondola cars in overall output decreased by 21 p.p. to 56% from 77% a year earlier.

The decrease in gondola car production can be attributed to negative dynamics in railcar output at TVSZ. At the same time, the plant increased casting output by 6% due to growth in the in-house production of railcars and sales to Wabtec on the U.S. market.

Railcar production by type, units

Railcar type	2014	2015	2016	2017	2018	Change 2018/2017, %
Gondolas	7,541	11,640	13,003	14,588	11,052	-24
Hoppers	2,043	489	2,293	2,417	5,039	+108
Tank cars	-	12	460	747	999	+34
Timber flatcars	-	0	125	1,167	1,439	+23
Other	53	232	5	137	1,139	+731
Total	9,637	12,373	15,886	19,056	19,668	+3

Railcar production by plant, units

Plant	2014	2015	2016	2017	2018	Change 2018/2017, %
Tikhvin Freight Car Building Plant	9,637	12,361	15,301	17,006	16,531	-3
TikhvinSpetsMash	-	-	125	1304	2,138	+64
TikhvinChemMash	-	-	460	747	999	+34
Total	9,637	12,361	15,886	19,057	19,668	+3

Casting production, thousand t

Casting type	2014	2015	2016	2017	2018	Change 2018/2017, %
Large railcar	33.1	49.6	55.0	62.3	66.6	+7
Medium and small railcar	0.0	5.7	7.2	7.7	7.8	+10
Total	33.1	55.3	62.2	70.0	74.4	+6

A total of 19,500 new railcars were sold to outside customers over the course of the year. The largest supplies went to State Transport Leasing Company, Rusagrotans, Uralkali, Logistics 1520, Kronospan, and NPO Azot. A total of 15,400 railcars were sold to these companies.

The Company also supplied railcars to Akron (hopper cars), MKB-Leasing for export to foreign countries (gondola cars), and Fintrans GL (boxcars), among others. In total, more than 50 customers bought UWC rolling stock. Over the year, 659 railcars were supplied to UWC leasing companies.

In 2019, UWC plans to maintain production around the level of 19,000–20,000 railcars. The Company also plans to continue increasing the proportion of specialized rolling stock in its output.

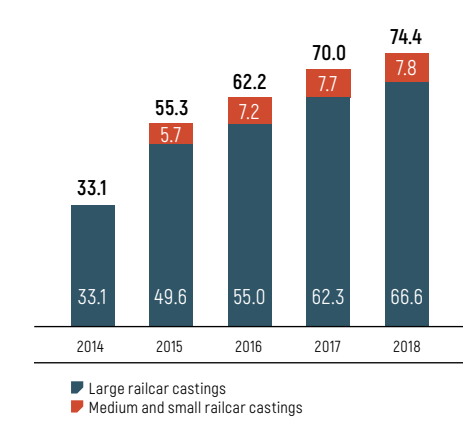
Joint ventures

LLC Timken UWC increased the supply of products to TVSZ in 2018, shipping approximately 50,000 bearings versus 15,000 a year earlier. In addition, trial bearing repair was initiated.

In 2019, the company plans to manufacture and ship more than 80,000 bearings to TVSZ, thereby increasing the local share of costs due to the use of Russian-made rings and caps in the design.

LLC JV Wabtec-UWC supplied TVSZ with more than 500 TMH-produced brake system car sets in 2018 and received the first samples of the localized TMH automatic regulator.

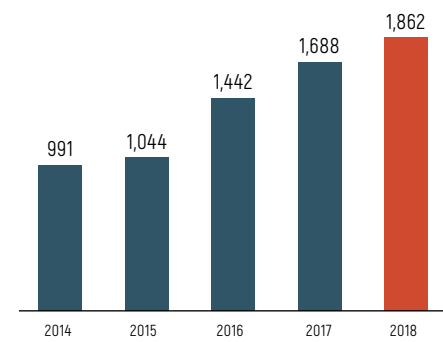
In 2019, the localized TMH automatic regulator is expected to be approved. The decision may also be made to launch the production of other components of the brake system (auto mode, fittings) depending on market conditions.

Changes in casting production,
thousand t


Spring production

In 2018, NPC Springs produced 1.9 million springs, a 10% increase over the 2017 figure. Springs for freight cars continued to make up the lion's share of production (97%), but the plant continues to increase its presence on the market of springs for locomotives and urban transport. In particular, locomotive springs and springs for metro trains of Transmashholding enterprises, springs for Lastochka electric trains produced by LLC Ural Locomotives (Sinara Group) as well as springs for trams manufactured by Transport Systems PC accounted for 2% of total production in 2018.

Total spring production, thousand units



Spring output by segment in 2018

Segment	Volume, thousand units	Share, %
Freight cars	1,812.1	97
Metro, trams, road-rail buses	20.2	1
Locomotives	18.4	1
Car springs	8.3	0.4
T1 class shock-absorbing device springs	2.0	0.1
Other	1.2	0.1
Total	1,862.2	

Major achievements in 2018:

- springs for the NAMI company's Cortege project were put into production
- certification testing began on springs for a new project to manufacture a high-speed flatcar for the transportation of containers at a speed of up to 160 km/h
- production was mastered with respect to springs for RPC Uralvagonzavod for a 25-tf bogie and a new continuous contact skid
- springs for the world's first T1 class shock-absorbing device springs made by NPP TRANSKUZMASH were put into commercial production
- a small line of automotive springs was launched for delivery to the Peugeot Citroen plant in Kaluga
- a contract was concluded for the supply of springs for locomotives made by LLP Electric Locomotives Assembly Factory Electrovoz Kurastyru Zauyty (Alstom) in Kazakhstan

In 2019, the enterprise plans to expand work in several areas:

- springs for railway freight cars:
 - ◆ obtain approval of springs for the Y-25 bogies at Deutsche Bahn and export products to European countries
 - ◆ start spring deliveries to RPC Uralvagonzavod
 - ◆ start commercial deliveries for the innovative T1 class shock-absorbing device
 - ◆ start commercial deliveries of springs for a new project to manufacture a high-speed flatcar to transport containers at a speed of up to 160 km/h
- springs for locomotives:
 - ◆ increase the share of commercial spring deliveries for locomotive manufacturers
 - ◆ start commercial spring deliveries to the plant of LLP Electric Locomotives Assembly Factory Electrovoz Kurastyru Zauyty (Alstom) in Kazakhstan and increase the share of deliveries to this company through a new project involving the certification of springs for passenger locomotives. Commercial deliveries will begin in the second half of 2020
- suspension springs for a Russian car conveyor:
 - ◆ start spring deliveries to the Peugeot Citroen assembly line in Kaluga
 - ◆ validate springs based on the designs of the Renault and AvtoVAZ concerns and secure a nomination for the commercial deliveries of these products in 2020
 - ◆ start spring deliveries to the automotive parts market

UWC production system

UWC enterprises have developed a Production System that aims to create a culture of continuous improvement. This is accomplished through unlocking employees' potential as a result of their involvement in the development process and eliminating actions that do not create value for the client (losses). Proven tools have been introduced within the framework of the Production System, such as the 5S and TPM systems, the Standardized Work Methodology for assessing staff load, Kaizen, A3 project, etc.

In 2018, 1,504 people were trained to use the tools of the Production System, including 1,110 workers and 394 managers and specialists. At present, the staff's workload is assessed using the Standardized Work Methodology, the TRM system is being introduced for limiting equipment, and the 5S system is being introduced at work stations.

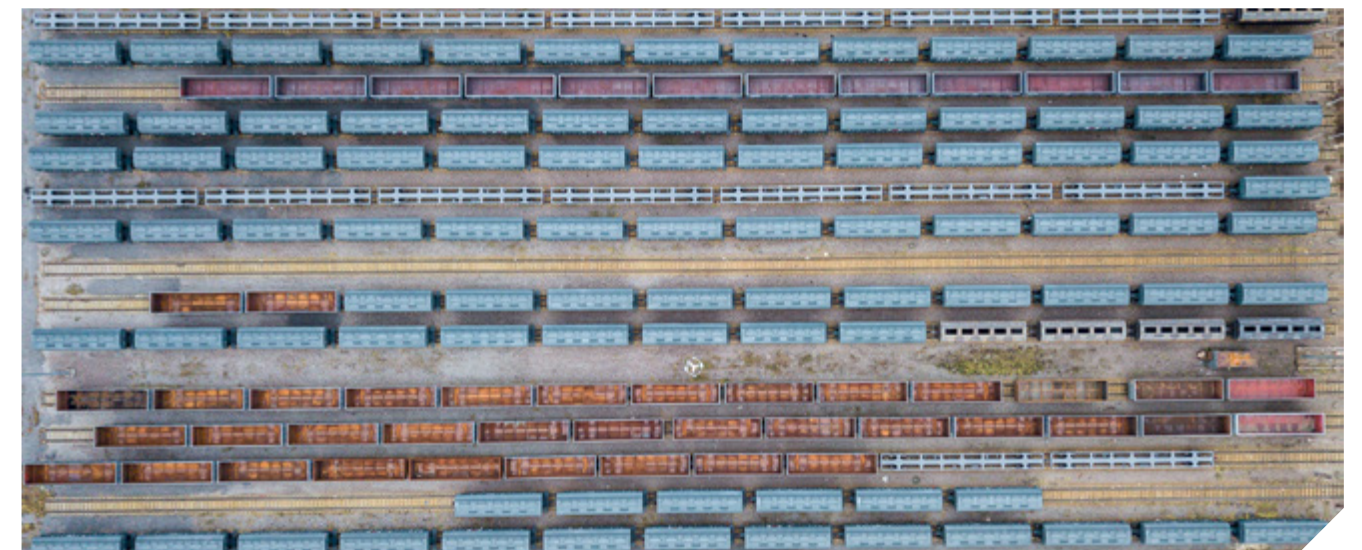
Improvements made in 2018:

- the daily capacity of the hopper production line was increased by 50%
- the daily capacity of the 80-foot flatcar production line was increased by 50%
- the daily throughput of Paint Line No. 1 was increased by 20%

In 2018, employees submitted 651 kaizen suggestions, of which 640 were implemented. Nine A3 projects were also submitted with six of the projects being implemented; the annual economic effect amounted to RUB 30 million.

In 2019, the Production System is to be further developed with the following measures:

- involving staff in the process of continuous improvements by not only training managers and specialists, but workers as well (the goal is to train 50% of employees)
- eliminating bottlenecks in the workshops of the Tikhvin Industrial Site
- extending the principles of the Production System to the warehouse complex and administrative units
- preparing a roadmap for the development of the Production System, including an assessment of the maturity level of the end-to-end value creation process at the enterprise
- evaluating the effectiveness of the enterprise's main processes using value stream maps
- developing the curriculum of the BMS School (business management system) and training managers and specialists on BMS issues and the process approach
- developing the Knowledge Management process in terms of consolidating best practices



Procurement activities

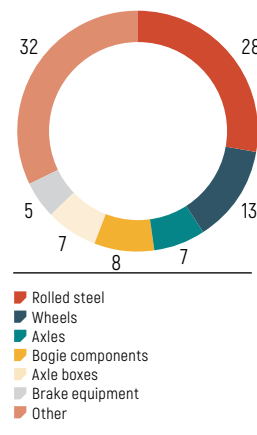
The UWC Procurement Policy is determined by the Company's Procurement Procedure Standard and Supply Policy.

Basic principles of procurement activities:

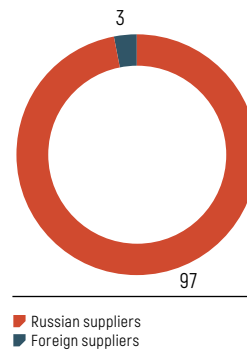
- the mandatory use of competitive procurement procedure methods (except for cases specified by the Procurement Procedure Standard)
- involving the maximum number of participants to ensure a high level of competition. According to the standard, there must be at least five participants; otherwise reasons must be given for the lack of minimum competition for each item procured
- there should be no restrictions on admission to participation in the procurement due to improper requirements for participants
- tenders must be held in several stages with mandatory rebidding
- equality, fairness, non-discrimination, and the unsubstantiated restriction of competition with respect to the participants
- transparency and informational openness of the procurements ensuring that risks are minimized for the procurement and a positive image of the customer is created
- ensuring targeted and cost-effective spending of funds on the purchase of products taking into account the cost of their life cycle

In 2018, the tender schedule was optimized by expanding the item groups in order to reduce the time spent on documenting and conducting the tender procedure and redistribute efforts to achieve the maximum effect from the procurement. Consequently, 155 tenders were held in 2018 (versus more than 450 a year earlier) without reducing the amount of items purchased through the bidding procedures. The total amount of procurements amounted to RUB 48.5 billion.

Structure of supplies by type of product procured, %



Structure of procurements by supplier origin in 2018, %



Ten biggest suppliers of UWC¹

Supplier	Products procured	Amount in 2018, RUB bln
PJSC Severstal	Rolled steel	8.2
JSC Vyksa Steel Works	Whole-rolled wheels	7.4
PJSC Uralkuz	Rough forged axles	5.7
LLC EvrazHolding TC	Rolled steel	3.2
CJSC SKF	Bearings (axle boxes)	1.4
LLC EPK Trading House	Bearings (axle boxes)	1.4
LLC SpetsVagonDetal	Components	1.3
JSC Transpnevmatika	Components (brakes)	1.2
PJSC Magnitogorsk Iron and Steel Works	Rolled steel	1.1
LLC Metallist	Components	1.1

Leading Russian and foreign companies are among the key product suppliers for UWC enterprises. Russian-made products account for a large share of procurements.

Quality management

UWC aspires to be a leader in the development of modern product requirements. The Company is continuously improving its quality management system to ensure that its products comply with safety, reliability, and operational comfort requirements.

The quality management system in effect in 2018 was actively developed and integrated with the specialized standards of the world's leading railway equipment manufacturers within the framework of international projects. The main results were as follows:

- The Company obtained Quality 2 status as an approved supplier of Deutsche Bahn. Q2 status confirms the existence of a highly organized quality management system and provides an opportunity to participate in tenders held by the largest European freight rail operator.
- The welding process quality management system was certified for compliance with the European standard EN 15085 "Welding of Railway Vehicles and Components." This makes it possible to produce critical welded products with consistently high quality in full compliance with current European standards. The certificate is a prerequisite to sign contracts for the supply of railway equipment to the European Union.
- The American Railways Association conducted an audit of the compliance of the quality system for the production of large car castings and springs. Fully certified production is a guarantee of product quality in accordance with the requirements of U.S. technical standards.
- The TSI (Technical Specifications for Interoperability) system certificate for the production of wheel pairs was extended along with a valid certificate of approval, which allows for the delivery of high-quality wheel pairs to European consumers.
- The TikhvinSpetsMash production facility was certified for compliance with the international certificate ISO/TS 22163:2017 "Business management system in the railway industry." The auditing company noted a stable trend of improvements in the enterprise's business processes, the introduction of risk-oriented measures, and proactive work with suppliers.

An organized system that monitors the quality indicators of incoming materials, components, and parts during input control has enabled the Company to quickly sort out priorities in terms of key, critical, and future suppliers. In 2018, UWC implemented an extensive supplier development program taking into account their objective impact on the Company's production processes.

An audit was conducted at 35 enterprises of the main suppliers to check the existing quality management system in terms of such basic processes as input control of raw materials, the start of production, product technological and design support, acceptance testing, discrepancy management, and corrective actions. During the audits, joint areas for improvements were identified and supply accountability modes were selected. A process audit of the product manufacturing process was conducted, technical specifications were clarified, and suppliers' input control process was adjusted where necessary.

Comprehensive evaluations of suppliers were compiled based on the audit results. This makes it possible to justifiably give priority for long-term procurements to reliable and approved partners and optimize input control modes. As a result, the number of remarks concerning the components procured decreased by more than 50%.

In 2019, the Company plans to improve collaboration with suppliers based on the tools of the international standard PPAP (Production Part Approval Process). The goal is to ensure compliance with technical requirements and guarantee the quality of the products procured.



OPERATING LEASE

UWC offers its partners a wide range of opportunities to obtain new generation railcars. In addition to direct sales, customers may use operating lease services.



RAIL 1520 Group

<http://www.rail1520.com/>

The group of leasing companies united under the RAIL 1520 brand is one of the largest on the Russian market. The group has one of the biggest fleets of railcars with enhanced performance features and is among the top ten Russian companies that specialize in rolling stock operating leases.

The fleet includes gondola cars, boxcars, and flatcars. RAIL 1520 customers include major operators and cargo owners, including Vostok 1520 (part of First Heavy Haul Company), Siberian Coal Energy Company, NefteTransService, UNICON 1520, RusVinyl, and SIBUR-Trans.

Results of 2018

A key event of last year was a financial leaseback transaction with JSC Gazprombank Leasing JSC (GPBL), under which the Company sold 11,100 railcars from its own fleet to GPBL, which were then transferred to UWC under a financial lease.



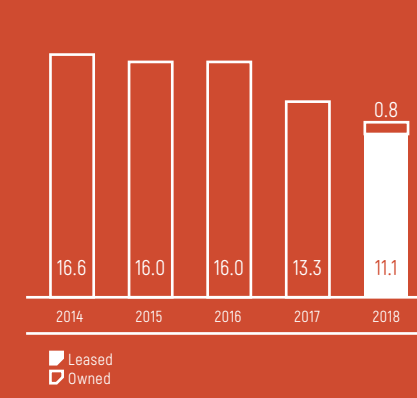
In 2018, the fleet of railcars under ownership and financial lease decreased by 10%. The following factors influenced this change:

- UWC sold 225 standard boxcars from its own fleet, 895 gondola cars on a 23.5-tf Barber bogie, and 503 standard oil and gas tank cars;
- leasing companies purchased 40 new flatcars to lease to UNICON 1520 as well as 337 gondola cars and 16 flatcars.

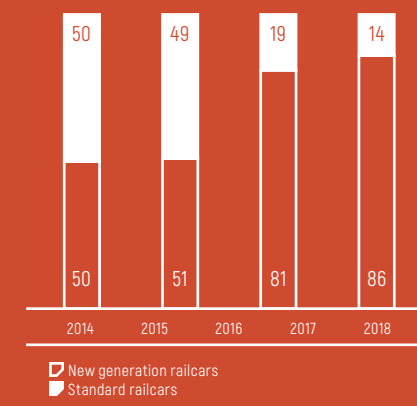
In addition, UWC and Mitsui decided in the second quarter of 2018 to fully replace the fleet of the MRC 1520 joint venture, which consists of 330 railcars, including both standard railcars and those on 23.5-tf Barber bogies, with 254 new gondola cars on 25-tf bogies produced by TVSZ. The old railcars were sold to a third-party client.

As a result of the transactions to sell railcars on 23.5-tf bogies, their share in the fleet decreased to 14%. In addition, thanks to the sale of the railcars from the old fleet, the average age of UWC railcars increased only slightly compared with last year – to 3.6 years. This is still one of the best indicators on the market.

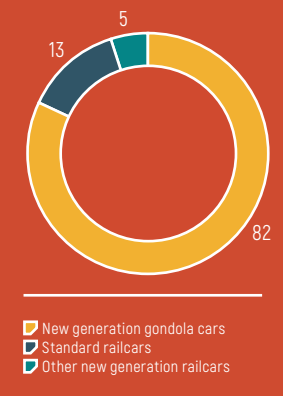
Changes in the fleet under ownership and financial lease, thousand units



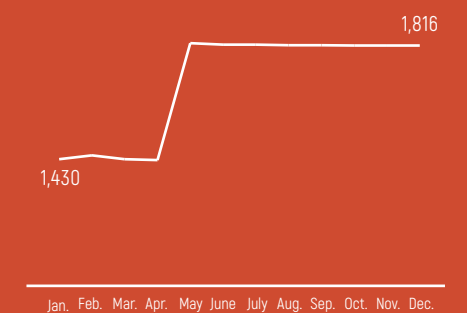
Changes in the fleet structure by railcar type, %



Structure of the fleet (under ownership and financial lease) by railcar type as of December 31, 2018, %



Average rental rate of UWC-produced new generation gondola car in 2018, RUB/day



The average rental rate of new generation gondola cars owned by UWC increased by 26% over the course of the year and stood at RUB 1,816 per day as of December 31, 2018. The gradual increase in the rate of return of the railcars is consistent with market trends. In addition, the UWC rate increases with a delay versus the spot rate since the rental price is set by contracts and changes according to a set schedule.

Plans for 2019

In 2019, UWC will continue to focus on direct sales of railcars to customers since the expected rate of return on railcars make them economically viable for purchasing rolling stock. At the same time, the Company plans to increase the fleet by acquiring railcars through financial leaseback. Rental rates will vary depending on market conditions.



OPERATION

The universal container company UNICON 1520, which was established in 2017, specializes in arranging transport services and multimodal bulk cargo logistics.



UNICON 1520

<http://www.unicon1520.com/>


The company's fleet consists of well cars with high carrying capacity and tank containers that transport chemicals, petrochemicals, and liquefied petroleum gas. UNICON 1520 operates in all regions of the Russian market and also exports cargo [to countries of the CIS, the Baltic states, Eastern Europe, Southeast Asia, and the Middle East].

Its clients include some of Russia's leading chemical enterprises such as PhosAgro, URALCHEM, KuibyshevAzot, SIBUR, EuroChem, JSC «Azot» (Kemerovo), and RusVinyl, among others. UNICON 1520 had a 5% share of the Russian market for tank container transportation in 2018.

As of the end of 2018, the UNICON 1520 fleet included:

 **1,098**
tank containers

 **585**
flatcars

 **78**
chemical tank cars



Results of 2018

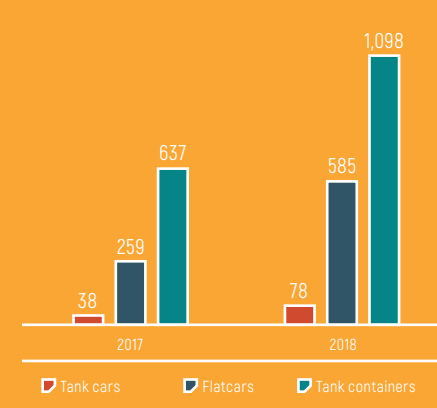
UNICON 1520 almost doubled the size of its railcar fleet in 2018. It expanded its tank container fleet by 72%, flatcar fleet by 126%, and tank car fleet by 105%.

The company transported 305,100 tons of chemical freight in 2018 (mostly sodium hydroxide, sulfuric acid, oleum, glycol, coal tar, and lignosulfonates), an almost seven-fold increase versus 2017 (46 tons). This uptick is partly due to the low base effect since UNICON 1520 was only founded in April 2017. But the company's clientele also increased significantly in 2018, with the conclusion of 11 new contracts over the course of the year.

Railcar turnaround increased by 12% in 2018 compared with the previous year, edging up to 28 days. This can be attributed to a new contract with JSC Sayanskkhimplast for the shipment of 120–140 tank containers per month and a turnaround of more than 35 days. The tank container railcar static load decreased by 0.5 tons in 2018 since the company transported more low-density freight (urea-ammonia mixture and compound liquid fertilizers).

One of the significant accomplishments of 2018 was the organization of a processing route to transport oleum from the Malaya Andreyevka station of the Moscow Railway to the Khimzavodskaya station of the Kuybyshev Railway. The train travels more than 500 km and passes through numerous in-line network stations and shunting yards without processing. As a result, the travel time was reduced from six to two days.

Changes in the UNICON 1520 railcar fleet in 2017 and 2018, units



Key transactions of the year:

- the company won a tender to transport oleum to PJSC KuybyshevAzot for two years
- the company won a tender to organize the transportation of caustic soda to LLC RusVinyl LLC for three years (read more below)
- the company signed agreements with JSC Karabashmed, JSC NAC Azot (EuroChem group), JSC Nevinomyssky Azot (EuroChem group), and Tolyatti Terminal
- the company continued cooperation with JSC Sayanskkhimplast, LLC URALCHEM-TRANS, SIBUR Holding, and JSC PhosAgro-Trans

Plans for 2019

The cargo base for tank containers on the Russian market is expected to grow by 15–18% in 2019. In addition, large numbers of tank cars for chemical freight are to be decommissioned in the coming years, which will create an additional incentive for the containerization of the cargo base.

With this in mind, UNICON 1520 plans to expand its tank container fleet to 1,500 units in 2019. In addition, the company's plans for this year include the purchase of well cars and developing swap body transportation. The key objective for 2019 will be to double the customer portfolio and expand the range of goods the company transports (in addition to its existing freight, the company plans to start transporting styrene, isopropenyl benzene, resins, coiled steel, and monocycle).

Sale of stake in First Heavy Haul Company

In April 2018, UWC announced the sale of a 19.9% stake in JSC PTK-Holding (hereinafter First Heavy Haul Company or PTK) to LLC PromInvestWagon (part of the Industrial Investors Group) for RUB 1.773 billion. Industrial Investors consolidated 100% of PTK as a result of the transaction.

UWC had purchased the stake in PTK in March 2017 from the Industrial Investors Group as compensation for the sale of a 100% stake in Vostok 1520. The cost of the stake was estimated at RUB 1.285 billion for the purposes of the transaction.

Over the period during which UWC was a shareholder in PTK, the latter bolstered its status as a major owner and effective operator of high-capacity railcars, expanded its clientele, and developed transportation technologies. Now the UWC group has withdrawn from the asset on favorable terms, having sold its stake at a premium of 38% to the purchase price.



SERVICE

Given the expansion in the fleet with increased carrying capacity, manufacturers have a special responsibility to provide maintenance for these railcars throughout their life cycle. UWC is committed to providing a high level of service and maintenance for all railcar users and is actively developing a network of service centers for this purpose.



TAP Titran-Express

<http://www.titran.ru/>

The main UWC service center is JSC Tikhvin Assembly Plant Titran-Express (TAP Titran-Express), which is a Category 1 service center and is capable of carrying out all types of railcar repairs. The plant's design capacity ensures the repair and modernization of more than 3,500 freight cars per year.

TAP Titran-Express serves as a base for experimental repairs on the entire range of new generation freight cars manufactured at the Holding's enterprises. The enterprise's management system is certified to comply with the requirements of the international railway industry standard IRIS.

The UWC service system offers all-inclusive services. This includes comprehensive training for railcar repair enterprises to provide technical maintenance, routine, depot, and overhaul services. The key objectives of the maintenance service are to:

- ➔ reduce railcar downtime during repairs
- ➔ reduce the life cycle cost of rolling stock
- ➔ minimize the risks of using counterfeit products and components



In order to provide comprehensive maintenance, the Holding closely cooperates with customers, infrastructure owners as well as railcar repair and maintenance depots in the Russian Federation, Kazakhstan, Belarus, Latvia, Lithuania, and Estonia as it builds a partner network of service centers. Service centers are based at railcar repair depots.

Enterprises with service centers

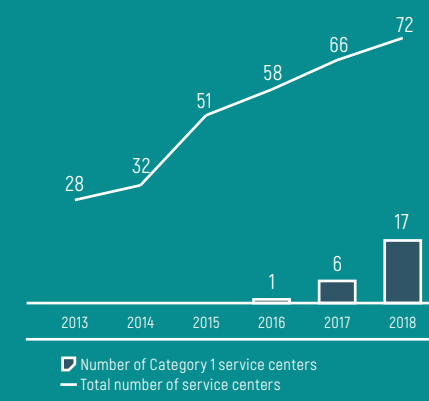
- ➔ Russia
 - ◆ Railcar Repair Company-1
 - ◆ Railcar Repair Company-2
 - ◆ Railcar Repair Company-3
 - ◆ Zheleznogorsk WRC
 - ◆ Novotrans
 - ◆ URALCHEM-TRANS
 - ◆ TVM
 - ◆ Balahontsy Railcar Depot
 - ◆ Metafrax
 - ◆ UWRC
 - ◆ SWRC
 - ◆ Cheremkhovo WRC
 - ◆ Magdagachi WRC
 - ◆ Khilok WRC
 - ◆ Transasia Holding
 - ◆ Central Infrastructure Department – Russian Railways branch office.
- ➔ Kazakhstan
 - ◆ LLP Kamkor Vagon
- ➔ Belarus
 - ◆ Belarus Railways State Association
 - ◆ Saturn-1
- ➔ Latvia
 - ◆ LDZ ritosa sastava serviss
 - ◆ Latvijas dzelzceļs
- ➔ Lithuania
 - ◆ Lietuvos geležinkeliai
- ➔ Estonia
 - ◆ Valga Depoo

Results of 2018

Six new service centers were opened in 2018, bringing their total number to 72.

UWC and its partners are preparing repair facilities and staff to perform all types of repairs for its freight cars. The number of Category 1 service centers capable of performing all types of repairs increased to 17 in 2018.

Changes in the number of UWC service centers



Map of Category 1 UWC service centers (all types of freight car repair)



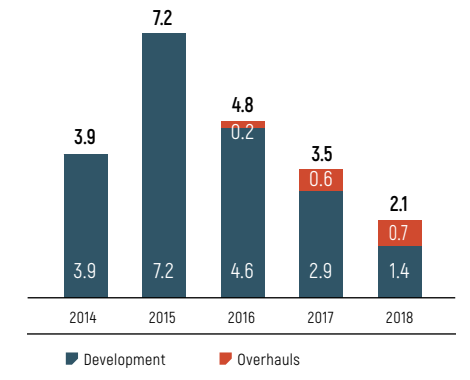
Watch map
https://www.uniwagon.com/business/service_maintenance/

INVESTMENT ACTIVITIES

UWC's investment activities are consistent with the strategic plans based on approved investment programs. The Company applies a project-based approach to investment management and provides financing individually for each project.

Changes and structure of capital expenditures, RUB bln

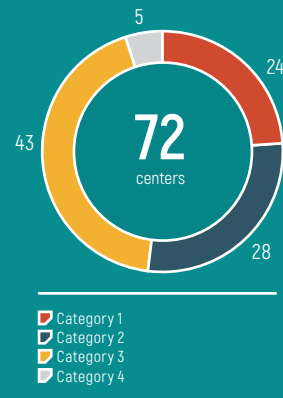
Key processes and functions are specified in the Regulation on Investment Activities. Investment activities are managed by UWC's Investment Committee, which is chaired by the CEO and comprised of Deputy CEOs and persons appointed by the CEO. The Investment Committee adopts resolutions on the launch of investment projects, approves their key indicators and the financing structure, appoints project managers, and adopts resolutions on the termination or suspension of a project.



In 2014–2017, UWC invested a total of RUB 21.5 billion. The Company's investment expenditures decreased by 39% in 2018 compared with 2017 to RUB 2.1 billion. This decrease in investment can be attributed to lower development costs since the investment phase for most of the planned investment projects has run its course. Overhauls accounted for 30% of the expenditures. In 2019, the Company plans to make final payments on investment projects and in the future will only have expenditures on overhauls.

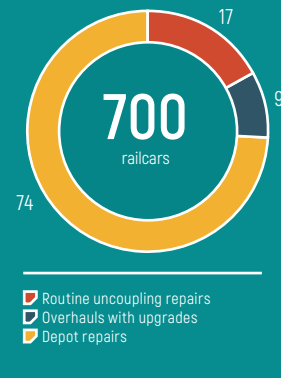


Structure of service center network by category as of the end of 2018, 1%

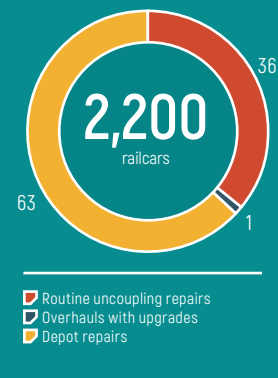


Structure of repairs performed by TAP Titran-Express in 2018, %

Repairs of UWC-owned railcars



Repairs of third party railcars



In 2018, the number of repairs performed by TAP Titran-Express increased by 81% compared with the previous year to 2,900 railcars, of which:

- 66% were depot repairs;
- 32% were routine uncoupling repairs;
- 2% were overhauls.

About 75% of repairs were conducted for external customers, while 25% were performed for UWC leasing companies.

The Company's partner service centers performed six times more routine uncoupling repairs of UWC railcars in 2018 compared with the previous year (28,600 versus 4,700 in 2017) and twice as many depot repairs (2,300 versus 961). This change is due to the increased age and number of UWC cars on the network.

Operating experience shows that railcars manufactured by UWC are cheaper to operate and require fewer repairs than standard railcars. A standard railcar undergoes an average of six scheduled repairs and 12 standard coupling repairs per 1 million km of operation, while for a UWC railcar these figures amount to 1 and 5, respectively. Keeping a standard railcar in operational order requires approximately RUB 1.8 million per 1 million km of operation, while a UWC gondola car requires roughly RUB 880,000 (50% less).

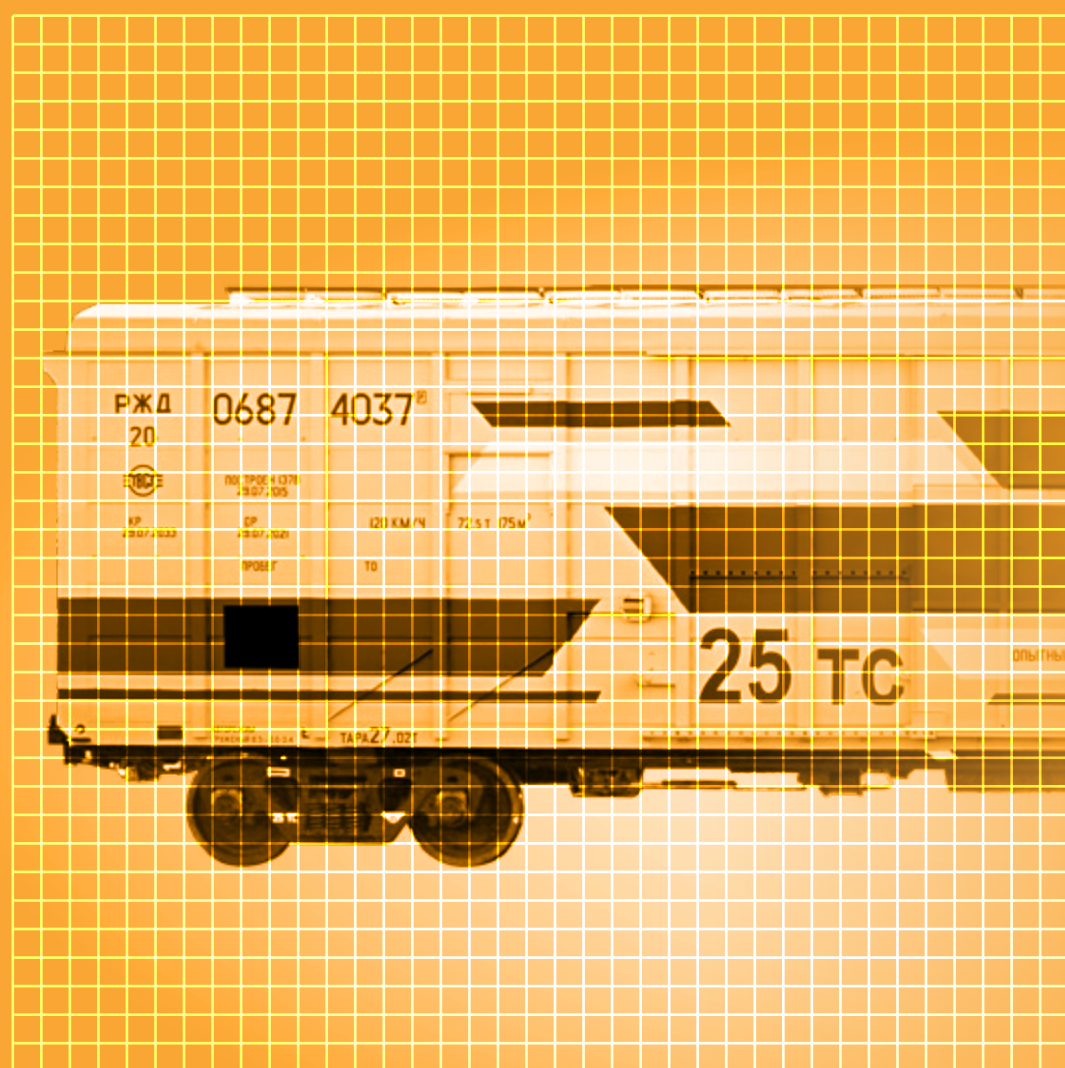
Plans for 2019

As part of its efforts to develop after-sales service for new generation freight cars, UWC pays special attention to increasing the number of Category 1 service centers within the partner network in order to support the operation of freight cars throughout their entire life cycle. In 2019, the Company plans to continue expanding the number of Category 1 service centers, both by increasing the category rating of existing service centers and by including new railcar repair enterprises in the partner network.

Category 1 – scheduled repairs (depot, overhaul), routine uncoupling repairs, and the storage and repair of spare parts.
 Category 2 – routine uncoupling repairs and the storage and repair of spare parts.
 Category 3 – routine uncoupling repairs and the storage of spare parts.
 Category 4 – storage of spare parts.

GROWTH TRACKS

Boxcar



FINANCIAL REPORT

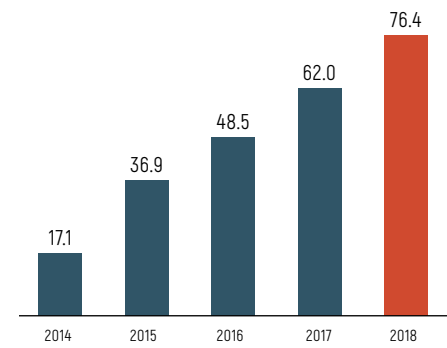


- 66 Revenue
- 67 EBITDA
- 68 Net Profit/Losses
- 69 Debt



REVENUE

Changes in consolidated revenue, RUB bln



Structure of consolidated revenue, RUB bln

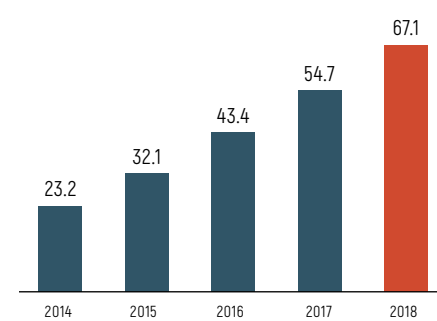
Indicator	2014	2015	2016	2017	2018	Change 2018/2017, %
Sale of railcars	12.2	32.3	42.9	55.1	64.8	+18
Provision of operating lease services	3.5	4.4	5.2	6.1	6.7	+10
Sale of castings and components	0.0	0.0	0.1	0.3	3.4	+1,033
Provision of rail transportation services	1.2	0.0	0.0	0.1	0.7	+600
Other revenue	0.2	0.2	0.3	0.4	0.9	+125

The Company increased consolidated revenue by 23% to RUB 76.4 billion in 2018 due to:

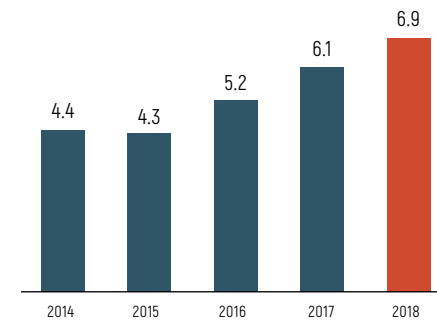
- growth in railcar sales to external customers and railcar selling prices
- growth in railcar rental rates
- growth in sales of castings and components. Revenue from these operations increased by more than ten-fold primarily on account of the increased supply of castings to the U.S. by Wabtec Corporation and the supply of wheel sets to users of UWC railcars
- growth in the bulk cargo rail transportation segment, in which revenue increased by seven-fold to RUB 678 million

Revenue by segment^m, RUB bln

Production segment

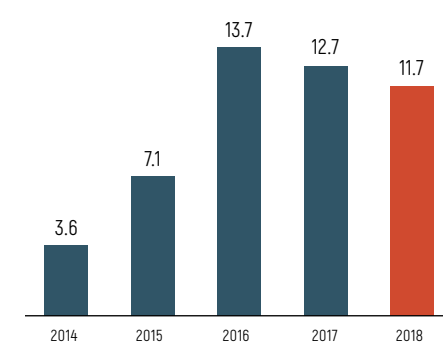


Rent segment

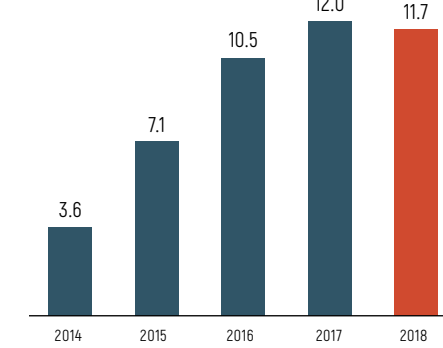


EBITDA

Changes in consolidated EBITDA, RUB bln



Changes in consolidated EBITDA excluding subsidies,¹ RUB bln

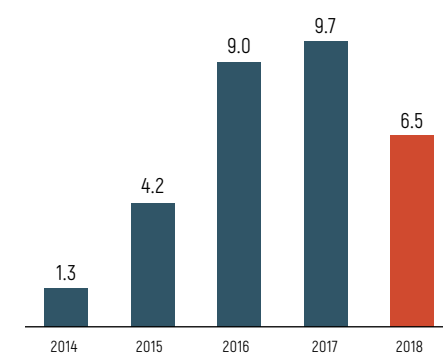


EBITDA declined by 8% in the reporting year compared with 2017, or by 2% excluding subsidies.

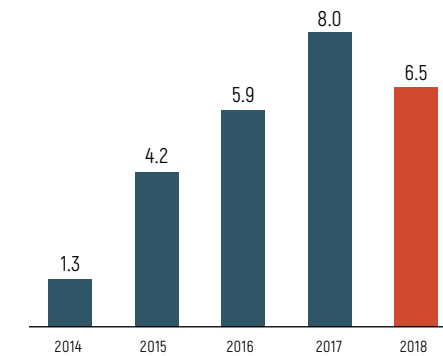
The decrease in the adjusted figure can be attributed to:

- growth in production costs, primarily due to an increase in metal prices
- an increase in labor costs, including as a result of the payment of additional remuneration to key executives

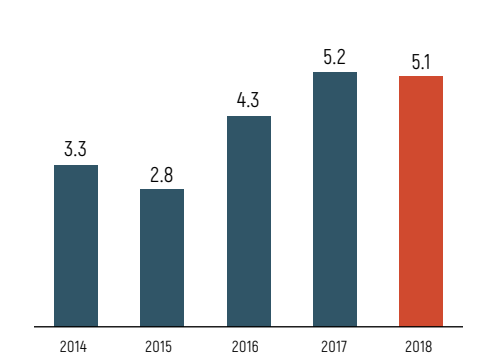
EBITDA of the Production segment, RUB bln



EBITDA of the Production segment excluding subsidies, RUB bln



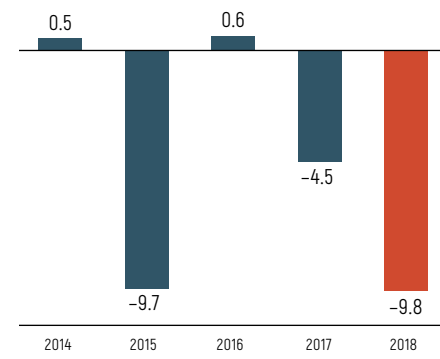
EBITDA of the Rent segment, RUB bln



¹ The results of previous years are adjusted for the amount of subsidies in order to provide a better analysis of the changes in EBITDA. In 2017, the Company reduced EBITDA by RUB 692 mln due to subsidies received for the production of new generation railcars. In 2018, UWC did not receive any funds as part of state programs to support the industry.

NET PROFIT/ LOSSES

Changes in net profit/losses, RUB bln



UWC saw its net losses expand by 120% in 2018 compared with 2017. In addition to increased production and labor costs, the increase in losses resulted from:

- the impairment of long-term non-financial assets in the amount of RUB 1.6 billion;
- an increase in financial expenses due to the creation of provisions for loans issued to companies belonging to ICT Group Ltd. in the amount of RUB 1.8 billion. The quality of the collateral provided for these loans deteriorated significantly after ICT Group Ltd. sold its stake in UWC, so the Company created provisions for the loan amount.



DEBT

As of the end of 2018, the Group's total debt, taking into account financial lease obligations, amounted to RUB 120.5 billion (+7% compared with 2017). This growth was due to the conclusion of a financial leaseback transaction for 10,000 railcars with PJSC State Transport Leasing Company with a total value of RUB 32 billion (excluding VAT). Under the terms of the agreement, the Group will be provided with advances for the subsequent production of railcars.

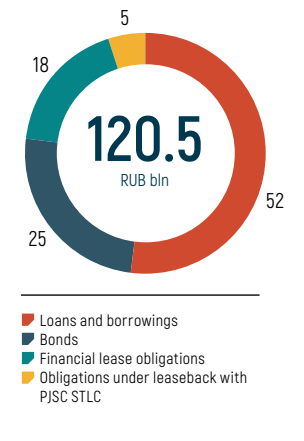
An advance of RUB 7.5 billion was issued in August 2018. Since the Group only takes on the lease obligation after the delivery of the first batch of railcars and their leaseback in accordance with the set schedule, as of December 31, 2018, the Group reflected the advance payment it received in accordance with IFRS 9 in the form of a financial obligation accounted for at amortized cost using effective interest rates that determine future lease payments in accordance with the lease agreement.

In addition, UWC sold Gazprombank Leasing 11,100 railcars from its own fleet for financial leaseback in 2018. The Company spent the proceeds it received on fully repaying RUB 19 billion in debt to Alfa Bank. The financial lease has a lower interest rate than a refinanced loan. This had a positive effect on the Group's expenditures on servicing its debt portfolio.

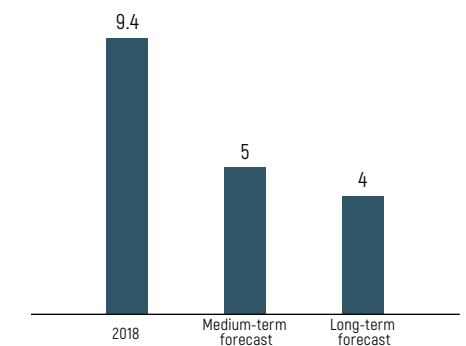
In March 2019, UWC and Otkritie FC Bank carried out the first stage of loan portfolio restructuring, which involves modifying the terms of loans for a total of RUB 39 billion.¹ According to the additional agreements to the loan agreements, the loan rate has been decreased to 9.55%, and the deadline for the upcoming payments on the debt and interest has been pushed back until the end of June 2019. The Company plans to carry out the second stage of restructuring in 2018, which will result in changes to the loan payment deadlines and the prolongation of bonds.

The Group had net debt of RUB 109.6 billion as of the end of 2018 (+0.5% compared with 2017).

Structure of total debt as of December 31, 2018, %



Forecast for the decrease in Net Debt/EBITDA ratio



¹ Outstanding balance as of February 28, 2019.

GROWTH TRACKS

Gondola car



CORPORATE SOCIAL RESPONSIBILITY

A stable and efficient business is predicated on the idea of sustainable development based on the adoption of informed decisions on economic and social matters, environmental protection, and the safety of manufacturing and products.

- 72 HR Management
- 77 Industrial and Occupational Safety
- 79 Environmental Protection
- 82 Developing Regions of Operation





HR MANAGEMENT

Employees are the main value and the key component of success and sustainability for UWC. The Company's main objectives in human resources management are attracting, retaining, and motivating highly qualified specialists and ensuring they have a decent standard of living and good health.

The HR Management Policy was developed taking into account the Company's strategic goals and aims to enhance its competitiveness by effectively utilizing the professional potential of its employees. The HR Management Policy is based on the following five principles:

- the active involvement of staff in achieving strategic goals;
- creating an environment for professional and career growth;
- continuous improvements and unlocking potential;
- a balance of authority and responsibility;
- the effectiveness of financial and non-financial incentives.

UWC's labor relations with its employees are consistent with Russian legislation and the standards of business ethics. The Company prohibits discrimination on the basis of nationality, gender, age, beliefs, or any other grounds when hiring and managing its staff. When hiring employees, the Company only evaluates the candidates' skills and whether they match the particular vacancy. Uniform objective criteria are used to assess work productivity as part of the specific job description.

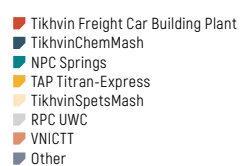
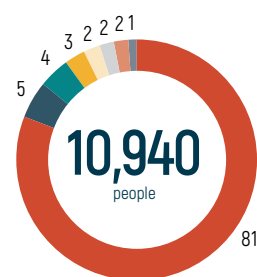
The Company recognizes employees' legal right to form public unions to protect their rights and interests. Tikhvin Freight Car Building Plant has a primary trade union organization at the enterprises of the Tikhvin Industrial Site, which is a part of the Russian Professional Union of Industry Workers and unites almost 2,000 employees from TVSZ, TikhvinChemMash,

TAP Titran-Express, Transmashenergo, and SZIPK.¹ At NPC Springs, a special commission on social partnership partially performs the functions of a trade union organization.

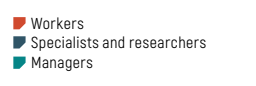
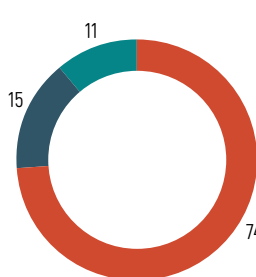
Headcount and structure

As of the end of 2018, the Group had a total staff of 10,900 employees, a 3% increase compared with 2017. The average headcount was 10,300 employees, up 1% from the previous year. Most of the employees are employed at enterprises of the Tikhvin Industrial Site.

Headcount by enterprise as of December 31, 2018, %



Staff structure by category as of December 31, 2018, %



Workers make up the bulk of the Group's staff with almost 8,000 people.

Most of the Group's employees are men (69%), which is typical for Russian industrial enterprises. The proportion of male and female employees is roughly equal at enterprises that do not require physical labor (PJSC RPC UWC and VNICTT).

The average age of UWC employees is approximately 37. This indicator fluctuates from 31 to 44 at the Group's enterprises. The average age of managers is slightly higher at 41 and ranges from 35 to 49.

More than a quarter of the Company's employees have a higher education, while another 50% have a specialized secondary or basic vocational education. A rather high percentage of employees with a secondary education (a quarter of the headcount) is typical for industrial companies. TVSZ accounts for 82% of employees with a secondary education.

The Group had staff turnover of 23% in 2018, down slightly compared with 2017 (24%). Staff turnover is partially offset by the high proportion of newly hired personnel, which stood at 27% last year. Nevertheless, the Company takes measures to retain staff and enhance their engagement, such as:

- increasing salary for the main working professions
- expanding social support programs
- conducting regular job satisfaction surveys
- creating focus groups from among employees to discuss improvements in production

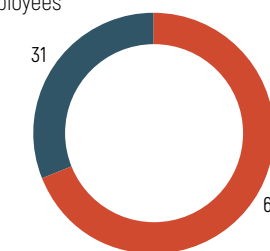
UWC strives to attract highly qualified personnel to its enterprises regardless of their place of residence. The Company has created a unified database of candidates and holds job fairs both in cities where it operates and in other regions. In addition, it uses specialized websites, social media, contextual advertising in search engines, and advertising in print media, radio, and television to attract employees. TVSZ has a hotline whose employees answer questions around the clock from applicants from all regions and time zones of Russia regarding employment and social and housing policies at the Company.

In 2019, TVSZ started implementing a project for the adaptation of new employees, including employees from other regions. For the convenience of both current and potential employees, the Industrial Site has a multifunctional center (MFC), where visitors can fill out job applications, sign the necessary HR documents, and obtain work-related certificates. Up to 500 people visit the MFC per day on average. The adaptation program also includes weekly get-to-know-you meetings for newly hired employees during which plant specialists tell new employees about the enterprise, occupational and industrial safety rules, the social package, and the incentive program.

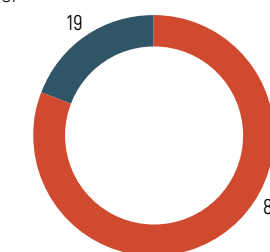
The Company's enterprises also collaborate with universities: they take part in conferences, organize internships for students from specialized universities, and hire their graduates. For example, TVSZ cooperates with Peter the Great St. Petersburg Polytechnic University, St. Petersburg State University of Telecommunications, and St. Petersburg State University of Civil Aviation. It also has an agreement on the targeted training of graduates with Lebedev Tikhvin Industrial Technological Technical School.

Gender of UWC employees as of December 31, 2018, %

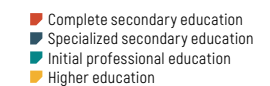
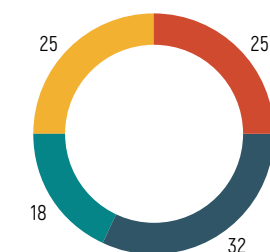
All employees



Manager



Staff structure by education as of December 31, 2018, %



¹ JSC Northwest Investment and Industrial Company.

Staff training and development

UWC offers continuous training and development that encompasses all levels and categories of its staff. The Company's priorities are to ensure its employees have opportunities for professional growth and career development, to expand their skills and abilities, and to accumulate and pass on the knowledge they acquire.

The Company provides three types of staff training:

- mandatory training (on occupational, fire, and industrial safety)
- professional training for workers (including training, retraining, and advanced training in their profession)
- specialized seminars and training sessions (development of functional skills in certain areas). For example, a course on patent attorneys and special aspects of international standardization and certification was included in the basic training programs at VNICTT in 2018

Staff training is conducted using both the Group's internal resources as well as with the involvement of third-party educational organizations. In 2018, expenditures on staff training, including living allowances and compensation, amounted to RUB 65 million.

The average number of training hours per employee is 190–220 hours per year at the enterprises of the Tikhvin Industrial Site. This is attributable to the fact that these enterprises have numerous standard training programs on production processes, including three-month training sessions for employees upon being hired. At other UWC enterprises, employees may have fewer hours of training, but the costs are substantially higher since these are highly specialized disciplines.

¹ A total of 6,750 people were trained with average expenditures amounting to RUB 9,100 per employee.

Training at Tikhvin enterprises

Indicator	2014	2015	2016	2017	2018
Number of courses per year, thousand	8.6	11.4	11.6	13.0	13.2 ¹
Average training expenditures per employee, RUB thousand	2.9	4.7	8.2	5.2	4.6

Training at other enterprises in 2018

Indicator	VNICTT	NPC Springs	UNICON 1520
Number of employees trained per year, thousand	69	272	31
Average training expenditures per employee, RUB thousand	5.3	2.4	0.9

The Company's development and the expansion of its product line and sales geography require constant updating of training programs and improvements to employees' skills. For example, TVSZ welders were certified by the National Welding Inspection Agency on the international welding standard for railcar production based on the request of Deutsche Bahn.

Employees continue to be trained on how to use the tools of the UWC Production System (for more, see the "Business Overview" section). In 2019, the Company not only plans to involve managers and specialists in the process of continuous improvements, but workers as well (the goal is to train 50% of employees).

In addition, UWC conducts training at its Foreman School, whose program includes the knowledge and skills that each foreman needs: how to organize the production system, work in the ERP system and the business management system, occupational safety, economics and accounting, and working with staff, among other things. Thirty-two people graduated from the Foreman School in 2018.

UWC creates conditions for the professional growth and education of its employees. Workers who obtain higher or specialized secondary education are granted leave for further training. A cooperation agreement was signed with the St. Petersburg Polytechnic University under which employees of the Tikhvin Industrial Site can remotely obtain a higher education in specialized areas.

The Company also supports staff members who are committed to obtaining a degree. VNICTT employees who are graduate students are given the opportunity for a flexible work schedule as well as the necessary advisory support from experienced workers.

Remuneration and incentives for staff

UWC has a unified Remuneration Policy that sets out the principles of the remuneration system, the types of material and other payments, and the procedure for making them.

Material remuneration for staff consists of fixed and variable components. The fixed component includes salary and various additional payments stipulated by the Labor Code of the Russian Federation. The variable component consists of commercial incentives and bonuses that depend on the degree to which key performance indicators are fulfilled over a reporting period.

As part of an integrated program to increase the Company's revenue, UWC started increasing employee salaries at its railcar building enterprises – TVSZ, TikhvinSpetsMash, and TikhvinChemMash – in November 2018. This process primarily impacted employees in the most high-demand professions: electric and gas welders, metalworkers who assemble metal structures and perform mechanical assembly work, crane operators, molders, core makers, painters, and operators of paint lines, automated lines, machine tools, and installations.

As a result of the planned increase and indexation, the average salary at UWC enterprises increased by 11% in 2018 compared with 2017 and amounted to RUB 55,300 per month. This is almost 30% higher than the average wage in the Leningrad Region in 2018 (RUB 42,600 per month²).

Additional types of incentives are being introduced in order to motivate employees. In particular, employees at the Tikhvin Industrial Site receive remuneration for kaizen and A3 suggestions (for more, see the "Business Overview" section above). The amount of remuneration depends on the economic effect that is achieved. In 2018, total bonuses of RUB 502,000 and RUB 600,000 were paid to employees who made kaizen and A3 suggestions, respectively.

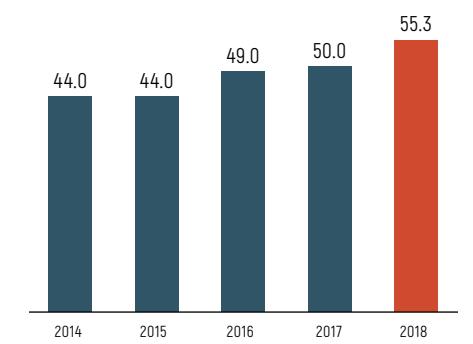
Social policy

UWC offers its employees the full range of social guarantees required by the laws of the Russian Federation. In addition, the Company provides its employees with additional benefits and compensation, including payment for meals, mobile communications, voluntary health insurance and free regular medical check-ups, additional paid leave, compensation for children's vacations at country camps, travel to and from work, and other benefits. The social benefits package will be further expanded in the future.

All the Group's companies are carrying out a comprehensive housing program. In Tikhvin, nine buildings with more than 2,000 apartments have been built for Industrial Site workers. In addition, these employees can take advantage of programs that finance mortgage downpayments and reimburse a portion of mortgage interest payments. Employees who are invited from other regions of Russia can utilize a program that offers preferential apartment rentals with their subsequent purchase.

At present, 1,023 employees take part in the housing program at the Tikhvin Industrial Site, including 181 people who joined the program in 2018. A total of 954 employees receive compensation for mortgage loans, including 168 people starting in 2018.

Changes in average salary at UWC enterprises,³ RUB thousand per month



² Source: "Analytical note for January–November 2018" of the Federation of Trade Unions of St. Petersburg and the Leningrad Region.

³ Excluding part-time workers.



INDUSTRIAL AND OCCUPATIONAL SAFETY

Caring for the health and safety of employees is UWC's top priority. The Company is responsible to its employees and is committed to ensuring high standards of industrial and occupational safety in full compliance with the laws of the Russian Federation and the best international practices.

Core principles for ensuring industrial and occupational safety at UWC:

- ➔ measures to prevent occupational injuries and disease
- ➔ preventing bodily injury during all stages of production activities
- ➔ compliance with applicable international and national standards and other requirements for occupational, industrial, and fire safety

UWC's occupational safety management system (OSMS) consists of a set of interrelated components (policy, organization, planning, application, and evaluation) as well as procedures that aim to continuously improve occupational safety at the Company and promote employees' activities with respect to occupational safety issues. The OSMS regulates the unified procedure for the preparation, adoption, and implementation of organizational, technical, sanitary, hygienic, therapeutic, and preventive measures that aim to ensure safe and healthy working conditions for the Company's employees.

The OSMS functions by complying with state regulatory occupational safety requirements taking into account the specifics of activities, achievements in modern science, best practices, the obligations assumed by the Company, international, interstate, and national standards as well as the guidelines and recommendations of the International Labour Organization. On the basis of the OSMS, the Company has developed standards and a procedure to monitor occupational safety requirements, regulatory documents (regulations, instructions, and technological processes) as well as organizational and administrative documents.

The main risks to employee health are concentrated at the Company's four largest production sites: TVSZ, TikhvinChemMash, TikhvinSpetsMash, and NPC Springs. TVSZ is certified for compliance with the international rail industry standard IRIS, which also includes the requirements of the international standard for occupational health and safety management systems OHSAS 18001:2007. Similar certifications are planned at other enterprises of the Tikhvin Industrial Site. NPC Springs is working on the certification of the occupational health and safety management system for compliance with the requirements of OHSAS 18001:2007.

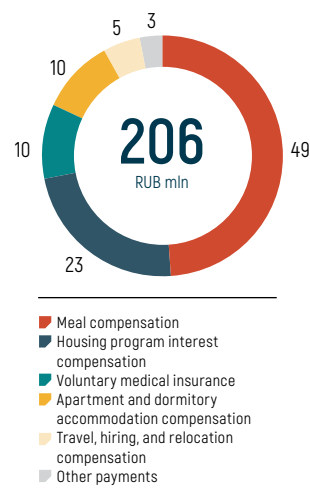
As part of the unified Occupational, Industry, and Fire Safety Policy, the Holding's enterprises conduct regular monitoring of working conditions and work organization as well as the technical condition of equipment. In accordance with the requirements of Federal Law No. 426-FZ "On the Special Assessment of Working Conditions" dated December 28, 2013, UWC enterprises publish summary data on the results of the special assessment of working conditions on their official websites.

All hazardous production facilities are insured under a liability risk insurance contract for injury during operation. Plans have been developed to contain and eliminate the consequences of accidents at hazardous production facilities located on the territory of the Industrial Site.

The Group has developed regulations on the investigation and documentation of accidents and the procedure for investigating minor injuries (which did not result in an employee's temporary disability) and hazardous events. The circumstances and causes of accidents are communicated to employees in all production departments. After each accident, the Company conducts thorough verifications on compliance with occupational safety requirements, internal safety audits of production processes, and extraordinary audits of employees' knowledge of occupational safety requirements.

Thanks to the consistent measures to introduce safety requirements, UWC enterprises did not record a single fatal accident in 2018. The LTIFR injury rate was significantly reduced at most enterprises.

Structure of social expenditures in 2018 by type, %



The Company devotes considerable attention to and supports sports and a healthy lifestyle. The Tikhvin Industrial Site has a gym that offers free classes for all employees from the Industrial Site's enterprises who have joined the gym. Factory workers who are members of the gym have successfully competed at national and international competitions. Four members of the gym set records at the "Russian North" national tournament in late 2018.

The Tikhvin Industrial Site holds sports competitions each year. In 2018, they were held in a championship format for the first time. A volleyball competition in which 150 people took part was held over the course of two months. A mini-football championship in which more than 200 people participated was held from May until the end of August. In addition, members of the factory trade union hold tourism and sports meetings twice a year. In 2018, a team from the factory with 33 athletes represented UWC at the 12th Festival of Physical Culture and Sport of Production Staff Members of the Leningrad Region.

The Group spent a total of RUB 206 million on all aspects of social support to its staff in 2018.





ENVIRONMENTAL PROTECTION

Environmental protection is a fundamental principle in UWC's activities. The Company is constantly looking for advanced technologies and technical solutions to reduce the negative impact on the environment.

The Company's environmental management system is based on the Environmental Protection Management System that was developed in compliance with the requirements of the GOST R ISO 14001:2016 standard. The provisions of the system apply to all production processes and all structural units and are also communicated to the staff of counterparties. The system involves an assessment of risks associated with production followed by the planning of measures to minimize them and the compilation of a register of significant environmental aspects. Each year an environmental protection action is developed based on this register and the results of the action are analyzed on a quarterly basis.

The Company constantly makes improvements to its Environmental Management System. In particular, it developed and approved a new approach to selective waste collection in 2018, including a centralized storage site for hazard class III waste (liquid oil, paint, and varnish waste, etc.) and hazard class V waste (cardboard, polyethylene, polypropylene, and wood).

Enterprises of the Tikhvin Industrial Site spent a total of RUB 84.3 million on environmental protection in 2018.²

Air emissions

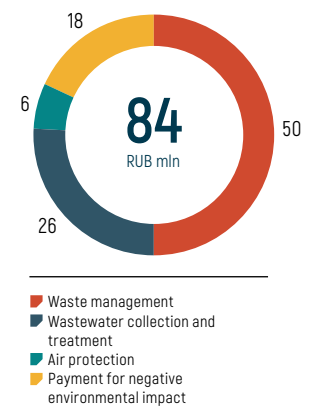
The Company annually monitors compliance with standards for maximum permissible air pollutant emissions. Industrial air monitoring includes:

- instrumental measurements of pollutant content at emission sources;
- calculation of pollutant content in emissions;
- monitoring the efficiency of gas treatment and dust collecting equipment;
- analysis of the results for compliance with maximum permissible emission (MPE) standards.

Instrumental inspections and calculations are carried out by laboratories that are certified and accredited in the prescribed manner.

The Company also conducts laboratory testing of air quality at the border of the sanitary protection zone on a quarterly basis. At present, the Office of the Federal Service for the Oversight of Consumer Protection and Welfare in the Leningrad Region is in the process of approving a project on a unified sanitary protection zone for groups of enterprises at the Industrial Site. The Company's enterprises have installed gas treatment equipment that ensures the efficient treatment of industrial emissions.

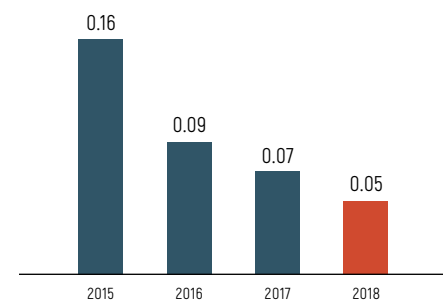
Structure of environmental protection expenditures by Tikhvin Industrial Site enterprises in 2018, %



In 2017 and 2018, air emissions at the Tikhvin Industrial Site increased significantly as a result of the opening of a combined heat and power plant (for more, see below in the "Energy efficiency" subsection). Emissions increased by 3.8% in 2018 compared with 2017 when the combined heat and power plant is factored in and by 1.3% without it.

² No fines were imposed on UWC enterprises during the reporting year for violation of environmental laws.

Changes in LTIFR¹ at TVSZ

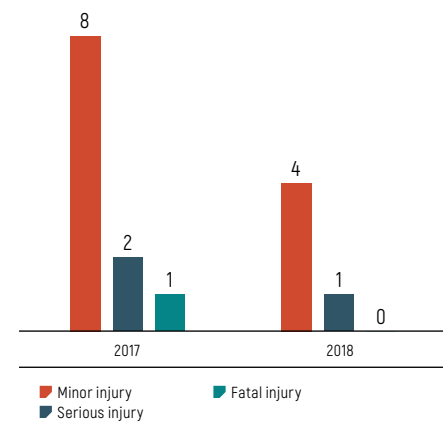


The Group's enterprises increased expenditures on occupational safety measures by 34% in 2018 compared with 2017.

UWC also allocates significant amounts to support preventive health and safety measures. The following steps will be included in the financial plan to support preventive measures:

- mandatory periodic medical check-ups of workers involved in work with harmful or hazardous production factors
- a special assessment of working conditions
- health resort treatment for workers involved in work with harmful or hazardous production factors
- provision of special gear, footwear, and other personal protective equipment to workers involved in work with harmful or hazardous working conditions as well as work performed in special temperature and climatic conditions or work associated with pollution

Accidents at UWC enterprises

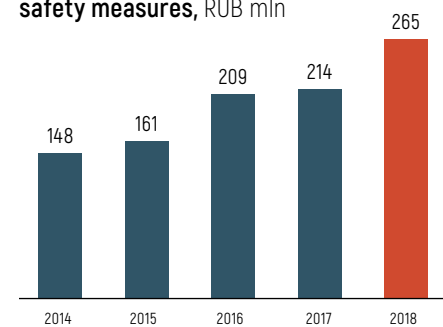


In 2018, the Company increased financial support for preventive occupational safety measures by 23% to RUB 43 million.

In order to improve the safety culture at its enterprises, the Company conducts mandatory training of workers on safe labor methods, professional retraining, testing of employees' knowledge of standards, rules and instructions as well as classes at the Foreman School and adaptation for newly hired workers.

In 2018, 100% of workers with vocational professions (6,583 people) underwent annual occupational safety training. A total of 940 managers and specialists underwent primary and regular training and testing of their knowledge of occupational safety requirements. In addition, 608 managers and specialists who organize work and are in charge of technical oversight at production units underwent training and testing at continuing professional education institutions.

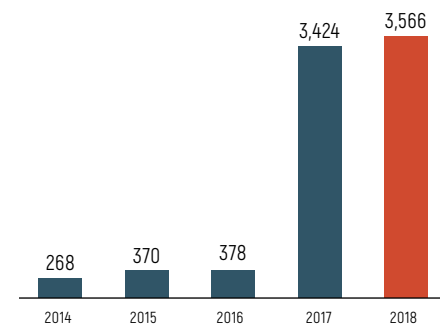
Expenditures of UWC on occupational safety measures, RUB mln



¹ The frequency of injuries that result in temporary disability per 200,000 working hours. (As a rule, this indicator is calculated per 1 million working hours, but due to the small number of injuries at UWC enterprises, the results would be too small to adequately reflect the dynamics).

Waste management

Changes in air emissions at the Tikhvin Industrial Site, t

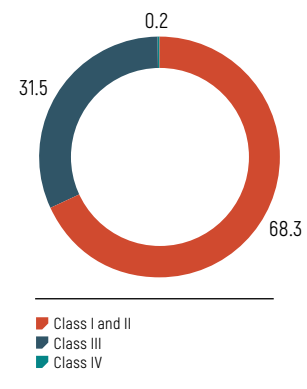


UWC employs a modern system for the safe handling of various types of waste generated during the production process. The basic principle of waste management involves taking a selective approach to its accumulation based on hazard classes, physicochemical properties, state of aggregation, and the availability of valuable components for recycling.

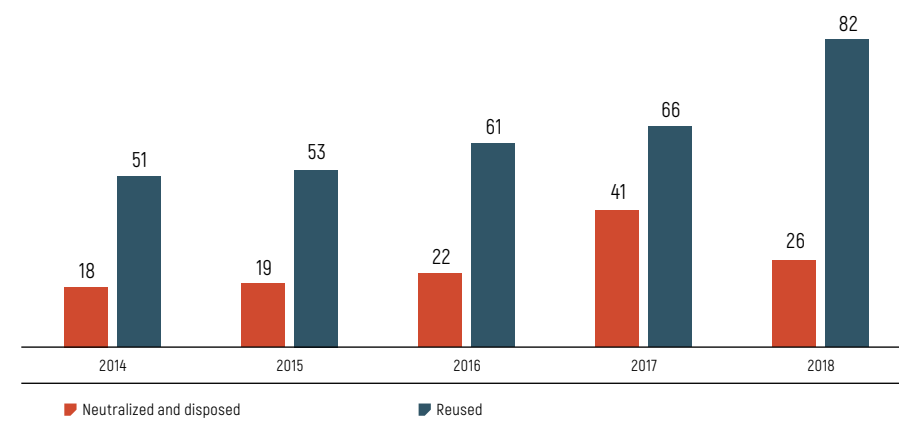
The Company strives to use as much of its resource potential as possible. For this reason, waste containing valuable components (ferrous metal chips or scrap) is recycled or reused in-house. Abrasive discs and sand waste are used for land reclamation.

In 2017 and 2018, waste at the Tikhvin Industrial Site increased by 1% compared with the previous year to 108,100 tons. Hazard class I-III waste makes up less than 1% of the total volume of waste. Hazard class IV waste accounts for the bulk of waste¹ (99%).

Air emissions at the Tikhvin Industrial Site by hazard class, %



Structure of production waste at the Tikhvin Industrial Site by treatment method, thousand t



¹ Class IV is low-hazard waste. This class includes municipal solid waste, construction waste, street litter, road sweepings, etc. They have a low harmful impact on the environment.

Energy efficiency

The equipment, buildings, and facilities of UWC enterprises meet all modern requirements for resource conservation and are among the most energy efficient not only in Russia but also throughout Europe.

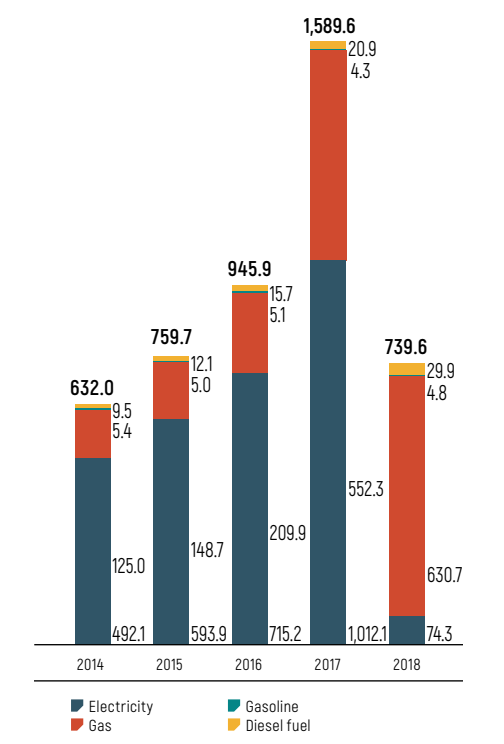
UWC owns the Tikhvinskaya Combined Heat and Power Plant (CHPP), which opened in 2016 (with electric power capacity of 110 MW and thermal capacity of more than 25 Gcal/h). The CHPP design incorporated the Smart Power Generation concept, which reduces costs and improves the efficiency of the power system. Having its own CHPP enables the Company to quickly respond to changes in energy consumption and deal with peak loads, thereby ensuring the balance of the power system and a low level of specific fuel consumption and emissions.

With the CHPP reaching full capacity, gas consumption increased dramatically in 2017 and 2018 compared with previous periods. At the same time, electricity purchase costs declined significantly. As a result, total expenditures by the Tikhvin Industrial Site on the purchase of energy resources plummeted by 53% in 2018 compared with 2017 to RUB 740 million.

Changes in energy consumption at the Tikhvin Industrial Site

Indicator	2014	2015	2016	2017	2018	Change 2018/2017 %
Electricity, GWh	1772	194.3	2354	268.9	283.0	+5
Gas, mln m ³	25.7	29.1	41.9	111.4	122.9	+10
Gasoline, thousand l	185.6	169.8	162.2	139.2	135.8	-2
Diesel fuel, thousand l	336.3	419.3	509.1	672.7	815.1	+21

Changes in energy expenditures at the Tikhvin Industrial Site, RUB mln (excluding VAT)





DEVELOPING REGIONS OF OPERATION

Investing in the development of the regions where the Company operates helps create a social environment that is conducive to harmonious business and the generation of value for all stakeholders.

UWC is fully aware of its responsibility to the people of all the regions where it operates and, above all, the town of Tikhvin, where its main production site is located. Urban development, education, and cultural projects as well as support for vulnerable members of the population and people with disabilities are priorities for the Company.

Urban development projects

UWC is concertedly implementing an ambitious program to develop the town of Tikhvin, which aims to create a comfortable and modern urban environment. A number of projects that have radically transformed the town have been implemented over the past few years with the support of the local administration: a recreational area with pedestrian walkways and the first bicycle paths in the town was set up on an untended open space with total area of roughly four hectares, and a festival ground was built for city celebrations and events.

The Company spent RUB 30 million on the following work in 2018:

- ➔ landscaping along the bank of the Tikhvinka River on Delegatskaya Street
- ➔ the construction of the Park of Generations (development of a design, purchase and installation of lighting, construction of a modern skate park, and the pouring of a foundation for a rope park)
- ➔ repair of two courtyards (replacement of asphalt, construction of sidewalks, a parking lot, including one with an eco-cover, and playgrounds)
- ➔ installation of several modern bus stop shelters
- ➔ decoration of public places for New Year's celebrations
- ➔ purchase of new trashcans and benches to be installed on city streets
- ➔ organization of an interactive playground and a concert for City Day

Support for education

UWC devotes significant attention to collaboration with regional educational institutions at all levels. In particular, the Company held additional classes for Tikhvin high school graduates to prepare for the Unified State Exam in 2018 with the support of the Industrial Site: teachers were invited and textbooks were purchased for an in-depth study of different subjects. Vocational guidance was provided to seventh and eighth-grade students, and factory tours and optional lectures on the production system were conducted.

In terms of support for universities, on-the-job training was organized at TVSZ in 2018 for engineering students from Peter the Great St. Petersburg Polytechnic University (SPbPU) and Lebedev Tikhvin Industrial Technological Technical School. TVSZ, SPbPU, Lebedev Tikhvin Industrial Technological Technical School, and the Education Committee of the Leningrad Region signed a four-party agreement to provide assistance in the training of highly qualified specialists. In 2018, 70 plant employees became students at SPbPU.

For its part, VNICTT collaborates with Emperor Alexander I St. Petersburg State Transport University, whose graduates have become employees at VNICTT. In addition, students, along with members of the technical archive and patent specialists from VNICTT, are working to create an electronic science and technology library and fill it with information materials from relevant Russian and international exhibitions and conferences.

Support for culture

Culture is one of the fundamental components of a pleasant urban environment. The Industrial Site's factories always take part in organizing celebrations, festivals, and competitions in Tikhvin and traditionally serve as a partner for the Tikhvin Lel national competition. In 2018, City Day was held alongside the 55th anniversary of machine-building in Tikhvin. TVSZ organized a large interactive platform and a concert for the city's residents.

Volunteer campaigns during the Year of the Volunteer in Russia

TVSZ has an active volunteer movement. The plant's employees held two voluntary Saturday clean-up days in 2018 at the Bratskoe Cemetery memorial complex, the largest military burial site in the Tikhvin region. In addition, the plant took the complex under its patronage and began restoring memorial plates. The plant hosted the "St. George Ribbon" and "Gift to a Veteran" volunteer events for Victory Day.

Teffy Social and Cultural Center»

A new modern library – the Teffy Social and Cultural Center (this pseudonym was used in first half of the 20th century by the writer Nadezhda Lokhvitskaya, who lived for a while in Tikhvin) – opened in 2015 with TVSZ's direct involvement. The project was supported by the administration of the Tikhvinsky District and the government of the Leningrad Region and became a good example of a public-private partnership. TVSZ's investment over the two years of the center's construction amounted to approximately RUB 40 million.

The library meets all modern requirements, is equipped with the latest computer equipment and high-speed Internet, and provides free access to its wide range of electronic resources. The library has roughly 15,000 copies of books as well as collections of newspapers and magazines. Readers also have access to the LitRes e-library with its collection of more than 2,500 items and archives of the Boris Yeltsin Presidential Library. Teffy has more than 5,600 users.

Social support

TVSZ is a partner of AdVita, a charitable foundation that provides care for adults and children with cancer. For several years, the plant has sponsored a St. Petersburg team comprised of children supported by the foundation who take part in the World Children's Winners Games for cancer survivors. The plant also funds excursions for children supported by the foundation to the Sheredat Rehabilitation Center, the first camp in Russia that specializes in the psychosocial rehabilitation of children who have survived cancer and blood diseases.

Since 2014, TVSZ has been the official partner of the Rus national charity food bank, which provides food assistance to low-income families, families with many children, elderly people who live alone, families with disabled family members, and homeless people in all regions of the Russian Federation. In addition, TVSZ provided support in 2018 to the Place Under The Sun charitable foundation, which implements social adaptation programs for children and young people with disabilities.

GROWTH TRACKS

Flatcar for the transportation of timber



CORPORATE GOVERNANCE

UWC's effective corporate governance system is one of the key elements of our success. The consistent improvement of the corporate governance system enables the Company to enhance its operating and financial efficiency.



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- 98 Corporate Secretary
- 99 Risk Management and Internal Control
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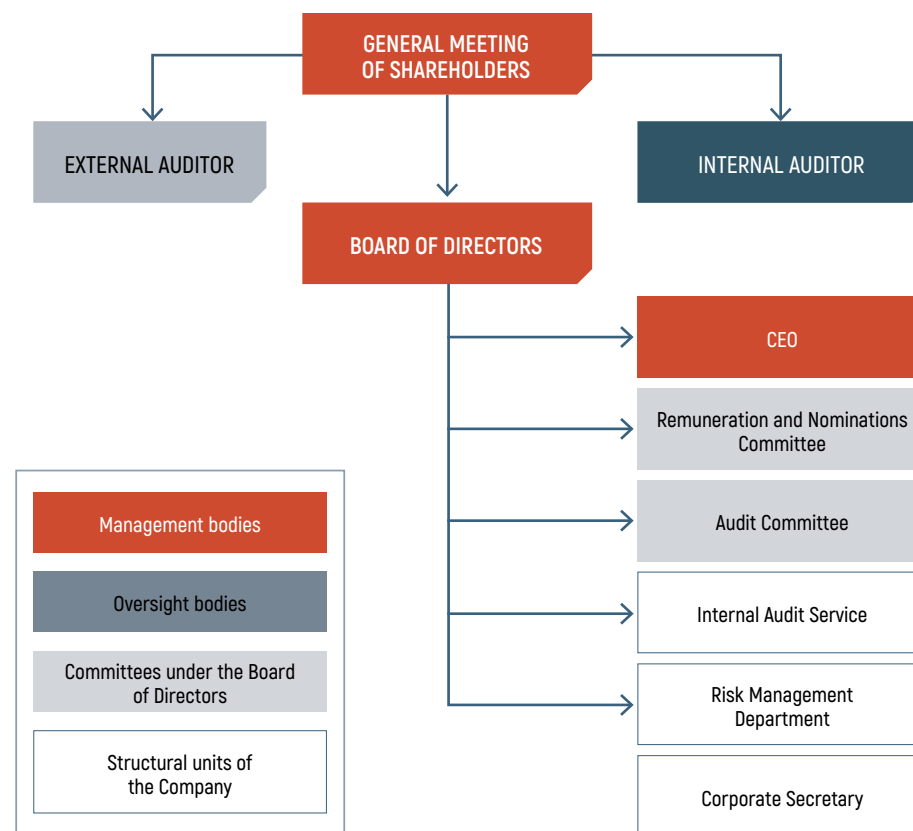
CORPORATE GOVERNANCE PRINCIPLES AND SYSTEM

UWC is committed to observing the best practices and modern international standards of corporate governance. The following basic principles of corporate governance serve as the basis for the atmosphere of trust that has been created between all stakeholders and the high quality of the decisions adopted by management:

- protection of the rights and interests of shareholders
- equitable and fair treatment of all shareholders
- transparency of activities for shareholders and investors
- an effective mechanism of interaction between government bodies
- the independence of the Board of Directors in its decision-making
- an effective internal control and audit system
- unconditional compliance with the law in all aspects of business

UWC management and oversight bodies function on the basis of the Company's constituent and in-house documents. The current management and oversight bodies are presented in the diagram.

Diagram of interaction between management and oversight bodies¹



¹ Information about the activities of the Internal Audit Service, the Internal Auditor, and the external auditor is presented in the "Internal control and risk management" section on p. 98.



Learn more:
[Constituent and internal documents on the Company's website](#)

GENERAL MEETING OF SHAREHOLDERS

- The General Meeting of Shareholders is UWC's highest governing body. By taking part in the Company's General Meeting, shareholders exercise their right to participate in the Company's management. According to UWC's Charter and the current legislative standards of the Russian Federation, shareholder participation is required to adopt a number of the most important corporate decisions. The powers of the General Meeting of Shareholders are defined in the UWC Charter. UWC offers its shareholders equal opportunities to participate in the General Meeting of Shareholders, make proposals to the agenda, and nominate candidates for the Board of Directors and the position of Internal Auditor.
- The procedure for holding a General Meeting of Shareholders is set out in UWC's Charter and the Regulation on the General Meeting of Shareholders. The Annual General Meeting of Shareholders is held at least once a year (between March 1 and June 30) and Extraordinary General Meetings of Shareholders may be convened (by a decision of the Board of Directors or at the request of the Internal Auditor, the External Auditor, or a shareholder with a stake of at least 10% of UWC's voting shares). Meetings may require attendance or allow absentee voting.

Two General Meetings of Shareholders were held during the reporting year. The Annual General Meeting of Shareholders, which took place on 29 June 2018, adopted the following decisions:

- approval of the Annual Report for 2017
- approval of the Company's annual accounting (financial) statements for 2017
- distribution of profit, including the payment (declaration) of dividends, and losses based on the results of 2017
- election of members of the Company's Board of Directors
- election of the Company's Internal Auditor
- approval of the Company's External Auditor for 2018
- payment of remuneration to members of the Company's Board of Directors and Committees of the Board of Directors for fulfilling their duties over the period from the Annual General Meeting of Shareholders in 2017 until the Annual General Meeting of Shareholders in 2018

During an Extraordinary General Meeting of Shareholders held in absentia on March 19, 2018, the following issues were considered:

- the subsequent approval of a major transaction – interrelated surety contracts with PJSC State Transport Leasing Company, which were concluded to ensure the fulfillment of the obligations of LLC UWC Trading House under supply agreements concluded with PJSC State Transport Leasing Company
- consent for the Company to conclude a major transaction – the signing of a surety contract with PJSC State Transport Leasing Company, which was concluded to secure the obligations of LLC UWC Trading Procurement Company under sales contracts concluded with PJSC State Transport Leasing Company



Learn more:
[Regulation on the General Meeting of Shareholders of PJSC RPC UWC](#)



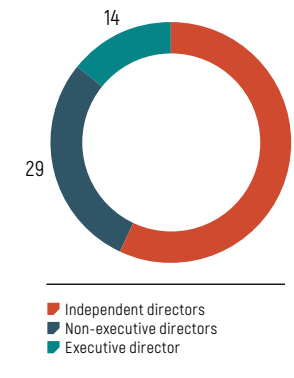
BOARD OF DIRECTORS

The Board of Directors is the collective management body that handles the general management of the Company's activities, except for matters that fall within the purview of the General Meeting of Shareholders. The Board of Directors is a vital tool for protecting the rights and legitimate interests of shareholders, including those with minority holdings. The activities of the Board of Directors are regulated by the Federal Law "On Joint-Stock Companies," the Company's Charter, and the Regulation on the Board of Directors.

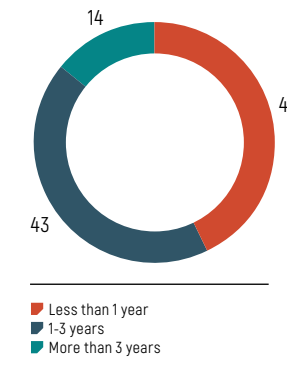
Members of the Board of Directors are elected annually based on the results of the cumulative voting of the General Meeting of Shareholders. According to the current version of the Charter, the Company's Board of Directors consists of at least five members.

In accordance with UWC's internal regulatory documents, independent directors must account for at least 20% of the seats on the Board of Directors (but not less than three people¹). As of December 31, 2018, the UWC Board of Directors included four independent directors, two non-executive directors, and one executive director. The Chairman of the Board of Directors is also an independent director.

Structure of the Board of Directors as of December 31, 2018, %



Term on the Company's Board of Directors, %



Learn more:
[Regulation on the Board of Directors of PJSC RPC UWC](#)

Members of the Board of Directors (as of December 31, 2018)

Member of the Board of Directors	Status on the UWC Board of Directors	Education	Employment history	Membership on the Board of Directors / Supervisory Boards of other organizations	Share of UWC charter capital ²
Andrey Motovilov, Born in 1966	Chairman of the Board of Directors, ³ Independent Director Member of the Board of Directors since 2018 Member of the Audit Committee and Remuneration and Nominations Committee	Vakhrushev Sverdlovsk Mining Institute (Ural State Mining University) Perm State University, advanced training courses in Management Russian Presidential Academy of National Economy and Public Administration and Kingston University Business School, Executive MBA (in 2017)	2017: Vice President of LLC East Mining Company 2014–2017: Deputy Plenipotentiary Representative of the President of the Russian Federation in the Far Eastern Federal District Prior to 2013: Senior Vice President for Government Relations of JSC Uralkali 2006–2009: Head of the City Administration of Berezniki, Perm Region. At various times, he was a member of the Boards of Directors at the companies LLC Mineral Trading (trading house of OJSC Silvinit and OJSC Uralkali) and OJSC Baltic Bulk Terminal	LLC East Mining Company	-
Ilya Yuzhanov, Born in 1960	Independent Director Member of the Board of Directors since 2015 Chairman of the Audit Committee and Member of the Remuneration and Nominations Committee	Leningrad State University Candidate of Economic Sciences	2011–2015: Chairman of the Supervisory Board of ALROSA 2004–2013: Member of the Supervisory Board of NOMOS-BANK He previously held various posts in the city administration of Leningrad / St. Petersburg, served as chairman of the State Committee of the Russian Federation on Land Resources and Land Management, Minister for Land Policy, Construction, Housing, and Utility Services of the Russian Federation, and Minister of the Russian Federation for Antimonopoly Policy and Entrepreneurship Support	Russian Association of Independent Directors (Association of Independent Corporate Directors NP for the promotion of professional activities) NCO JSC National Settlement Depository (Deputy Chairman of the Supervisory Board) JSC RUSNANO	-
Alexander Pleshakov, Born in 1960	Independent Director Member of the Board of Directors since 2015 Chairman of the Remuneration and Nominations and Member of the Audit Committee	Mozhaysky Military Engineering Red Banner Institute Academy of National Economy under the Government of the Russian Federation Candidate of Technical Sciences	Currently: President of the Guild of Financial Managers 2007–2008: Deputy President of JSCB NOVIKOMBANK 2004–2007: Chairman of the Executive Board of GazenergoPrombank 2000–2004: Member of the Federal Commission for the Securities Market 1998–2000: Deputy Department Head at the Ministry of Property Relations of the Russian Federation	JSC TransTeleCom Company	-

¹ A member of the Board of Directors is recognized as independent if he/she is not affiliated with the Company and is not a significant shareholder or counterparty, competitor, or the government. The independence of members of the Board of Directors is determined in accordance with the criteria for determining independence envisaged by the listing rules of PJSC Moscow Exchange as well as trading organizers who have included the Company's shares in the list of securities permitted for trading.

² As of December 31, 2018

³ Until March 11, 2019.



Member of the Board of Directors	Status on the UWC Board of Directors	Education	Employment history	Membership on the Board of Directors / Supervisory Boards of other organizations	Share of UWC charter capital ²
Yury Yarov, Born in 1942	Independent Director Member of the Board of Directors since 2016 Member of the Audit Committee and Remuneration and Nominations Committee	Leningrad Institute of Technology Leningrad Engineering and Economics Institute	2008–2015: Advisor to the Chairman of the Executive Board of the Board of Advisors of the Eurasian Development Bank 2007–2008: President of the United Shipbuilding Corporation 2004–2008: Head of the Northern Design Bureau 1999: Chairman of the Executive Committee and Executive Secretary of the CIS 1998: Presidential Plenipotentiary to the Federation Council 1996: Deputy Head of the Presidential Administration of the Russian Federation 1993–1996: Deputy Chairman of the Government of the Russian Federation for Social Affairs 1991: Representative of the President of the RSFSR in St. Petersburg and the Leningrad Region and Deputy Chairman of the Supreme Soviet of the RSFSR	OJSC Lipetsk Energy Technology OJSC ERA Kola Enterprise OJSC SPA Gidromash (Chairman of the Board of Directors)	-
Roman Savushkin, Born in 1977	Executive Director Member of the Board of Directors since 2011	St. Petersburg State University of Telecommunications University Antwerp Management School (Belgium), Executive MBA Candidate of Technical Sciences	2012–2018: CEO of PJSC RPC UWC 2011–2012: CEO of RAIL 1520, which specializes in the operating lease of freight rolling stock He previously held senior positions at a number of manufacturing, leasing, and engineering companies (enterprises of the Titran Group, Brunswick Rail, Rail Car Building Engineering Center, and Commercial Transport Systems, among others)	-	0.012% October 29, 2018: sold 1,055,562 common registered shares
Yury Adamovich, Born in 1981	Non-Executive Director Member of the Board of Directors since 2018	University of Latvia London Business School, Master of Finance and Business Administration (Executive MBA)	2014–2018: Co-Founder and CEO of Nort Group investment and consulting company 2007–2014: Advisor to the Board of Directors of the European Bank for Reconstruction and Development 2003–2007: Work in the Ministry of Finance of the Republic of Latvia (from specialist to Director of the Department of International Finance). He headed the Boards of Directors of Regional Insurance Company and Technosila, and also served on the Boards of Directors of Sistema RegionMart and RBC. He has more than 15 years of experience in financial services, asset management, mergers and acquisitions, corporate restructuring, and reorganization.	INTECO Group (Chairman of the Board of Directors)	-
Artyom Kirillov, Born in 1980	Non-Executive Director Member of the Board of Directors since 2018	St. Petersburg State University ACCA Certified Accountant Degree	Currently: Deputy President and Chairman of the Board of TRUST Bank (PJSC), and Unit Director at PJSC Otkritie FC Bank 2014: Co-Founder of Nort Group investment and consulting company 2007–2014: Worked at MDM Bank (from analyst to Deputy Chairman of the Executive Board and Director of the Asset Management Unit) At various times, he held various strategic consulting positions, working as an audit consultant at PwC, a senior consultant at BCG, and a junior partner at McKinsey & Company. He has significant experience in developing strategic, financial, and operational plans for major Russian and international companies in various sectors of the economy.	PJSC GEOTECH Seismic Services (Chairman of the Board of Directors)	-

According to a resolution of the Annual General Meeting of Shareholders dated June 29, 2018, Nikolay Dobrinov, Igor Mints, and Dmitry Boykin left the Board of Directors. Their brief biographies are presented in the Annual Report for 2017.

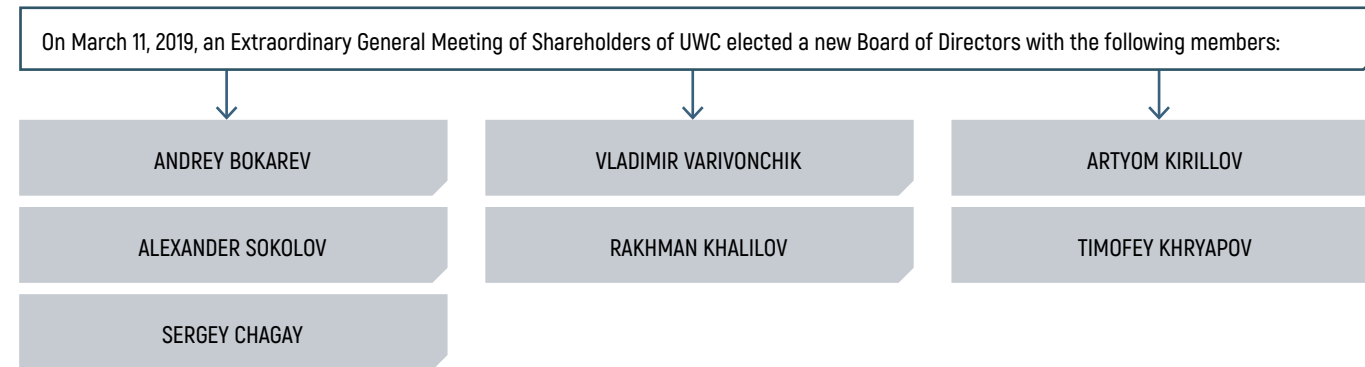
Over the course of 2018, Roman Savushkin's stake in UWC decreased from 0.922% to 0.012%. Neither the Chairman nor any members of the Board of Directors concluded any other transactions involving the acquisition or sale of the Company's common shares in 2018.

The Company did not issue any loans (credits) to members of the Board of Directors in 2018.

Key competencies of members of the Board of Directors as of December 31, 2018

Name	Business strategy and management	Finance and audit	Public administration	Machine-building, engineering	Railway transport
Andrey Motovilov	+		+		
Ilya Yuzhanov	+	+	+		
Alexander Pleshakov		+	+		
Yury Yarov	+		+	+	
Roman Savushkin	+			+	+
Yury Adamovich	+	+			
Artyom Kirillov	+	+			

Changes to the Board of Directors after the reporting period



Alexander Sokolov was elected Chairman of the Board of Directors at a meeting of the Board of Directors on March 15, 2019.

Members of the Board of Directors (as of March 11, 2019)

Member of the Board of Directors	Status on the UWC Board of Directors	Education	Employment history	Membership on the Board of Directors / Supervisory Boards of other organizations	Share in UWC charter capital
Alexander Sokolov, Born in 1979	Chairman of the Board of Directors, ¹ Non-Executive Director Member of the Board of Directors since 2019 Chairman of the Remuneration and Nominations Committee	Tsiolkovsky Russian State Technological University	2018 until present: President and Chairman of the Executive Board of TRUST Bank (PJSC) 2018: Chairman of the Board of Directors of JSC ROST BANK 2018 until present: Director of the Risks and Dues Unit at Otkritie FC Bank 2018: Member of the Board of Directors of TRUST Bank (PJSC) 2017–2018: Acting Chairman of the Executive Board at Otkritie FC Bank 2014–2017: Member of the Supervisory Board of PJSC Pochta Bank 2009–2017: Director of the Risk Analysis Department and a Member of the Executive Board at VTB 24 (CJSC)	LLC Debt Center (Chairman of the Supervisory Board) PJSC Rosgosstrakh Insurance Company (Member of the Supervisory Board) PJSC RGS Bank (Chairman of the Board of Directors) VTB Bank (PJSC) (Member of the Supervisory Board) JSC Bank AVB (Chairman of the Supervisory Board)	–
Timofey Khryapov, Born in 1970	Member of the Board of Directors, Executive Director Member of the Board of Directors since 2019	Lomonosov Moscow State University, Russian Academy of Public Administration under the President of the Russian Federation	2018 until present: CEO of PJSC RPC UWC 2016–2018: Chairman of the Executive Board and First Vice President of ARETI IGC 2015–2016: Member of the Board of Directors of OJSC VEB Leasing 2014–2016: CEO and First Deputy CEO of LLC VEB Capital 2014–2016: Chairman of the Board of Directors of OJSC Novinsky Boulevard, 31 2014–2016: Chairman of the Board of Directors of Pilsen Steel (Czech Republic) 2014–2016: Chairman of the Board of Directors of JSC Kraslesinvest 2014–2016: Chairman of the Board of Directors of LLC VEB Invest He also chaired the Boards of Directors of the companies Nakhodka Commercial Sea Port, Nakhodka Base of Active Marine Fisheries, Petrovsky Dneprovsky Steel Works, OJSC Dneprokoks, Bagleykoks, Sukha Balka, and Dallesprom, and held senior positions at the companies of AO Sroytransgaz and Russian Technologies, among others. He worked at the EVRAZ Group as a Vice President of Business Development and General Management for more than 11 years.	LLC Modum-Trans (Chairman of the Board of Directors) JSC BelZAN (Chairman of the Board of Directors)	–
Rakhman Khalilov, Born in 1977	Member of the Board of Directors, Independent Director Member of the Board of Directors since 2019 Chairman of the Audit Committee and Member of the Remuneration and Nominations Committee	International University in Geneva	2014 until present: Chairman of the Executive Board of LLC ISR Trans	–	–
Andrey Bokarev, Born in 1966	Member of the Board of Directors, Independent Director Member of the Board of Directors since 2019 Member of the Audit Committee and Remuneration and Nominations Committee	Moscow Financial Institute (Financial University under the Government of the Russian Federation)	2008 until present: President of JSC Transmashholding	OJSC Ural Mining and Metallurgical Company (Member of the Board of Directors) OJSC Kuzbassrazugol Coal Company (Chairman of the Board of Directors) JSC Transmashholding (Member of the Board of Directors) OJSC Rosterminalugol (Member of the Board of Directors) Breakers Investments B.V. (Member of the Supervisory Board) JSC NPF UGMK Perspective (Chairman of the Board of Directors)	–

¹ Since March 11, 2019.

Member of the Board of Directors	Status on the UWC Board of Directors	Education	Employment history	Membership on the Board of Directors / Supervisory Boards of other organizations	Share in UWC charter capital
Artyom Kirillov, Born in 1980	Member of the Board of Directors, Non-Executive Director Member of the Board of Directors since 2018	St. Petersburg State University ACCA Certified Accountant Degree	At present: Deputy President and Chairman of the Executive Board at PJSC TRUST Bank; Unit Director of PJSC Otkritie FC Bank 2014: Co-Founder of Nort Group 2007-2014: MDM Bank (from Analyst to Deputy Chairman of the Executive Board and Director of the Asset Management Unit) At various times, he held various strategic consulting positions, working as an audit consultant at PwC, a senior consultant at BCG, and a junior partner at McKinsey & Company. He has significant experience in developing strategic, financial, and operational plans for major Russian and international companies in various sectors of the economy.	PJSC GEOTECH Seismic Services (Chairman of the Board of Directors)	-
Vladimir Varivonchik, Born in 1976	Member of the Board of Directors, Non-Executive Director Member of the Board of Directors since 2019 Member of the Audit Committee	Grodno State University	2018 until present: Director of the Corporate Business Risk Department at PJSC Otkritie FC Bank 2017-2018: Senior Managing Director and Department Director at Sberbank of Russia 2010-2017: Office Director, Deputy Directorate Director, and Managing Director at JSC Raiffeisenbank	-	-
Sergey Chagay, Born in 1980	Member of the Board of Directors, Non-Executive Director Member of the Board of Directors since 2019	Financial University under the Government of the Russian Federation	2018 until present: Director of the Industry and Core Sector Lending Office at PJSC Otkritie FC Bank 2017-2018: Senior Managing Director at the Bank for Development and Foreign Economic Affairs (Vnesheconombank) State Corporation 2010-2014: Director of the Industry Lending Department (CIB) at PJSC Sberbank of Russia	-	-

Report of the Board of Directors on its work in 2018

In 2018, the Board of Directors held 13 meetings (including 11 in absentia). All members of the Board of Directors attended 100% of the meetings which they had the opportunity to attend. The following issues were discussed at the meetings:

- the approval of related-party transactions and major transactions
- the approval of the Regulation on the Company's Export Strategy and Risk Management and Internal Control Policy
- the establishment of a controlled organization
- the approval of the Company's participation in another organization
- the termination of participation in controlled organizations
- the sale of shares by an organization controlled by the Company
- the conclusion of transactions by a controlled organization
- the approval of a report on the results of requests by shareholders for the buyback of their shares in UWC
- the preliminary approval of the annual report and annual financial statements for 2017
- recommendations for the distribution of profits
- the election of the Company's Chairman of the Board of Directors and Corporate Secretary, the determination of the status of members of the Board of Directors, the formation of Committees, and the work plan of the Company's Board of Directors and committees
- the determination of the amount of payment for the services of the Company's Auditor
- the election of the Company's CEO



Learn more:

[Information about major transactions and related-party transactions on the Company's website](#)



Committees of the Board of Directors

The UWC Board of Directors has two committees whose job is to provide recommendations and consultations to the Board of Directors on matters that fall within their purview.

Audit Committee

The main goal of the Audit Committee is to assist the Board of Directors with resolving issues concerning strategic management and the monitoring of financial and economic activities, including:

- monitoring the completeness, accuracy, and reliability of financial statements
- making recommendations on the appointment of the External Auditor, determining the amount of its remuneration as well as monitoring its work
- monitoring the effectiveness of the risk management and internal control system
- monitoring activities to combat corruption and protect insider information

In 2018, the Audit Committee was comprised solely of independent directors. Members of the Audit Committee (as of December 31, 2018):

- Ilya Yuzhanov (Chairman)
- Alexander Pleshakov
- Yury Yarov
- Andrey Motovilov

In 2018, the Audit Committee held five meetings (including four in absentia) at which the following issues were considered:

- the review of the Company's annual report for 2017
- the review of the Company's annual financial statements for 2017
- the submission of the approval of the Company's Auditor for 2018 to the Annual General Meeting of Shareholders
- the approval of the Audit Committee's report on its activities over the period from the date of the Company's Annual General Meeting in 2017 until the Annual General Meeting of Shareholders in 2018
- the work plan of the Audit Committee
- the amount of remuneration for the External Auditor
- the Company's risk management and internal control policy
- the approval of the work plan of the Risk Management Department for 2019–2020
- the approval of the work plan of the Internal Audit Service for 2019
- the organizational structure and key performance indicators of the Internal Audit Service
- the Accounting Policy Regulation of UWC for accounting purposes

New members of the Audit Committee were confirmed at a meeting of the Board of Directors on April 15, 2019. The Committee includes two independent directors, including the Committee chairman. Members of the Audit Committee (since April 15, 2019):

- Rakhman Khalilov (Chairman)
- Vladimir Varivonchik
- Andrey Bokarev



Learn more:
[Regulation on the Audit Committee of PJSC RPC UWC](#)

Remuneration and Nominations Committee

The main goal of the Remuneration and Nominations Committee is to assist the UWC Board of Directors with resolving issues related to the Company's organizational structure, the principles of its HR policy, the determination of requirements for management body candidates, and criteria for determining their remuneration.

In 2018, the Remuneration and Nominations Committee was comprised solely of independent directors.

Members of the Remuneration and Nominations Committee (as of December 31, 2018):

- Alexander Pleshakov (Chairman)
- Ilya Yuzhanov
- Yury Yarov
- Andrey Motovilov

In 2018, the Remuneration and Nominations Committee held three meetings (including one in absentia) at which the following issues were considered:

- the payment of remuneration to members of the Company's Board of Directors for performing their duties as members of the Board of Directors and members of the Company's committees over the period from the date of the Annual General Meeting of Shareholders in 2017 until the Annual General Meeting of Shareholders in 2018
- recommendations to the Board of Directors regarding the extension of the term of office of the Company's CEO
- the approval of the report of the Remuneration and Nominations Committee on its activities over the period from the date of the Annual General Meeting of Shareholders in 2017 until the Annual General Meeting of Shareholders in 2018;
- the work plan of the Remuneration and Nominations Committee

New members of the Remuneration and Nominations Committee were confirmed at a meeting of the Board of Directors on April 15, 2019. It includes two independent directors. Members of the Remuneration and Nominations Committee (since April 15, 2019):

- Alexander Sokolov (Chairman)
- Andrey Bokarev
- Rakhman Khalilov



Learn more:
[Regulation on the Remuneration and Nominations Committee of PJSC RPC UWC](#)

¹ The corporate year is the period from the time of the previous Annual General Meeting of Shareholders until the time of the Annual General Meeting of Shareholders held upon conclusion of the latest financial year.

Remuneration for members of the Board of Directors

The Regulation on Incentives for Members of the UWC Board of Directors specifies the terms and procedure for payment as well as the rules for calculating the amount of remuneration for members of the Board of Directors. Remuneration includes:

- remuneration for participating in the work of the Board of Directors
- remuneration for participating in the work of the committees of the Board of Directors

The Annual General Meeting of Shareholders adopted a resolution to approve:

- the maximum amount of remuneration per member of the Board of Directors for performing the functions of a member of the Board of Directors over the course of a single corporate year¹
- the maximum amount of remuneration per member of the Board of Directors for performing the functions of a member of one of the committees of the Board of Directors over the course of a single corporate year

In accordance with the resolution of the Annual General Meeting of Shareholders held on June 29, 2018, each member of the Board of Directors was eligible to receive remuneration in an amount not exceeding RUB 4 million as well as RUB 600,000 for participating in each committee of the Board of Directors during the 2018 corporate year. Actual total payments to members of the Board of Directors in the reporting year amounted to RUB 15.84 million. No compensation was paid to members of the Board of Directors in 2018 for expenses associated with participating in the Board of Directors.



Learn more:
[Regulation on Incentives for Members of the PJSC RPC UWC Board of Directors](#)



MANAGEMENT

The CEO is the Company's sole executive body and handles the operational management of its day-to-day activities. The CEO is elected by the Board of Directors and is accountable to the Board of Directors and the General Meeting of Shareholders. The CEO's remuneration is determined by the terms of an employment contract.

In December 2018, Timofey Khryapov was appointed as CEO of UWC.¹ Prior to this, the Company had been run by Roman Savushkin for six years. No other changes were made to the Company's management in 2018.

As previously mentioned, Roman Savushkin's stake in UWC decreased from 0.922% to 0.012% over the course of 2018. No members of senior management concluded any other transactions involving the purchase or sale of the Company's ordinary shares in 2018. The Company did not issue any loans (credits) to members of senior management in 2018. No claims were made against the CEO or members of senior management in 2018.

¹ Brief biographical information about the CEO is provided above in the "Board of Directors" section and on the official website of PJSC RPC UWC: <https://www.uniwagon.com/about/management/>.



Learn more:

[Members and biographies of senior management on the Company's website](#)

CORPORATE SECRETARY

The Corporate Secretary serves to guarantee that the Company's officers and management bodies comply with procedural requirements that ensure the rights and legitimate interests of shareholders. The Corporate Secretary is elected by and reports to the Board of Directors. The functions of the Corporate Secretary include:

- interaction with shareholders
- supporting the effective work of the Board of Directors and its committees
- ensuring management bodies strictly adhere to their purview
- ensuring interaction between the Company's management, Board of Directors, and shareholders

- monitoring compliance with the requirements of the Federal Law "On Combating the Unauthorized Use of Insider Information and Market Manipulation" and related regulatory legal acts

Anna Mikutskaya served as the Company's Corporate Secretary from 2015 until July 2018 and from December 21, 2018 until March 18, 2019.² She graduated from Lomonosov Moscow State University (with a major in law) in 2005 and from the Academy of National Economy of the Government of the Russian Federation (with a major in national economy) in 2008. She took the Corporate Secretary course at the Russian Institute of Directors in 2015. An experienced specialist in corporate governance affairs, she has served as the secretary of the board of directors and corporate secretary at major organizations (subsidiaries of Gazpromneft and NOVATEK).

Maria Kurnosova was elected Corporate Secretary on March 18, 2019.

² Olga Malysheva served as Corporate Secretary from July 24 until December 21, 2018.



Learn more:

[Regulation on the PJSC RPC UWC Corporate Secretary](#)

RISK MANAGEMENT AND INTERNAL CONTROL

Internal audit

In order to protect the rights and interests of shareholders and investors, UWC employs an internal audit system that ensures oversight over the Company's financial and economic activities. The system effectively identifies, prevents, and limits financial and operational risks, and detects violations.

The internal audit system includes the following elements:

- the Audit Committee under the Board of Directors (for more information on the Audit Committee, see page XX)
- the Internal Auditor
- the Internal Audit Service

The Internal Audit Service aims to support the achievement of the goals set by the Company. Its activities are based on the principles of independence and objectivity:

- the head of the Internal Audit Service is accountable to the Board of Directors and is appointed and dismissed by the CEO based on a resolution by the Board of Directors
- the head and employees of the Internal Audit Service may not combine their activities with activities in other UWC units

The Internal Audit Service performs its activities in accordance with the Regulation on Internal Audit, which stipulates that its main functions are to assess the effectiveness of the internal control system and the risk management system and also evaluate corporate governance.

The key objectives of the Internal Audit Service are to formulate and execute a risk-based audit plan, including:

- analyzing whether the goals of business processes, projects, and structural units comply with the Company's goals
- identifying and assessing risks in business processes
- analyzing the effectiveness of control procedures and other risk management measures, including the effective use of resources allocated for these purposes
- verifying compliance with legislative requirements and the Company's internal documents
- verifying the safekeeping and sufficient protection of assets
- participating in the investigation of cases involving fraud
- assessing the completeness and accuracy of financial and management reporting as well as information that is subject to mandatory disclosure in accordance with legislative requirements

The Internal Audit Service coordinates its activities with the Audit Committee under the Board of Directors and the External Auditor of UWC.



Learn more:

[Regulation on the Internal Audit of PJSC RPC UWC](#)

Risk management and internal control

In accordance with current legislative requirements, the Risk Management and Internal Control Policy of PJSC RPC UWC was drafted and approved in 2018 to order to improve the corporate governance system. It stipulates the goals, objectives, and basic principles of the risk management and internal control system, the methods and approaches to risk management and internal control, the basic processes of risk management and internal control as well as the distribution of responsibilities and powers of the parties involved in the risk management and internal control system.

The Policy was drafted taking into account international standards and recommendations concerning internal control and risk management, including the Committee of Sponsoring Organizations of the Treadway Commission (COSO), serves as the basis for the drafting of internal methodological and administrative documents governing the organization of the risk management and internal control system, and applies to all types of activities of UWC.

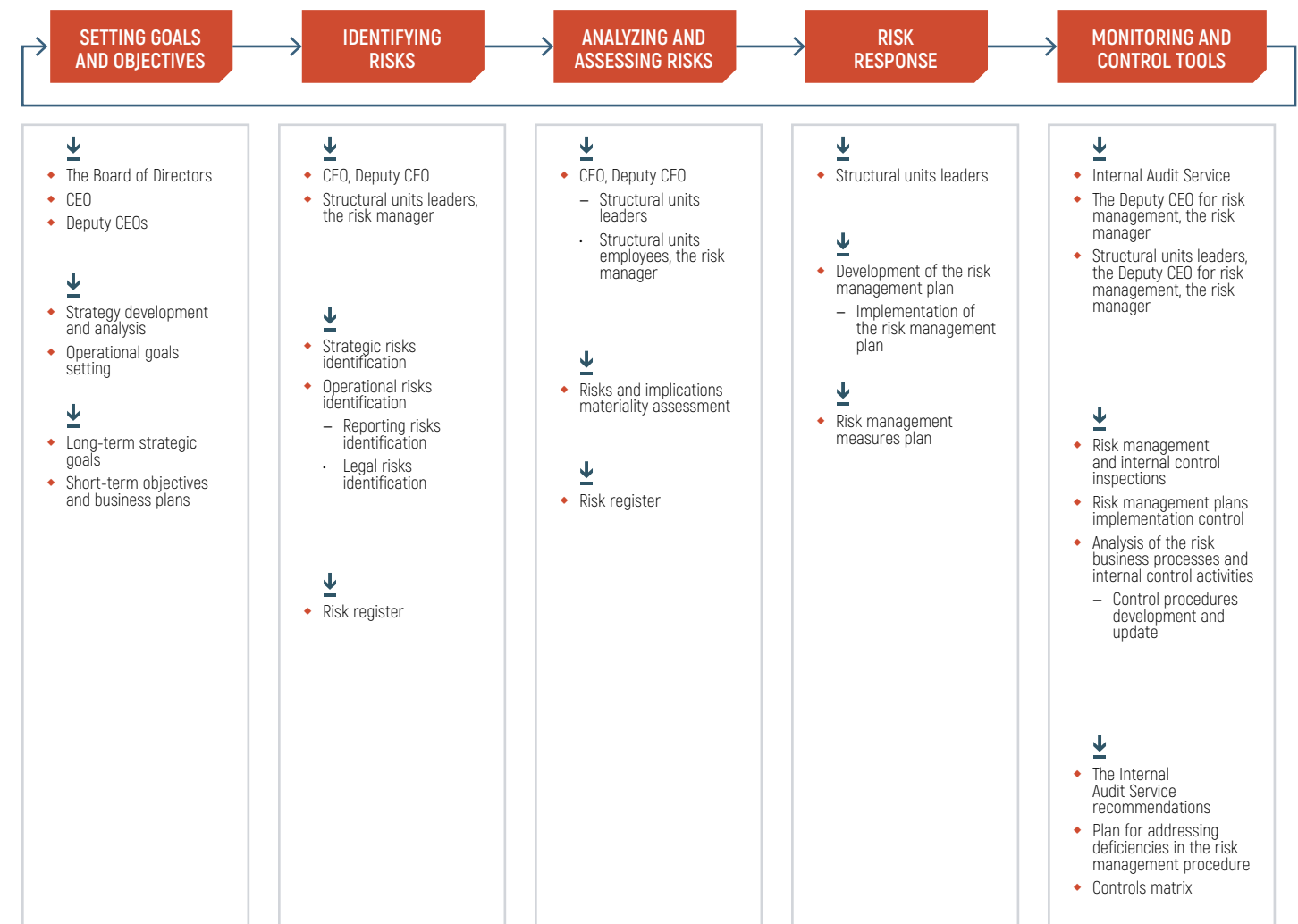
A separate structural unit – the Risk Management Department – carries out risk management and internal control at the Company. In accordance with the Risk Management and Internal Control Policy, the Department:

- coordinates risk management and internal control processes
- develops and updates the methodological framework used to ensure risk management and internal control processes
- monitors the performance of functional duties by all parties involved in the risk management and internal control system
- collects, processes, and analyzes information on risk identification from structural units

Risk management and internal control system

Risk management and internal control at UWC is a continuous process carried out by the parties involved in the risk management and internal control system at all levels of management. It includes the identification, assessment, monitoring, and control of risks.

Structural diagram of the risk management and internal control system



Learn more:

[Risk Management and Internal Control Policy of PJSC RPC UWC](#)



Risk management

UWC's activities are influenced by various factors that may have both a negative and a positive impact on the achievement of the Company's business goals. In order to manage and minimize risks, the Company has introduced a risk-based approach to business management that is designed to ensure that management makes the most effective management decisions.

UWC has a high level of risk management quality. The Company has a well-developed risk management system that makes it possible to identify, track, and control a wide range of risks. UWC has established collective decision-making bodies, has clearly demarcated their powers, conducts an assessment of the levels of most risks, and takes actions to minimize the consequences of these risks.

Basic principles of risk management at UWC:

- Consistency. Risk management is integrated into all business processes.
- Responsibility. The duties, powers, and responsibility for the implementation of risk management procedures are assigned to employees in job descriptions and regulations on interaction.
- Purposefulness. There is a clear definition of the goals of risk management as well as an enterprise's goal-setting and the ability to implement risk management measures.
- Awareness. Information is reliably and effectively exchanged between all parties involved in the risk management system.
- Expediency. The ratio of the cost of risk management measures and their economic effect is always analyzed. There is a clear definition of the scope of risk that is considered acceptable in the process of achieving operational and strategic goals.
- Continuity. The Company continuously monitors and controls risks and correlates them with the stages of the project life cycle and risk assessment methods.
- Sequencing. This complements the principle of continuity and provides for the thorough consideration of each stage of the formation and implementation of risk management and internal control methods.
- Focus. Risk management is a part of management's responsibilities and an integral part of all organizational processes, including for strategic planning, all projects, and changes in management processes at the Company. Risk management is also part of the decision-making process (complements the principle of consistency in terms of the responsibilities of department heads).
- Classification. A uniform corporate reference guide (classifier) concerning risk management is being drafted.

Since 2019, the Company has employed the UWC Risk Management Procedure, which stipulates: the procedure for the risk analysis process, the procedure for implementing and monitoring the risk management process, the procedure for preparing risk reporting, and the distribution of roles between parties involved in risk management as well as their responsibilities and powers.

A resolution of the UWC Audit Committee approved the Risk Management Department's work plan for 2019-2020, which provides for:

- the development, implementation, and monitoring of risk management measures
- the periodic assessment of the effectiveness of the risk management system
- risk management reporting

In order to identify processes exposed to risk at the Company's units for which additional risk management measures are required, a Self-Assessment Plan was approved for 2019 under a resolution of the UWC CEO.

Risk radar

Probability



→ The direction of risk change in 2018

● The risk increased in 2018



UWC's key risks in 2018

Risk description	Probability	Impact	Potential implications of risk materialization	Risk management / mitigation methods	Changes compared with 2018 Forecast for 2019
Financial and economic risks					
Financing risk Risk of a significant change in the borrowing rate unilaterally by the lender Risk of a significant change in basic financing conditions	Average	Average	<ul style="list-style-type: none"> Increased financing costs and, as a result, increased production costs Need to attract financing from shareholders Need to provide additional collateral 	<ul style="list-style-type: none"> Securing financing terms in long-term loan agreements Monitoring compliance with covenants under loan agreements and other financing conditions and modifying the terms of credit agreements in advance Reducing the debt burden Reimbursing costs by increasing rental rates Revising the distribution structure of borrowed funds taking into account priority financing for areas with a higher return on capital 	Risk increased: <ul style="list-style-type: none"> economic growth is expected to decline to 1.3% in 2019 versus growth of 2.3% in 2018¹ the Central Bank of the Russian Federation set the key interest rate at 7.75% on December 17, 2018 (same as the rate on December 18, 2017) the ruble depreciated by 17.5% over the 12 months of 2018 (the exchange rate on January 10, 2019 was RUB 67.0795/USD 1) increased inflation risks. The balance of risks remains biased towards inflation risks, especially in the short-term due to increased VAT² the average price of Urals oil was USD 70 per barrel¹ in 2018 and USD 61.7 per barrel in the period from January 15 to February 14, 2019. The projected price budgeted for 2019 is USD 63.4 per barrel⁴
Currency risks Risk of significant currency fluctuations	Average	Low	<ul style="list-style-type: none"> Increased financing costs Losses due to exchange rate differences on loan agreements and contracts for the supply of equipment and components 	<ul style="list-style-type: none"> Localizing the production of imported components Forward contracts with fixed conversion rates Minimizing the volume or conversion of foreign currency loans Hedging currency risk and closing open currency positions / minimizing short open currency positions 	Risk unchanged: <ul style="list-style-type: none"> the expected average annual ruble exchange rate in 2019 is RUB 64.90/USD 1 with a high level of volatility in the event sovereign sanctions are introduced³ the average annual exchange rate budgeted for in 2019 is USD 63.90/USD 1⁴
Capital and liquidity risk Risk of short-term/long-term cash shortage	Low	Average	<ul style="list-style-type: none"> Failure to meet current financial obligations Lack of internal working capital for operating activities 	<ul style="list-style-type: none"> Increased share of long-term funding sources in overall volume Constant monitoring and management of accounting liquidity Constant work with banks to raise additional financing 	Risk unchanged. The rolling stock rental market remains in a recovery phase, and the demand for new railcars is growing, which has led to an increase in cash flow from operating activities: <ul style="list-style-type: none"> freight car production increased by 19% in 2018 to 68,920 units compared with 2017¹ growth in traffic volume – the driver of demand on the rolling stock market (see p. XX)
Tax risk Different interpretations of tax legislation Increased tax rates	Average	Average	<ul style="list-style-type: none"> Additional charging of VAT, income tax, and the payment of tax penalties Increased tax payments 	<ul style="list-style-type: none"> Structured document flow and the timely submission of documents for tax audits Monitoring changes in requirements for "controlled debt" Timely preparation of documentation for transfer pricing transactions Completing the development of new railcar models, including next generation railcars that require additional operating costs Increasing the release of new types of rolling stock 	Risk unchanged: <ul style="list-style-type: none"> amendments were made to tax legislation in 2018 the VAT hike to 20% from January 1, 2019 will increase the cost of production and lead to a protracted decrease in EBITDA and the rate of return
Banking risk Risk of the termination of operating activities or the suspension of bank account transactions Risk of Western sanctions being extended to Russia's sovereign debt	Average	Weak	<ul style="list-style-type: none"> Failure to comply with the payment obligations on loans and to counterparties Suspension of the Company's activities 	<ul style="list-style-type: none"> Opening duplicate accounts at other banks Evaluating the financial condition of banks/credit rating (countries) when opening accounts The credit rating of partner banks is no less than "BB-" 	Risk increased: <ul style="list-style-type: none"> 63 banks had their licenses revoked in 2018 versus 47 in 2017. But most of the licenses were revoked from small banks that have an insignificant level of involvement in the system Non-residents made up 24.4% of the federal loan bond (OFZ) market as of January 1, 2019, which is 26% lower than at the beginning of the year (Statistics of the Central Bank of the Russian Federation OFZ 2019-01). The departure of foreign investors from the OFZ market may result in their withdrawal from bank debt, which would adversely affect the funding of banks and their activities possible U.S. sanctions against the state debt of the Russian Federation and state banks could adversely affect the Russian financial market
Credit risk Risk of the default of one or more railcar lessees that hold a substantial portion of the portfolio, and the risk of portfolio losses	Low	Average	<ul style="list-style-type: none"> Default of lessees Overdue contract payments Downtime of a portion of railcar consignments Forced decrease in rental rates during remarketing 	<ul style="list-style-type: none"> Employing a stringent credit policy when choosing customers that ensures diversification by industry Regular monitoring of a customer's current financial condition In the event of a lessee's anticipated default, searching for a new one in advance and concluding contracts in order to eliminate railcar downtime 	Risk unchanged: <ul style="list-style-type: none"> the freight market remains in a recovery phase and financially insolvent companies have left the market increase in freight traffic on the railway network (see above on p. XX) UWC's production plan for 2018 was fulfilled, and more than 90% of the railcars are sold under direct contracts. In 2019, the annual production plan remains at around 19,000–20,000 railcars. The company also plans to sell most of the railcars directly instead of through leasing contracts the fleet of cars that are owned and under financial lease decreased by 10% in 2018



Risk description	Probability	Impact	Potential implications of risk materialization	Risk management / mitigation methods	Changes compared with 2018 Forecast for 2019
Legal risks					
Legal risks Risk of a counterparty's insolvency	Low	Average	<ul style="list-style-type: none"> Bankruptcy of contractor / tenant / supplier Failure to comply with existing contracts / obligations Litigation Failure to receive VAT refund 	<ul style="list-style-type: none"> Conducting comprehensive legal due diligence of customers and suppliers when concluding an agreement Follow-up monitoring to identify breaches of contractual terms Regular monitoring of a counterparty's legal status 	Risk unchanged: <ul style="list-style-type: none"> the economic situation in Russia remains stable. Russian GDP grew by 2.3% in 2018, up from 1.6% a year earlier¹ GDP growth is expected to decline to 1.3% in 2019⁴
Ownership risks Risk of the loss of property ownership Risk of the loss of company management	Low	Strong	<ul style="list-style-type: none"> Loss of control over the Company Litigation Loss of ownership rights to assets (property and the Company) 	<ul style="list-style-type: none"> Monitoring the establishment of a corporate organizational structure Creating a system of control over the acquisition and disposal of assets Directors and managers liability insurance – D&O 	Risk unchanged
Risk of the loss of intellectual property rights Risk of the loss of rights to intellectual property items Risk of the illegal use of patents	Low	Average	<ul style="list-style-type: none"> Emergence of competitive analogues on the market at lower prices Failure to receive income under license agreements Litigation 	<ul style="list-style-type: none"> Legal review of intellectual property protection mechanisms Introducing non-disclosure and concluding non-disclosure agreements Monitoring the production volumes of licensed companies Timely development of new intellectual property 	Risk unchanged
Commercial risks					
Market risk The risk of a substantial change in prices for raw materials and the risk of changes in rental rates on the market	Low	Strong	<ul style="list-style-type: none"> Significant decrease in rental rates Decrease in revenue Reduced margin 	<ul style="list-style-type: none"> Stringent procurement policy for raw materials and components and holding tenders Expanding the range of components produced in-house Increasing the share of innovative cars that are less prone to falling prices in the overall fleet Using options to change rental rates in rental contracts Expanding and diversifying clientele Slashing expenditures and production costs 	Risk unchanged: <ul style="list-style-type: none"> the rolling stock rental market remains in a growth phase and demand for new railcars is growing demand for new railcars increased by 19% over the 12 months of 2018 compared with 2017¹ tariffs for freight rail traffic will be indexed at 3.5% in 2019⁴ there is still no surplus of gondola cars, which contributed to a further increase in rental rates to RUB 1,925 per day in December 2018 the producer price index for ferrous metals is expected to change at the level of 105.6% in 2019 versus 112.4% in 2018⁵
Risk of losing customers Risk of losing customers due to the loss of advantages in of cooperating with the Group	Low	Average	<ul style="list-style-type: none"> Reduced revenue due to a decrease in the size of the lease portfolio Downtime for part of the railcar fleet Additional administrative costs for the urgent expansion of clientele / sales of products at unacceptable prices 	<ul style="list-style-type: none"> Diversifying the clientele of the Group's leasing companies Selling products to related companies Regular work to improve railcar quality Improving the quality control of rolling stock repair and maintenance 	Risk unchanged
Risk of competitive advantage Risk of the emergence of competitors on the market with more attractive price offers and rental rates with similar railcar features	Average	Average	<ul style="list-style-type: none"> Decrease in rates and prices for innovative railcars 	<ul style="list-style-type: none"> Increasing the share of new generation railcars in the Company's railcar fleet Licensing the production of innovative railcars Expanding and diversifying clientele Concluding long-term lease contracts without the ability to lower rates and using fines for early termination Investing in R&D 	Risk increased: <ul style="list-style-type: none"> a glut is anticipated on the market in 2019 along with a 10% decrease in the production of freight cars compared with the 2018 figures to around 58,000–62,000 units. The trend of reduced competition in the industry will resume (IPEM data)
Service risk Risk of a lack of service centers that are capable of performing maintenance and aftersales service of Barber bogies	Low	Average	<ul style="list-style-type: none"> Loss of time and downtime Financial losses Maintenance problems with Barber bogies Reduced demand for both Barber bogies and railcars on such bogies 	<ul style="list-style-type: none"> Acquiring the Company's own car repair depots Expanding the network of service centers that repair railcars with enhanced performance features Providing training on the repair of Barber bogies Distributing components through the network of service centers 	Risk unchanged: <ul style="list-style-type: none"> the total number of UWC service centers and the number of highest category centers increased [see above on page XX]
Marketing risks					
Reputational risks Risk of losses due to the negative perception of the Company's image by lessees, contractors, business partners, the regulatory authorities, and creditors	Low	Weak	<ul style="list-style-type: none"> Deterioration of the Company's business reputation Loss of good relations with counterparties and doubts among creditors and counterparties about the Company's reliability and viability Dissemination of negative information about the Company and the deterioration of its reputation on the labor market as a result of its inability to hire the required employees from the market Loss of market share 	<ul style="list-style-type: none"> Verifying and tracking market information about counterparties Building long-term relationships with journalists and the media, monitoring sources of information, and tracking and refuting false information Working to build and maintain a positive business reputation Corporate staff relations and team building Promoting a positive image of the Company on social media and with feedback from Company employees 	Risk unchanged: <ul style="list-style-type: none"> UWC is the largest manufacturer of rolling stock with increased payload on the Russian market [see above on page XX] presence of high public ratings from leading agencies of the Russian Federation UWC shares are included in the MICEX index increasing the Company's position in rankings [Forbes, RAEX-600, and RBC 500] positive feedback in media publications



Risk description	Probability	Impact	Potential implications of risk materialization	Risk management / mitigation methods	Changes compared with 2018 Forecast for 2019
State regulation / Country risks Risk of changes in the political situation in the country and/or the deterioration of the business climate Risk of increased industry regulation and changing standards Risk of reduced state support for transport engineering enterprises	Low	Average	<ul style="list-style-type: none"> Loss of existing competitive advantages Decrease in demand and sales 	<ul style="list-style-type: none"> Participation in various production associations (Union of Railway Machinery Manufacturers, Union of Railcar Builders) Work with Russian Railways Risks of changes in the political situation in the country and/or the deterioration of the business climate are beyond the scope of control of UWC. Response measures and their parameters will depend on the particular situation in each particular case 	Risk unchanged: <ul style="list-style-type: none"> Directive No. 1756-r of the Government of the Russian Federation dated August 17, 2017 approved the Transport Engineering Development Strategy for the Period until 2030 a state program was implemented to replace the outdated railway car fleet and stimulate the production of innovative rolling stock Resolution No. 175 of the Government of the Russian Federation dated February 20, 2018 approved the provision of subsidies from the federal budget to organizations to reimburse a part of the costs associated with the acquisition of freight rolling stock The country risk remains high due to the complicated international political environment. Sanctions will influence the market for the transportation of large-tonnage goods over the next five years
Technical risks					
Infrastructure risk Risk of problems with information technologies Risk of the failure to comply with the business process automation schedule	Low	Weak	<ul style="list-style-type: none"> Partial or total loss of Company data Temporary shutdown of the Company 	<ul style="list-style-type: none"> Using virtualization systems in failsafe mode Storing mail on a remote server Placing servers in a remote location Monitoring information transmitted by employees to the external environment Data backup Separating levels of access to information depending on an employee's authority 	Risk unchanged
Risk of automation Risk of losses in the efficiency of business processes due to the existence of duplicate information systems and databases and due to violations of planned automation timelines	Low	Weak	<ul style="list-style-type: none"> Low efficiency of the Company's business processes Late preparation of financial and non-financial reporting as well as internal and external reporting Compilation of unreliable reports Failure to comply with tax laws and the requirements of in-house regulatory documents 	<ul style="list-style-type: none"> Introducing a single SAP financial management system at UWC enterprises – a common solution to automate planning, budgeting, and consolidation tasks Monitoring the timely implementation of access automation plans 	Risk unchanged: <ul style="list-style-type: none"> a unified data model will allow for tracking changes as quickly as possible, optimizing workflow, avoiding replication, and reducing data volume by several times target architecture assumes integration with existing ERP systems
Staff risks					
Human resource risk Risk of losing key employees who possess a commercial secret of the Company	Strong	Weak	<ul style="list-style-type: none"> Loss of the Company's key customers Leak / loss of sensitive financial information or trade secrets Loss of intellectual resources with the departure of key employees 	<ul style="list-style-type: none"> Having procedures to restrict access to information in accordance with an employee's authority and to introduce non-disclosure Verification of an employee by the internal security service during recruitment and proficiency testing 	Risk increased due to changes in the Company's management (read more in the "Management" section)
Motivational risk / Risk of loss of satisfaction Risk of discrepancies in current corporate principles with the expectations of most employees	Average	Weak	<ul style="list-style-type: none"> Dismissal of key employees due to diminished motivation Financial losses due to staff turnover or the leak of commercial information 	<ul style="list-style-type: none"> HR branding Improving the motivation and material incentive systems for employees Maintaining a competitive wage rate for employees 	Risk unchanged

¹ Picture of the Economy, January 2019 (Department of Macroeconomic Analysis and Forecasting of the Ministry of Economic Development of the Russian Federation).
² In accordance with information of the Bank of Russia dated February 8, 2019.
³ Medium-Term Forecast for the Development of the Russian Economy in 2019–2021 (dated November 22, 2018) of the National Research University Higher School of Economics.
⁴ Forecast for the Socioeconomic Development of the Russian Federation in the Period until 2024 of the Ministry of Economic Development of the Russian Federation.
⁵ Forecast of Deflator Indices and Producer Price Indices by Type of Economic Activity until 2024 (Ministry of Economic Development of the Russian Federation).

Internal Auditor

In order to monitor the financial and economic activities of UWC during the reporting year, the General Meeting of Shareholders elected the Internal Auditor, who conducts checks (audits) based on his own initiative, a resolution of the General Meeting of Shareholders or the Board of Directors, or at the request of a shareholder who owns at least 10% of the Company's voting shares. As of December 31, 2018, Alexander Godeyev was the Company's Internal Auditor.

During the reporting year, the Internal Auditor audited the annual financial statements and the Annual Report of UWC for 2017 based on which he prepared the corresponding report dated May 11, 2018. No remuneration was paid to the Internal Auditor in 2018.

External audit

In order to confirm the accuracy of the consolidated financial statements per IFRS and financial statements per RAS, UWC hires an independent external auditor that is approved by the General Meeting of Shareholders based on a recommendation from the Board of Directors.

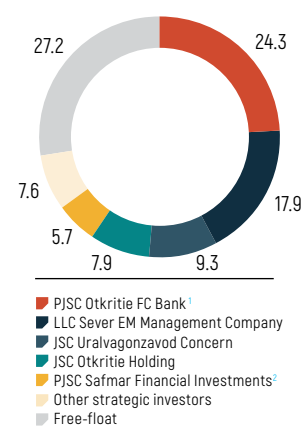
In 2018, Deloitte & Touche CIS was approved as the Company's external auditor. The External Auditor was paid RUB 13,775,000 for the audit of the financial statements per RAS and the consolidated financial statements per IFRS for 2017 (excluding VAT).



INFORMATION FOR SHAREHOLDERS AND INVESTORS

Charter capital

Structure of UWC shareholders as of December 31, 2018, %



UWC held an initial public offering (IPO) on the Moscow Stock Exchange in April 2015. During the IPO, 12,896,570 shares were sold to investors, or 12.22% of the Company's charter capital, including 5,556,000 shares from an additional issue and 7,340,570 shares owned by United Wagon Plc. The offer price was set at RUB 700 per ordinary share. The Company raised RUB 9.028 billion as a result of the placement.

In May 2016, UWC conducted a secondary public offering (SPO). The company sold 7,867,948 shares, or 6.9% of its charter capital, for a total of more than RUB 5 billion. The offer price was set at RUB 640 per share.

In April–May 2017, UWC held an SPO for 2,572,741 shares, or 2.2% of its increased charter capital, and raised a total of RUB 1.9 billion. The offer price was set at RUB 720 per share.

As of December 31, 2018, UWC had charter capital of RUB 115,996,689 split into 115,996,689 uncertified registered ordinary shares with a par value of RUB 1 each. In addition to the outstanding shares, the Company may place 489,559,311 registered ordinary shares with a par value of RUB 1 each.

UWC has no preferred shares. The Russian government has no stake in the Company's charter capital.

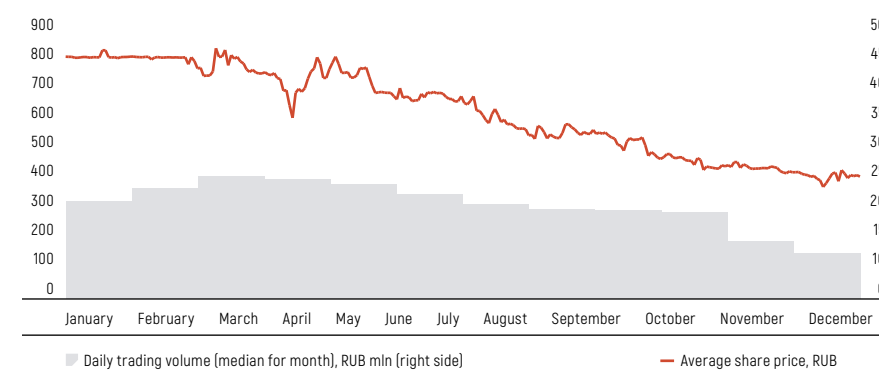
Shares

The Company's shares are listed on the Moscow Stock Exchange (ticker - UWGN) and as of December 31, 2018 were included in the first-tier quotation list. The shares are traded in T+2 trading mode and are included in the following Russian stock indexes: Moscow Exchange SMID Index and the Moscow Exchange Broad Market Index.

¹ Indirect ownership through bank-controlled private pension funds whose pension savings are managed by LLC Management Consulting.

² Indirect ownership through private pension funds controlled by the Company whose pension savings are managed by JSC IQG Asset Management.

Changes in trading volume³ and quotations of UWC shares on the Moscow Exchange in 2018



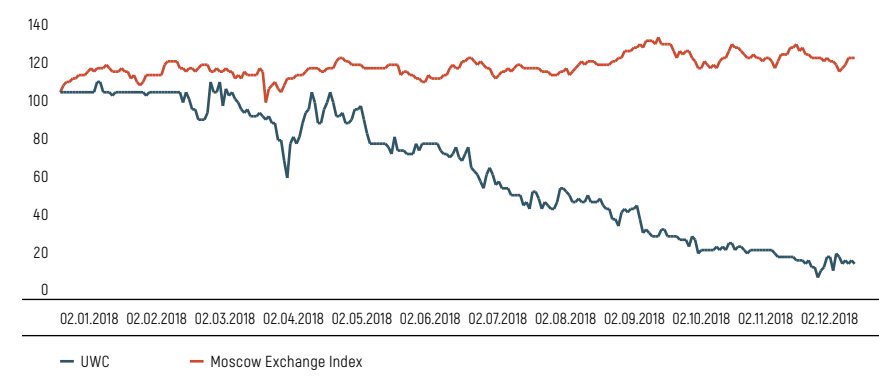
The Company's market capitalization decreased by 49.7% over the reporting period and stood at USD 46.1 billion as of December 31, 2018.⁴ The negative trend was seen starting in May 2018, when corporate litigation began with the management companies of the Safmar funds (read more below).

Changes in UWC share prices

Indicator	2015	2016	2017	2018
Closing price on the first day of trading	706	738	795	790
Maximum closing price	773	797	828	818
Minimum closing price	698	641	721	363
Closing price on the last day of trading	739	795	790	397

Due to the sharp decline in quotations as a result of the corporate dispute in the second half of 2018, the changes in UWC shares turned out to be worse than the changes in the Moscow Exchange Index for the year.

Changes in UWC share quotes and the Moscow Exchange Index in 2018, %



During the reporting year, two companies carried out analytical coverage of UWC: Renaissance Capital and Hypothesis Research.⁵ Renaissance Capital's rating as of January 10, 2019 was HOLD, with a target share price of RUB 550. Hypothesis Research's target score was RUB 611–806 per share.

³ Including transactions in negotiation mode.

⁴ Market capitalization was calculated using data on the market price (closing price as of the end of the relevant reporting period) of a UWC ordinary common share as disclosed by the Moscow Exchange on the website <http://www.micex.ru/marketdata/quotes>.

⁵ Paid analytical coverage.



Corporate litigation

Dividend policy

UWC's dividend policy aims to maintain a balance between the distribution of dividends and an increase in the Company's capitalization through reinvestment into its own development. Utilizing this approach, the Company increases its shareholder value in the long term.

The procedure used to adopt decisions on the payment of dividends and the calculation of dividends is regulated by the existing legislation of the Russian Federation, the UWC Charter, and the Company's Regulation on the Dividend Policy. When providing recommendations 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 an optimal combination of UWC's effective development and respect for shareholders' rights to receive a portion of net profit as dividends.

Dividends are paid from the Company's net profit, which is determined based on the accounting (financial) statements prepared in accordance with Russian law. Dividends may be paid from the retained earnings of previous years. The decision to pay dividends is adopted by the UWC General Meeting of Shareholders based on recommendations from 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 previous years.

UWC held an Extraordinary General Meeting of Shareholders on March 19, 2018 at which several transactions were approved to provide UWC with guarantees on the obligations of a UWC subsidiary under freight car sales contracts with one of the Company's largest customers – PJSC State Transport Leasing Company (STLC). More than 24,000 railcars were to be supplied under the contracts with delivery scheduled for 2018-2019.

The contracts were concluded following long-term work with PJSC STLC and were certainly an extremely important factor for the development of the UWC's business. Based on the insistent demands of PJSC STLC, the transactions involving the issuance of guarantees were approved as major transactions. However, they did not constitute major transactions since they were part of UWC's normal business activities involving the production and supply of freight cars. Such transactions fall within the purview of the Company's executive body – the CEO. In this regard, the General Meeting of Shareholders adopted a resolution to approve these transactions in violation of its purview, which means that these resolutions are void by virtue of the law.

In accordance with Russian law, shareholders who did not vote at the Extraordinary General Meeting of Shareholders on these items were granted the right to demand that the Company buy back all or part of their shares. Despite the economic substantiation and profitability of these transactions for UWC, a number of shareholders took advantage of their formal right and filed requests for the buyback of their shares with UWC. In particular, these shareholders included the management companies LLC Investment Management MC and JSC IQG Asset Management, which manage the funds of JSC SAFMAR Private Pension Fund and JSC Doverie Private Pension Fund (both of which belong to PJSC Safmar Financial Investments). The buyback requests amounted to RUB 8.2 billion, or 10% of UWC's net assets.

Thus, the aforementioned resolutions of the Extraordinary General Meeting of Shareholders forced UWC to deal with an unsubstantiated request by shareholders to buy back their shares. In order to protect the interests of shareholders and ensure the continuity of the Company's activities, the UWC CEO at that time, who was also a shareholder and member of the Company's Board of Directors, filed a lawsuit in the Moscow Arbitration Court challenging the resolutions of the Extraordinary General Meeting of Shareholders. This step aimed to ensure that the transactions comply with the requirements of legislation.

The rationale behind the lawsuit is that the aforementioned transactions did not constitute major transactions based on a number of criteria since they were concluded within the framework of the Company's normal business activities and thus should not have been approved at a General Meeting of Shareholders. Consequently, shareholders had no grounds to demand that the Company buy back all or part of their shares.

The management companies that filed the share buyback requests were involved in the proceedings as third parties. In addition, each of the management companies filed a lawsuit against UWC to force the share buyback.

As of December 31, 2018, the status of the proceedings was as follows:

- on December 13, 2018, the Moscow Arbitration Court fully dismissed the lawsuit of LLC Investment Management MC to force the buyback of their block of shares in the Company's charter capital. The court had previously dismissed a similar claim from JSC IQG Asset Management on December 6, 2018.
- on November 20, 2018, the Ninth Arbitration Court of Appeal of Moscow fully overturned the decision of the Moscow Arbitration Court based on a lawsuit filed by Roman Savushkin, the CEO of UWC until December 20, 2018, and invalidated the resolutions of the Extraordinary General Meeting of Shareholders approving the Company's guarantees for the subsidiary's obligations under the freight car sales contracts. Thus, the court affirmed UWC's position that there were no grounds for the share buyback requests by shareholders who did not participate in the Extraordinary General Meeting of Shareholders or voted against these items.

On April 18, 2019, the Arbitration Court of the Moscow District reviewed a cassation appeal by JSC IQG Asset Management against the decision of the Ninth Arbitration Court of Appeal of Moscow dated November 20, 2018. The Arbitration Court of the Moscow District dismissed the cassation appeal and upheld the decision rendered by the court of appeal.

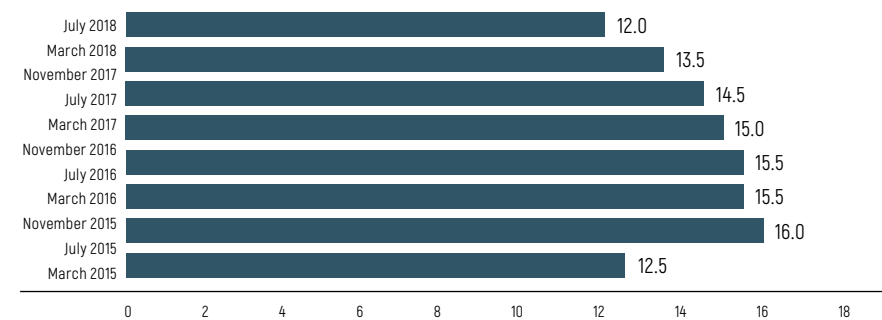
Bonds

LLC UWC Finance, a subsidiary of UWC, is the bond issuer. As of the end of 2018, the Company had two outstanding bond issues with a total volume of RUB 30 billion.

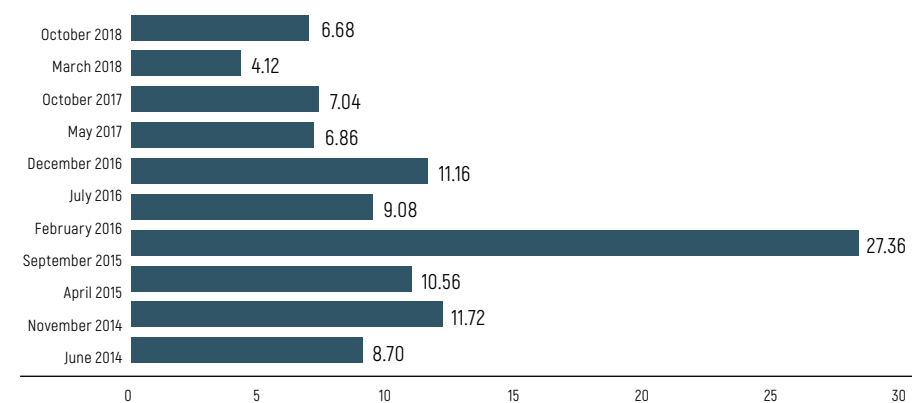
Parameters of UWC Finance bonds

Description	Exchange-traded ruble bonds series B0-01	Ruble bonds series 01
Issue volume	RUB 15,000,000	RUB 15,000,000
Face value	RUB 1,000	RUB 1,000
Issue date	09/16/2014	12/04/2013
Maturity date	09/10/2019	11/24/2021
Annual rate of coupon 1	12.5%	8.7%
Annual rate of coupons 2-6	Bank of Russia REPO + 3.5%	CPI + 3%
Coupon period	182 days	182 days
Trading platform	Moscow Exchange	Moscow Exchange

Changes in coupon rates of exchange-traded ruble bonds series B0-01, %



Changes in coupon rates of ruble bonds series 01, %



Interaction with shareholders and investors

UWC places a high priority on building trust-based relationships both with existing shareholders and potential investors. The Company has a Department for Relations with Investors and Financial Institutions, whose main objective is to develop tools for engagement with the investment community in compliance with the best standards of information disclosure and maximum information transparency. The key tools include:

- arranging meetings and calls with investors and analysts
- participating in conferences
- preparing presentations and press releases on operational and financial results (each quarter and each half)
- preparing press releases on other information events that are relevant for investors
- maintaining a section for investors on the Company's official website
- regularly mailing the Company's materials to analysts and investors

In an effort to consistently improve its information disclosure level, the Company presented information about its quality management system in the 2017 Annual Report for the first time, improved the presentation of its business model, expanded the set of staff and environmental indicators, and improved the section for investors and shareholders.

In the reporting year, the Company adopted an IR action plan for 2019 that aims to improve its information disclosure tools and develop interaction with existing and potential investors.



Learn more:

[Information for investors and shareholders on the Company's website](#)
[Regulation on the Information Policy of PJSC RPC UWC](#)

GROWTH TRACKS

Ammonia tank car



APPENDIX



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DISCLAIMER

The Annual Report of Public Joint-Stock Company Research and Production Corporation United Wagon Company was tentatively approved by a resolution of the UWC Board of Directors dated May 27, 2019. The reliability of the data contained in the Annual Report has been confirmed by the Company's Internal Auditor.

In this report, unless otherwise specified, operational and economic performance indicators were determined in accordance with IFRS principles.

The analysis of the financial performance results should be viewed in the context of the audited consolidated financial statements of UWC per IFRS for the year ended on December 31, 2018.

This Report may include forward-looking statements. Such statements may contain words such as "assumes," "believes," "intends," "anticipates," "expects," "will," "may," "forecasts," "plans," and other words with similar meanings. 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 management with regard to future operational activities (including development plans and goals) constitute forward-looking statements. Such forward-looking statements do not report historical or current facts; they cannot be objectively verified, are based on assumptions, and are subject to their inherent risks (known and unknown) and uncertainty. A number of important factors may result in actual results, indicators, or achievements differing 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 relevant only as of the date of this Report, and the Company expressly refuses (to the fullest extent permitted by law) to undertake any obligations with respect to 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 a forecast with respect to profit.

LIST OF SUBSIDIARIES COVERED BY THE REPORT

Company name	Place of registration	Principal activities	Ownership interest in the Group	
			At 31 December 2018	At 31 December 2017
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%
RAIL 1520 LLC	Russian Federation	Operating lease of railcars	100%	100%
Rail 1520 Service LTD	Cyprus	Investment company	100%	100%
Rail 1520 Service Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Service LLC	Russian Federation	Operating lease of railcars	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 Cyprus LTD	Cyprus	Investment company	100%	100%
TZK UWC LLC	Russian Federation	Sale of railcars, castings and components	100%	100%
Ovilleno Holdings LTD	Cyprus	Investment company	99%	99%
TyazhMash Joint Stock Company	Russian Federation	Production of railcars	99%	99%
VNICTT LLC	Russian Federation	Engineering and construction bureau	99%	99%
Trade House "UWC" LLC	Russian Federation	Sale of railcars, castings and components	99%	99%
Springs Industrial Technology Center LLC	Russian Federation	Production of springs	99%	99%
TM-Energo LLC	Russian Federation	Power generation	99%	99%
TM-Energoservice LLC	Russian Federation	Power generation	99%	-
TM-Energomash LLC	Russian Federation	Power generation	99%	-
TM-Energoprom LLC	Russian Federation	Power generation	99%	-
TAP Titran-Express JSC	Russian Federation	Repair/production of railcars	99%	99%
UW Forge Company LTD	Cyprus	Investment company	99%	99%
UWC Centrokuz LLC	Russian Federation	Production of railcars	99%	99%
Restadiana Ventures LTD	Cyprus	Investment company	99%	99%
Unikon 1520 LLC	Russian Federation	Organization of transportation of goods	99%	99%
RAIL 1520 Cyprus Management Company LTD	Cyprus	Investment company	100%	100%
UWC Finance LLC	Russian Federation	Issuance of debt securities	100%	100%
RAIL 1520 Tank Cars (BVI) Holding LTD	BVI	Investment company	100%	100%
RAIL 1520 Tank Cars Cyprus Holding LTD	Cyprus	Investment company	99%	99%
TikhvinChemMash Joint Stock Company	Russian Federation	Production of tank cars	99%	99%
TikhvinSpetsMash Joint Stock Company	Russian Federation	Production of platform cars	100%	100%
Holm 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	99.97%	99.97%
DEANROAD Limited	Cyprus	Development of production technology for the plant	98.97%	98.97%
Tikhvin Railway Car Building Plant Joint Stock Company (TVSZ JSC)	Russian Federation	Production of railcars	99.97%	99.97%
United Wagon Europe GmbH	Germany	Investment company	99.97%	-
Uniwagon North America Corp	USA	Investment company	100%	100%
Starfire Engineering, Inc.	USA	Engineering and construction bureau	100%	100%
Rail Holding LTD	BVI	Investment company	100%	100%
Rail 1520 Invest LLC	Russian Federation	Operating lease of railcars	100%	-
SZIPK CJSC ¹	Russian Federation	Operating company providing utilities	99%	-

¹ Acquired in 2018 (Note 6).



BRIEF HISTORY OF THE COMPANY

2004

- Start of construction on Tikhvin Freight Car Building Plant.

2010

- ICT Group and Wabtec Corporation (USA) signed an agreement on cooperation in technological innovations under which the Russian company acquired the exclusive intellectual ownership of the Barber S-2-R bogie.

2011

- Tikhvin Freight Car Building Plant made its first supply of hopper cars to Freight One railway company for pilot-controlled operation.
- The operational freight car leasing company RAIL 1520 was established.

2012

- The official opening ceremony of Tikhvin Freight Car Building Plant was held.
- LLC United Wagon Company was established to manage the operations of Tikhvin Freight Car Building Plant and RAIL 1520 leasing company.
- ICT Group and Mitsui & Co Ltd of Japan agreed to establish a joint venture in the freight car operating lease business.

2013

- Tikhvin Freight Car Building Plant launched the first mass-produced railcars using innovative Barber bogies and entered the railway market of the CIS and Baltic countries.
- Tikhvin Freight Car Building Plant was certified for compliance with the International Railway Industry Standard (IRIS).
- United Wagon Company and Wabtec Corporation signed an agreement to establish a joint venture to develop and manufacture innovative components for freight rolling stock, including heavy haul rolling stock.
- Unified Wagon Company and Siberian Coal Energy Company carried out the first major transaction on the Russian market for the supply of mass-produced new generation railcars based on bogies with axle load of 25 tf (6,000 railcars) produced by Tikhvin Freight Car Building Plant.
- United Wagon Company joined the International Association of American Railroads (AAR), whose members include the largest producers of rolling stock and machine building equipment as well as railway infrastructure owners in North America. AAR membership gives the Company an opportunity to exchange experience and take part in R&D and operational programs carried out by AAR for the mass introduction of new generation rail equipment, in particular for heavy haul rolling stock.
- United Wagon Company signed the first long-term cooperation agreements for the maintenance and servicing of new generation freight cars with Wagon Repair Company No. 1, Wagon Repair Company No. 2, Transwagonmash, Siberian Wagon Repair Company, and Kamkor Wagon (Kazakhstan).

2014

- United Wagon Company and Timken (USA) signed an agreement on the establishment of a joint venture in Russia to produce Timken®AP-2TM integrated bearings for new generation railcars.
- Establishment of the All-Union Research and Development Center for Transportation Technology, a design office that conducts experimental work and introduces technological developments in the freight railway transportation sector.
- Establishment of the transportation company Vostok 1520, which offers a wide range of freight railway transportation services using railcars with improved performance features.
- Conclusion of a transaction to acquire a 100% stake in LLC NPC Springs, which produces ultra-heavy duty railway springs, from OJSC RUSNANO and OJSC Izhevsk Machine-Building Plant.
- LLC United Wagon Company was reorganized into CJSC Research and Production Corporation United Wagon Company.

2015

- RPC United Wagon Company was included in a list of systemically important enterprises of the Russian Federation approved by the Government of the Russian Federation.
- RPC United Wagon Company placed 12.22% of its shares on the Moscow Exchange for a total of RUB 9.028 billion as part of an initial public offering (IPO).
- RPC United Wagon Company and Wabtec Corporation signed a contract on the supply of railcar foundry products to the U.S. market.
- Launch of TikhvinChemMash, which produces new generation tank cars with improved carrying capacity for the transportation of the entire range of chemical products.
- RPC United Wagon Company acquired a 100% stake in Transmashenergo, the customer for the construction of a gas piston thermal power plant to ensure the energy security of UWC's production facilities within the Tikhvin Industrial Site.

2016

- TikhvinSpetsMash, which produces specialized railcars, launched production activities, and the first timber flatcars with improved carrying capacity were shipped to Locotrans.
- NPC Springs supplied its first batch of railcar spring sets to the United States.
- As part of its strategy to diversify business and expand the service center network for the maintenance and repair of UWC's new generation railcars, RPC United Wagon Company acquired a 100% stake in Tikhvin Assembly Plant Titran-Express. The plant has become the main center of the service network.
- RPC United Wagon Company completed a secondary public offering (SPO) for 6.9% of its ordinary shares on the Moscow Exchange for more than RUB 5.0 billion.
- RPC United Wagon Company opened a representative office in the U.S. – Uniwagon North America Corp. (New Jersey).
- PTK Holding sold 100% of its shares in Vostok 1520 company owned by RPC United Wagon Company for the subsequent acquisition of a 19.9% stake by the latter in exchange.
- RPC United Wagon Company presented samples of its advanced products – articulated gondola cars with a body volume of 135 cubic meters on a 25-tf bogie and a general-purpose gondola with a body volume of 108 cubic meters on a 27-tf bogie.
- Tikhvin Freight Car Building Plant began producing VCh120 mass-produced heavy-duty cast iron parts with isothermal hardening as part of its import replacement program.
- RPC United Wagon Company, as represented by the office of Uniwagon North America Corp. (USA), joined the Railway Supply Institute (RSI) International Association, which unites more than 250 companies in North America that supply equipment, rolling stock, and services on the freight and passenger railway transportation market. Membership in the RSI gives the Company an opportunity to actively represent its interests and promote Russian products on the North American market.

2017

- RPC United Wagon Company acquired a 19.9% stake in JSC First Heavy Haul Company, a major owner and operator of new generation freight cars with a fleet of more than 28,000 railcars.
- UWC Time, the corporate magazine for customers of RPC United Wagon Company, won the 14th national competition "Best Corporate Media 2017" in the category "Image and Brand Promotion."
- Establishment of the railway operator UNICON 1520, which specializes in the organization of transport services and multimodal logistics for tank containers and containers.
- RPC United Wagon Company held a secondary public offering of 2.6 million shares (2.2% of its increased charter capital) on the Moscow Exchange for a total of RUB 1.9 billion.
- A project was launched to introduce the SAP S/4HANA enterprise resource management system at RPC United Wagon Company.
- JSC TikhvinSpetsMash obtained certificates for the compliance of its quality management system with the requirements of the international standard ISO 9001:2015 and the interstate standard GOST R ISO 9001 –2015.
- RPC United Wagon Company and the railway concern Skinest Rail in Estonia opened the first service center on the territory of the Baltic States based at JSC Valga Depot.

AUDITOR'S REPORT AND IFRS CONSOLIDATED FINANCIAL STATEMENT

- ICT Group Ltd. reduced its stake in RPC United Wagon Company from 25.05% to 14.3% as a result of a number of transactions carried out in accordance with the investment strategy of ICT Holding Ltd. for the planned reduction of its ownership in RPC United Wagon Company from the time of the Company's public offering of its shares on the exchange in 2015.
- RPC United Wagon Company won the 8th annual competition of Russian Railways for the best rolling stock quality and complex engineering systems in the "Rolling Stock" category for gondola model 12-9853 with discharge doors on a bogie with a 25-ton axle load.
- An AAR quality certificate was obtained and TVSZ started shipping its large railcar castings to the North American market.
- RPC United Wagon Company joined the Russian Union of Industrialists and Entrepreneurs (RUIE), which represents the interests of domestic businesses both in Russia and internationally.
- RPC United Wagon Company finished second (based on its average annual revenue growth ratio) in the annual ranking of the 50 fastest growing companies in Russia according to RBC Magazine. In terms of revenue for 2016, the Holding ranked 211th in the ranking of the 500 largest Russian companies according to the magazine.
- JSC Tikhvin Freight Car Building Plant and JSC TikhvinChemMash completed certification procedures for compliance with the new international standard for quality management systems in the railway industry – ISO/TS 22163:2017.
- RPC United Wagon Company and LLC LDZ ritošā sastāva serviss (RSS) signed a strategic partnership agreement concerning repairs and the opening of a service center in Latvia based at the Daugavpils Railcar Repair Center.

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED DECEMBER 31, 2018

Management is responsible for the preparation of the consolidated financial statements that present fairly the consolidated 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, 2018, and the consolidated results of its operations, cash flows and changes in equity for the year then ended, in accordance with International Financial Reporting Standards ("IFRSs").

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 ensure that users are able 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, 2018 were approved by management on May 23, 2019.

On behalf of the Management:



Timofey Khryapov
Chief Executive Officer
PJSC RPC UWC



INDEPENDENT AUDITOR'S REPORT

To the Shareholders and the Board of Directors of Public Joint Stock Company "Research and Production Corporation "United Wagon Company":

Qualified Opinion

We have audited the consolidated financial statements of Public Joint Stock Company "Research and Production Corporation "United Wagon Company" and its subsidiaries (hereinafter – the "Group" or PJSC "RPC UWC"), which comprise the consolidated statement of financial position as at December 31, 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the effects of the matters described in the *Basis for Qualified Opinion* section of our report, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Group as at December 31, 2018, and its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs").

Basis for Qualified Opinion

As disclosed in Note 4 to the consolidated financial statements, the Group recognized revenue from sale of railcars in the amount of RUB 6 589 million for the year ended December 31, 2016. In our opinion, the above revenue should have been recognized in 2017, as some of the revenue recognition criteria set out by IAS 18 "Revenue" had not been met in 2016. If this revenue had been appropriately recognized in 2017, the revenue and cost of sales for 2017 would have increased by RUB 6 589 million and RUB 5 374 million, respectively. Net loss for 2017 would have decreased by RUB 972 million. The full effect of the misstatement on the Group's consolidated financial statements for the year ended December 31, 2017 is disclosed in Note 4. Accordingly, we expressed qualified opinion on the consolidated financial statements for 2017 in relation to this misstatement. Our opinion on the consolidated financial statements for the reporting period has also been qualified due to the influence of this matter on the comparability of current and previous reporting periods.

As disclosed in Note 25 to the consolidated financial statements, as at December 31, 2018 and 2017 a number of subsidiaries of the Group did not comply with certain financial and non-financial covenants of their loan agreements. Non-compliance with these covenants could have resulted in penalties being imposed by the banks, including the right to request early repayment of the loans. After the reporting date the Group received documents confirming the consent of the creditors not to request early repayment of the existing obligations under all the loan agreements with the breached covenants (Note 25). The management assessed probability of the call for early repayment of the loans, as low. As a result, the loans in the amount of RUB 22 845 and 45 800 million as at December 31, 2018 and 2017, respectively, are presented in the consolidated financial statements as non-current, in line with the initial repayment terms of the loan agreements. In our opinion, according to the requirements of IAS 1 "Presentation of financial statements", the Group should have classified these loans as current because as at December 31, 2018 and 2017 the Group did not have an unconditional right to postpone the repayment of these loans for at least 12 months after the reporting date.

We conducted our audit in accordance with International Standards on Auditing ("ISAs"). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the International Ethics Standards Board for Accountants' *Code of Ethics for Professional Accountants* (the "IESBA Code") together with the ethical requirements that are relevant to our audit of the financial statements in the Russian Federation, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our qualified opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. In addition to the matter described in the *Basis for Qualified Opinion* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Why the matter was determined to be a key audit matter?

How the matter was addressed in the audit?

Goodwill impairment test and its carrying value assessment

As at December 31, 2018 the carrying value of goodwill amounted to RUB 8 778 million (2017: RUB 8 042 million).

Further details are disclosed in Note 15 to the consolidated financial statements.

We consider impairment of goodwill to be a key audit matter because impairment assessment using valuation techniques involves using significant estimates and assumptions, such as future selling price of railcars and their estimated production costs, future sales volumes and discount rate. In addition, estimated recoverable amount is highly sensitive to changes in the above mentioned assumptions.

We obtained an understanding of Group's goodwill impairment review processes and assessed impairment methodology for its compliance with the standards requirements.

We performed the following audit procedures in respect to the goodwill impairment assessment and testing performed by the Group's management:

- checked the appropriateness of goodwill allocation to the relevant cash generating units;
- verified that the input data used in the impairment testing models is consistent with the approved budgets and forecasts;
- with the assistance of our internal valuation specialists, challenged reasonableness of key assumptions used in management's forecasts, including the discount rate;
- performed sensitivity analysis of the impairment models' key assumptions within the range of their reasonably possible changes; and
- checked adequacy and completeness of the related disclosures in the consolidated financial statements.



Why the matter was determined to be a key audit matter?	How the matter was addressed in the audit?
<p>Uncertainty related to going concern</p> <p>As at December 31, 2018 several subsidiaries of the Group did not comply with certain obligatory financial and non-financial covenants set out in the loan agreements. As a result, of non-compliance, the loans became payable on demand.</p> <p>Additionally, during 2018 and 2017 the Group incurred losses and as at December 31, 2018 its current liabilities, net of the loans with the breached default covenants, exceeded its current assets by RUB 22 486 million.</p> <p>The Group's management assessed the negative factors mentioned above and concluded that the going concern basis is appropriate due to the following:</p> <ul style="list-style-type: none"> • after the reporting date the Group received official letters from creditor banks confirming their intention not to demand early repayment of the existing borrowings with the breached covenants; • after the reporting date a short-term restructuring of the debt portfolio was carried out and the Group received a preliminary approval from the bondholders for the maturity change of the BO 01 series commercial bonds with outstanding amount of RUB 15 000 million. The maturity date for bonds was postponed from the 3rd quarter 2019 to December 31, 2023; • the Group is in the process of restructuring of its loan portfolio and is negotiating a new set of covenants to the loan agreements with the main creditor. <p>Further details are disclosed in Notes 2 and 25 to the consolidated financial statements.</p> <p>We focused on this area because the Group's ability to continue as a going concern has a pervasive effect on the consolidated financial statements. Significant judgment is required for evaluating the Group's future operating and financial performance, as well as the ability of the Group to complete the restructuring process and ensure compliance with the covenants in future.</p>	<p>We performed the following audit procedures:</p> <ul style="list-style-type: none"> • analysed management's assessment of the appropriateness of going concern assumption, including evaluation of the Group's plans in respect of elimination of the negative effects of non-compliance with covenants as well as the Group's debt portfolio restructuring under such conditions that would allow to reduce the Group's indebtedness and ensure its ability to settle short-term liabilities in due course; • verified that after the reporting date the Group received documents confirming intention of all of the creditor banks not to demand early repayment of the existing borrowings with breached covenants; • analysed management's forecasts in respect of the Group's future performance and assessed the reasonableness of key assumptions used in the forecasts; • verified completeness and adequacy of the related disclosures in the consolidated financial statements.

Other Information

Management is responsible for the other information. The other information comprises the information included in the Annual report and the issuer's quarterly reports for the 1st and 2nd quarters of 2019, but does not include the consolidated financial statements and our auditor's report thereon. We received the issuer's quarterly report for the 1st quarter of 2019 before the date of the auditor's report. The Annual report and the issuer's quarterly reports for the 2nd quarter of 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

If, based on our review of the Annual report and the issuer's quarterly reports for the 2nd quarter of 2019, we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance IFRSs, 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.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period, which constitute the key audit matters included herein.


 Metelkin Egor Alexandrovich
 Engagement leader
 May 23, 2019


Entity: PJSC RPC UWC

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

Primary state registration number: 1147746600539

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

Audit firm: AO Deloitte & Touche CIS

Certificate of state registration No. 018.482, issued by Moscow Registration Chamber on October 30, 1992.

Primary state registration number: 1027700425444

Certificate of registration in the Unified State Register No. 77 004840299 issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation No 39 on 13 November 2002

Member of Self-Regulated Organization Russian Union of Auditors (Association), ORNZ 11603080484.

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

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2018
(in millions of Russian Rubles, unless otherwise indicated)**

	Notes	2018	2017
Revenue	7	76 443	62 020
Cost of sales	8	(66 774)	(52 073)
Gross profit		9 669	9 947
Selling, general and administrative expenses	9	(3 919)	(2 625)
Share of (loss)/profit of associates and joint ventures	16	(2)	370
Other operating income, net		75	38
Impairment of non-current non-financial assets	13,14	(1 580)	-
Operating profit		4 243	7 730
Finance income	10	1 764	2 449
Finance costs	11,22	(15 512)	(13 675)
Foreign exchange gain/(loss), net		51	(154)
Loss before income tax		(9 454)	(3 650)
Income tax expense	12	(323)	(875)
LOSS FOR THE YEAR		(9 777)	(4 525)
Other comprehensive income			
<i>Items that will not be reclassified subsequently to profit or loss:</i>			
Gain on revaluation of property, plant and equipment	13	4 714	-
Deferred tax liability on revaluation of property, plant and equipment	12	(943)	-
Other comprehensive income		3 771	-
TOTAL COMPREHENSIVE LOSS		(6 006)	(4 525)
Loss per share			
Weighted average number of ordinary shares outstanding		115 996 689	115 122 662
Loss per share, RUB		(84)	(39)

The notes on pages 133-190 form an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"****CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2018
(in millions of Russian Rubles, unless otherwise indicated)**

	Notes	31 December 2018	31 December 2017
ASSETS			
Non-current assets			
Property, plant and equipment	13	82 784	80 237
Prepayments for property, plant and equipment and intangible assets		510	179
Intangible assets	14	6 109	6 732
Goodwill	15	8 778	8 042
Deferred tax assets	12	3 454	2 949
Investments in associates and joint ventures	16	1 154	1 175
Loans receivable	22	9 265	12 503
Prepayment for subsidiary acquisition	6	-	2 000
Long-term trade receivables from the sale of railcars	19	495	565
Finance lease receivables		-	201
Restricted cash	23	146	-
Other non-current assets	17	1 374	649
Total non-current assets		114 069	115 232
Current assets			
Inventories	18	11 812	12 118
Trade and other receivables	19	8 490	3 510
Finance lease receivables		-	23
VAT receivable		5 995	6 847
Prepayments to suppliers and other assets	21	4 969	3 341
Prepaid income tax		1 091	695
Investment in PTK Holding JSC		-	1 773
Loans receivable	22	92	56
Restricted cash	23	2 117	807
Short-term bank deposits	20	-	5 038
Cash and cash equivalents	23	10 871	3 799
Total current assets		45 437	38 007
TOTAL ASSETS		159 506	153 239
EQUITY AND LIABILITIES			
Equity and reserves			
Share capital issued	24	116	116
Additional paid-in capital	24	22 993	22 993
Reserve on revaluation of property, plant and equipment	13	12 936	9 171
Accumulated deficit		(28 550)	(18 579)
Total equity and reserves		7 495	13 701
Non-current liabilities			
Long-term loans and borrowings	25	44 000	75 215
Bonds	26	14 793	29 799
Long-term finance lease liabilities	29	18 282	156
Liability under a leaseback transaction with GTLK PJSC	29	4 967	-
Deferred tax liabilities	12	1 818	479
Accrued expenses for employee remuneration	28	150	156
Advances received	28	78	-
Total non-current liabilities		84 088	105 805
Current liabilities			
Short-term loans and borrowings	25	18 087	6 962
Bonds	26	15 640	671
Short-term finance lease liabilities	29	3 188	39
Liability under a leaseback transaction with GTLK PJSC	29	1 532	-
Trade and other payables	27	4 893	5 393
Advances received and other current liabilities	28	24 583	20 668
Total current liabilities		67 923	33 733
TOTAL LIABILITIES		152 011	139 538
TOTAL EQUITY AND LIABILITIES		159 506	153 239

The notes on pages 133-190 form an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
"RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"****CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2018
(in millions of Russian Rubles, unless otherwise indicated)**

	Share capital issued	Additional paid-in capital	Reserve on revaluation of property, plant and equipment	Accumulated deficit	Total equity
Balance at 1 January 2017	113	21 169	9 193	(14 076)	16 399
Loss for the year	-	-	-	(4 525)	(4 525)
Total comprehensive loss for the year	-	-	-	(4 525)	(4 525)
Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period	-	-	(22)	22	-
Issue of shares during additional public offering, net of issuance costs (Note 24)	3	1 824	-	-	1 827
Balance at 1 January 2018 (as previously reported)	116	22 993	9 171	(18 579)	13 701
Effect of change in accounting policy due to adoption of IFRS 9, net of tax effect (Note 3)	-	-	-	(200)	(200)
Balance at 1 January 2018 (as restated)	116	22 993	9 171	(18 779)	13 501
Loss for the year	-	-	-	(9 777)	(9 777)
Gain on revaluation of property, plant and equipment, net of tax effect (Note 13)	-	-	3 771	-	3 771
Total comprehensive loss for the year	-	-	3 771	(9 777)	(6 006)
Reclassification of gain on revaluation of property, plant and equipment disposed of during the reporting period	-	-	(6)	6	-
Balance at 31 December 2018	116	22 993	12 936	(28 550)	7 495

The notes on pages 133-190 form an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
 "RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"**
**CONSOLIDATED STATEMENT OF CASH FLOWS
 FOR THE YEAR ENDED 31 DECEMBER 2018
 (in millions of Russian Rubles, unless otherwise indicated)**

	2018	2017
OPERATING ACTIVITIES		
LOSS FOR THE YEAR	(9 777)	(4 525)
Adjustments for:		
Income tax expense	323	875
Depreciation and amortization	5 900	4 990
Impairment of non-current non-financial assets	1 580	-
Loss on disposal of property, plant and equipment and intangible assets	80	16
Write-down of inventories to net realizable price	298	75
Gain from the sale of railcars from the Group's own railcar fleet (Notes 7 and 8)	(908)	(1 976)
Share of loss/(profit) of associates and joint ventures	2	(370)
Effect of discounting of accounts receivable (Note 19)	24	165
Non-operating foreign exchange gain/(loss), net	(51)	154
Change in allowance for expected credit losses on accounts receivable	(6)	47
Finance costs	15 512	13 675
Finance income	(1 764)	(2 449)
Other adjustments	19	-
Operating profit before changes in working capital	11 232	10 677
Movements in working capital:		
Increase in trade and other receivables	(121)	(2 435)
(Increase)/decrease in prepayments to suppliers and other current assets	(2 164)	706
Decrease/(increase) in VAT receivable	855	(2 603)
Decrease/(increase) in inventories	193	(1 498)
Increase in trade and other payables	(234)	(2 633)
Increase in advances received and other current liabilities	4 082	7 181
Cash proceeds from operating activities	13 843	9 395
Cash proceeds from the sale of railcars from the Group's own railcar fleet (Notes 7 and 13)	3 292	14 088
Cash utilized to increase the Group's own railcar fleet (Notes 7 and 13)	(1 461)	(9 556)
Income tax paid	(1 576)	(2 169)
Finance costs paid	(12 590)	(15 258)
Net cash flows from/(used in) operating activities	1 508	(3 500)
INVESTING ACTIVITIES		
Purchase of property, plant and equipment, including prepayments	(1 986)	(2 890)
Purchase of investment property, including prepayments	(1 137)	-
Proceeds from disposal of property, plant and equipment	39	9
Purchase of intangible assets	(1 316)	(1 502)
Loans receivable	(38)	(3 989)
Placement of short-term deposits	-	(5 000)
Proceeds from repayment of loans receivable	621	6 311
Proceeds from redemption of short-term deposits	5 000	5 000
Interest received	1 559	1 184
Net cash outflow on acquisition of subsidiaries	(1 118)	(6 104)
Cash received from disposal of interest in an associate	1 773	-
Cash paid on acquisition of interest in an associate	-	(1 290)
Net cash generated from/(used in) investing activities	3 397	(8 271)
FINANCING ACTIVITIES		
Shareholders' capital contribution, net of issuance costs	-	1 827
Proceeds from loans and borrowings	14 500	44 372
Repayment of loans and borrowings	(34 506)	(34 524)
Purchase of own bonds	(6)	(70)
Proceeds from leaseback transactions (Note 29)	24 587	150
Finance lease payments (including leaseback), net	(1 028)	-
Cash deposited in accordance with covenants (Notes 23 and 25)	(2 220)	(807)
Redemption of cash deposited in accordance with covenants (Notes 23 and 25)	807	1 923
Net cash generated from financing activities	2 134	12 871
Net increase in cash and cash equivalents	7 039	1 100
Effect of foreign exchange changes including effect of revaluation of cash and cash equivalents	33	51
Cash and cash equivalents, beginning of the year	3 799	2 648
Cash and cash equivalents, end of the year	10 871	3 799

The notes on pages 133-190 form an integral part of these consolidated financial statements.

**PUBLIC JOINT STOCK COMPANY
 "RESEARCH AND PRODUCTION CORPORATION "UNITED WAGON COMPANY"**
**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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 (in millions of Russian Rubles, unless otherwise indicated)**
1. GENERAL INFORMATION

Public Joint Stock Company "Research Production Corporation "United Wagon Company" (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, 2018, the Company is a holding entity for the group of companies (PJSC RPC UWC Group or the "Group") incorporated in the British Virgin Islands (the "BVI"), Cyprus, and the Russian Federation (the "RF").

Principal activities of the Group include:

- Production of railway cars at the manufacturing facility located in the town of Tikhvin, Leningrad region, Russian Federation, and their sale;
- Operating lease of railway cars;
- Rail transportation services.

The list of the Company's registered shareholders and their effective ownership interest as at the reporting dates is presented in the table below:

	At 31 December 2018 Share, %	At 31 December 2017 Share, %
Shareholders		
Management Consulting LLC D.U. ¹	24.29%	8.14%
Management Company Sever Asset Management LLC	17.93%	15.91%
Concern Uralvagonzavod JSC	9.33%	-
Joint Stock Company Otkritie Holding	7.94%	7.94%
IQG Asset Management JSC (EFG Asset Management JSC) ²	5.66%	5.66%
SIB (Cyprus) Limited	-	14.33%
Management Company Navigator Management LLC	-	11.56%
Other shareholders	34.85%	36.46%
Total	100%	100%

¹ Indirect ownership of Otkritie FC Bank PJSC through voting shares (24.29% as at December 31, 2018);

² Indirect ownership of Safmar Financial Investments PJSC through voting shares (5.66% as at December 31, 2018);

As at December 31, 2018 and 2017, the Group had no ultimate controlling party.

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Information in respect of the Group's significant subsidiaries is disclosed in the table below:

Company name	Place of registration	Principal activities	Ownership interest in the Group	
			At 31 December 2018	At 31 December 2017
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%
RAIL 1520 LLC	Russian Federation	Operating lease of railcars	100%	100%
Rail 1520 Service LTD	Cyprus	Investment company	100%	100%
Rail 1520 Service Cyprus LTD	Cyprus	Investment company	100%	100%
RAIL 1520 Service LLC	Russian Federation	Operating lease of railcars	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 Cyprus LTD	Cyprus	Investment company	100%	100%
TZK UWC LLC	Russian Federation	Sale of railcars, castings and components	100%	100%
Ovilleno Holdings LTD	Cyprus	Investment company	99%	99%
TyazhMash Joint Stock Company	Russian Federation	Production of railcars	99%	99%
VNICTT LLC	Russian Federation	Engineering and construction bureau	99%	99%
Trade House "UWC" LLC	Russian Federation	Sale of railcars, castings and components	99%	99%
Springs Industrial Technology Center LLC	Russian Federation	Production of springs	99%	99%
TM-Energo LLC	Russian Federation	Power generation	99%	99%
TM-Energoservice LLC	Russian Federation	Power generation	99%	-
TM-Energomash LLC	Russian Federation	Power generation	99%	-
TM-Energoprom LLC	Russian Federation	Power generation	99%	-
TAP Titran-Express JSC	Russian Federation	Repair/production of railcars	99%	99%
UW Forge Company LTD	Cyprus	Investment company	99%	99%
UWC Centrokuz LLC	Russian Federation	Production of railcars	99%	99%
Restadiana Ventures LTD	Cyprus	Investment company	99%	99%
Unikon 1520 LLC	Russian Federation	Organization of transportation of goods	99%	99%
RAIL 1520 Cyprus Management Company LTD	Cyprus	Investment company	100%	100%
UWC Finance LLC	Russian Federation	Issuance of debt securities	100%	100%
RAIL 1520 Tank Cars (BVI) Holding LTD	BVI	Investment company	100%	100%
RAIL 1520 Tank Cars Cyprus Holding LTD	Cyprus	Investment company	99%	99%
TikhvinChemMash Joint Stock Company	Russian Federation	Production of tank cars	99%	99%
TikhvinSpetsMash Joint Stock Company	Russian Federation	Production of platform cars	100%	100%
Holm 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	99.97%	99.97%
DEANROAD Limited	Cyprus	Development of production technology for the plant	98.97%	98.97%
Tikhvin Railway Car Building Plant Joint Stock Company (TVSZ JSC)	Russian Federation	Production of railcars	99.97%	99.97%
United Wagon Europe GmbH	Germany	Investment company	99.97%	-
Uniwagon North America Corp	USA	Investment company	100%	100%
Starfire Engineering, Inc.	USA	Engineering and construction bureau	100%	100%
Rail Holding LTD	BVI	Investment company	100%	100%
Rail 1520 Invest LLC	Russian Federation	Operating lease of railcars	100%	-
SZIPK CJSC*	Russian Federation	Operating company providing utilities	99%	-

*Acquired in 2018 (Note 6).

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**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
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2. SIGNIFICANT ACCOUNTING POLICIES
Statement of compliance

The Group's consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRSs").

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 and property, plant and equipment 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 defined as the amount that was received when an asset was sold or paid when a liability was transferred 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.

Under the terms of the loan agreements, the Group is required to comply with a number of covenants, including maintenance of certain financial ratios and other non-financial conditions. As at December 31, 2018 the Group's subsidiaries breached a number of financial and non-financial covenants stipulated in loan agreements which could result in negative consequences for the Group, including declaration of default (Note 25). As at December 31, 2018 a long-term portion of loans under such agreements with Otkritie FC Bank PJSC and Gazprombank (JSC) amounted RUB 16 845 million and RUB 6 000 million, respectively.



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All loans and borrowings are presented in these consolidated financial statements in accordance with initial payment terms stipulated in the loan agreements, notwithstanding whether the covenants had been breached as at the reporting date, or not. As at December 31, 2018 the Group's current liabilities exceeded its current assets by RUB 22 486 million and consolidated loss amounted to RUB 9 777 million in the year 2018 (2017: RUB 4 525 million).

After the reporting date but before the date of approval of these consolidated financial statements, the Group received an official letter from Gazprombank confirming that it will not demand an early repayment of the loans with the breached covenants. The Group did not receive such letter from Otkritie FC Bank PJSC, as the breaches of covenants under loans with this bank will be remedied as part of the Group's comprehensive debt portfolio restructuring, as described below.

At the date of approval of these consolidated financial statements, the Group was at the final stage of the debt portfolio restructuring project from one of its major creditors, Otkritie FC Bank PJSC. The portfolio restructuring project provides for the following arrangements to reduce the Group's short-term indebtedness and ensure its ability to settle short-term liabilities in due order:

- On February 18, 2019, the bank's credit committee issued a decision that preliminarily approved a change of maturity of the BO 01 series commercial bonds with outstanding amount of RUB 15 000 million. The maturity date was postponed from September 10, 2019 to December 31, 2023, and the coupon rate was decreased to 9.55% (the weighted average coupon rate was 12.29% during 2018);
- In March 2019, the Group signed addendums to its loan agreements with Otkritie FC Bank PJSC. Those changes reduced rates to a fixed rate of 9.55%, postponed the payment date of interest accrued in 2019 by one quarter and postponed the payment of short-term portion of loan (including future interest expenses) of RUB 2 796 million by one quarter.

These measures will allow the Group to manage its current liquidity in the first and second quarters of 2019 and finalize the restructuring process aimed at optimizing the Group's entire debt portfolio: in the second quarter of 2019, the Group expects to receive a positive decision from the credit committee of Otkritie FC Bank PJSC providing for a new set of covenants enabling the Group to comply with them, given the Group's current operating and financial performance; adjust the ratio of short-term and long-term liabilities to eliminate the deficit of short-term assets in the long term perspective and provide the Group with the opportunity to manage operating and financial cash flows more efficiently; reduce the weighted average cost of debt, which, in turn, will favorably impact the Group's consolidated financial results.

In addition based on management forecasts, the minimum expected production level at TVSZ JSC, TikhvinChemMash CJSC and TikhvinSpetsMash CJSC in 2019 will be between 19 - 19.5 thousand railcars (actual production in 2018 was 19.7 thousand railcars). The management of the Group expects stable demand for the innovative railcars in 2019: as at the date of approval of these consolidated financial statements, the Group has entered into contracts or made preliminary arrangements for sale of the whole volume of railcars planned for production in 2019, and partially in 2020, at prices on average 15% higher than in 2018, mainly due to an increase in production of special-purpose railcars. In 2019 and beyond, the Group does not expect a significant decrease of demand for the railcars and plans to increase its gross and operating profit by reduction of administrative expenses and increasing the production efficiency.

The management of the Group believes that it is highly probable that the credit committee of Otkritie FC Bank PJSC will issue a positive decision regarding the Group's debt portfolio restructuring and the combination of the above mentioned facts will ensure the Group's ability to continue as a going concern.

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 companies of the Group is the Russian Ruble ("RUB"). The presentation currency of the consolidated financial statements is the Russian Ruble. These consolidated financial statements are presented in millions of Russian rubles ("RUB million"), except when otherwise indicated.

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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. Income and expense is not offset in the consolidated statement of profit or loss unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group.

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	2018	2017
At the end of the reporting period		
RUB/ USD	69.47	57.60
RUB/ EUR	79.46	68.87
Average exchange rates for the reporting period		
RUB/ USD	62.71	58.35
RUB/ EUR	73.95	65.90

Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through 31 December 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.



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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 at the acquisition date, 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.

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.

Contingent consideration transferred by the Group in a business combination is measured at fair value at the date of acquisition and included in the total 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.

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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. The 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 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 retrospectively restated to reflect the effect of the acquisition as if it occurred at the beginning of the earliest period presented.

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 interest in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net amounts of the identifiable assets and liabilities as at the acquisition date. If, after reassessment, the net amounts of the identifiable assets and liabilities 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.

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 and other comprehensive income. 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.



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The results and assets and liabilities of associates or joint ventures are incorporated in these consolidated financial statements using the equity method of accounting, 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 long-term 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.

Any impairment loss decreases 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 reduces 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.

Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

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When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate or joint venture, the investment or the portion of the investment that will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified as held for sale. Any retained portion of an investment in an associate or a joint venture that has not been classified as held for sale continues to be accounted for using the equity method. The Group discontinues the use of the equity method at the time of disposal when the disposal results in the Group losing significant influence over the associate or joint venture.

After the disposal takes place, the Group accounts for any retained interest in the associate or joint venture in accordance with IFRS 9 unless the retained interest continues to be an associate or a joint venture, in which case the Group uses the equity method.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their:

- Previous carrying amount; and
- Fair value less costs to sell.

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 internally-generated intangible assets (which are mainly represented by research and development expenditure) 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 consolidated statement profit or loss and 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 9 to 289 months.



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In 2018, the Group's management reconsidered the useful lives of its intangible assets. As a result, a number of intangible assets, being the know-how and costs related to development of production technology, were reclassified from intangible assets with indefinite useful lives to items with useful lives of 43 years, which is equal to the average residual life of immovable property used by the Group for the production of railway cars at the manufacturing facility.

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

Before 30 June 2016 all categories of property, plant and equipment were stated at cost, less accumulated depreciation and accumulated impairment losses. Historical cost model was applied.

In 2016 for certain categories of property, plant and equipment management of the Group decided to change the accounting policy to a revaluation model. As at the reporting date production equipment and motor vehicles and production plant and buildings categories (Group 1) are stated at revalued amounts, and railcars and office equipment and furniture categories (Group 2) – at historical cost.

Starting from 30 June 2016 items of property, plant and equipment from Group 1 are stated in the consolidated statement of financial position at their revalued amounts, being the fair value at the date of revaluation, less any subsequently accumulated depreciation and impairment losses. Property, plant and equipment carried at revalued cost were last revalued on 30 June 2018 (Note 13).

Items of property, plant and equipment from Group 2 are stated in the consolidated statement of financial position at their cost, less any accumulated depreciation and accumulated impairment losses.

Any revaluation increase arising on the revaluation of property, plant and equipment from Group 1 is recognized in other comprehensive income and accumulated in equity, except to the extent that it reverses a revaluation decrease for the same asset previously recognized in profit or loss, in which case the increase is credited to profit or loss to the extent of the decrease previously expensed. A decrease in the carrying amount arising on the revaluation is recognized in profit or loss to the extent that it exceeds the balance, if any, held in the properties revaluation reserve relating to a previous revaluation of that asset.

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 costs of day to day servicing of property, plant and equipment, including repairs and maintenance expenditure, are expensed as incurred.

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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. 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 to consolidated statement of profit and loss and other comprehensive income. All other costs are recognized in the consolidated statement of profit or loss and other comprehensive income as an expense as incurred.

The gain or loss arising on the disposal 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 statement of profit or loss and other comprehensive income.

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	1-15
Production equipment and motor vehicles	1-30
Railcars	22-40
Production plant and buildings	1-60

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. The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Spare parts

Major spare parts and equipment intended for repair and maintenance of property, plant and equipment, are included in other non-current assets if the Group intends to use them for more than one year. Spare parts are stated at lower of cost and net realizable value. Actual cost consists of cost of purchased materials and, if applicable, direct labor cost and respective part of allocated overheads, incurred to bring spare parts to their existing location and condition. Upon usage, the cost of spare parts is charged to profit or loss.

Investment property

Investment property is property held to earn rental income and/or for capital appreciation (including property under construction). Investment property is initially measured at cost, including acquisition costs. Subsequently investment property is measured at fair value. The Group uses the cost model for initial recognition and accordingly all investment property items are recognized in accordance with IAS 16, except items that meet the criteria to be classified as held for sale (or are included in the group of assets that meets the criteria to be classified as held for sale) in accordance with IFRS 5 *Non-current Assets Held for Sale and Discontinued Operations*. Investment properties that meet the criteria to be classified as held for sale (or are included in the group of assets that meets the criteria to be classified as held for sale) are measured in accordance with IFRS 5.

An investment property is derecognized upon disposal or when an investment property is permanently withdrawn from use and no future economic benefits are expected from the property. The difference between net disposal proceeds and carrying amount of an investment property included in the consolidated statement of profit or loss and other comprehensive income in the reporting period in which the property is disposed.



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Inventories

Inventories are stated at lower of cost and net realizable value. Actual cost consists of cost of purchased materials and, if applicable, direct labor cost and respective part of allocated overheads, incurred to bring inventory to their existing location and condition. 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. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

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 statement of profit or loss and other comprehensive income.

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 statement of profit or loss and other comprehensive income.

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.

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The 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.

In the normal course of business, the Group enters into leaseback agreements. In case the leaseback constitutes a finance lease, the transaction is treated as a way of financing provided to the Group, with the underlying asset being a collateral security. In this case, the Group continues to recognize the asset as if the sale and leaseback transaction had not occurred. The transaction gives rise to a finance lease liability for the Group in the amount of proceedings from the transfer of the asset to the lessor.

Financial instruments

Financial assets and financial liabilities are recognized when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognized immediately in profit or loss.

Classification and measurement of financial assets

All recognized financial assets are subsequently measured at amortized cost or fair value, depending on classification. The classification depends on the business model for managing the financial assets and the contractual cash flow characteristics of the instrument. As at the reporting date, the Group had only financial assets measured at amortized cost.

Amortized cost and effective interest rate method

The effective interest method is a method of calculating the amortized cost of a debt instrument 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 a debt instrument 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 debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus any principal repayments plus the cumulative amortization determined using the effective interest method for the difference between the initial amount and the maturity amount, adjusted for any expected credit loss allowance. Gross carrying amount of a financial asset is the amortized cost of a financial asset, before adjusting for any expected credit loss allowance.

Interest income is calculated by using the effective interest method and recognized in the financial income line item of the consolidated statement of profit or loss and other comprehensive income.



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Impairment of financial assets

The Group recognizes allowances for expected credit loss relating to investments in debt instruments recognized at amortized cost, as well as trade and other accounts receivable. The amount of expected credit loss ("ECL") recognized is updated at each reporting date to reflect changes in the credit risk which have occurred since initial recognition of the respective financial asset.

The Group always recognizes lifetime ECL for its trade and other receivables. ECL for these financial instruments is determined based on the Group's credit loss history adjusted for debtor-specific factors, the overall economic situation and an assessment of both current and projected circumstances at the reporting date (including the time value of money, where appropriate).

For all other financial instruments, the Group recognizes lifetime ECL when there has been a significant increase in the credit risk since the initial recognition of the respective financial instrument. On the other hand, when a credit risk has not increased significantly since initial recognition, the Group creates an allowance for such financial instruments in an amount equaling to the following 12-month ECL. The determination of the need to recognize lifetime ECL is based on the identification of a significant increase in the credit risk or probability of default since initial recognition, rather than evidence of financial asset impairment as at the reporting date or an actual default event. Lifetime ECL are the expected credit losses that result from all possible default events over the expected life of the financial instrument. 12-month ECL are the expected credit losses that result from default events that are possible within 12 months after the reporting date.

Estimation of ECL is based on the default probability and loss given default. Default probability and loss given default estimation is based on historical data adjusted for forecast data.

Derecognition of financial assets

The Group derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. On derecognition of a financial asset carried at amortized cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognized in profit or loss.

Classification and measurement of financial liabilities

All recognized financial liabilities are subsequently measured at amortized cost using the effective interest method or fair value through profit or loss (FVTPL). As at the reporting date, the Group had only financial liabilities measured at amortized cost.

Financial liabilities at amortized cost

Financial liabilities that are not (1) contingent liabilities of acquirers in a business combination, (2) held for trading, or (3) classified at FVTPL, are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees on a financial liability 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 debt liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Derecognition of financial liabilities

The Group derecognizes financial liabilities when, and only when, the Bank's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

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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 statement of 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

The Group recognizes revenue from the following major streams:

- Sales of railway cars and components, including semi-finished goods produced internally (castings, components, spare parts);
- Operating lease of railway cars;
- Rail-based freight transportation services.

Revenue is recognized in the amount that reflects the consideration to which the Group expects to be entitled in accordance with the contractual terms, excluding any amounts received on behalf of third parties.



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The Group recognizes revenue when or as a contractual obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer, as follows:

- Revenue from the sale of railcars is recognized when control, i.e. significant risks and rewards of ownership of the asset, is transferred to the customer and the Group has no outstanding obligations to the customer that could affect the acceptance of the sold goods. Most of railcar sale contracts with customers provide for the transfer of control to the customer after completing technical inspection of the goods at the manufacturing plant and signing an acceptance act confirming the specification and quality of the goods sold. For the contracts that provide delivery of railcars to a certain dispatch location, control is transferred to the customer upon delivery of railcars to the specified location and signing an act of acceptance;
- Rental income is generated principally from leasing of railcars and is recognized on a straight-line basis over the term of the relevant lease;
- Income from the sales of rail-based freight transportation services is recognized in the reporting period when the services are rendered, by reference to stage of completion of the specific transaction assessed on the basis of the actual service provided as a proportion of the total services to be provided. The Group recognizes revenue in the amount of fees for the provision of rolling stock, while charges for railway infrastructure services (railway freight tariff of PJSC Russian Railways) are borne directly by the customers;
- Revenue from the sale of inventories is recognized upon transfer of control to a customer in accordance with the respective contract with the customer. Some contracts provide for the delivery of goods to the customer, others release the Group from the obligation to pay for the delivery to the customer. The Group reviews the moment of transfer of control under each significant inventory sales contract separately, as the sales contracts for components and casting are concluded on an individual basis.

Significant financing component

A number of railcar sale contracts envisage significant advance payments for the customers to be performed within a period exceeding 12 months from the date of the respective advance payment. In determining the transaction price, the Group adjusts the expected amount of consideration for the effect of the time value of money as the advances received from customers provides the Group with a significant benefit of financing the transfer of goods to the customer.

The Group does not adjust the expected amount of consideration for contracts providing for a significant financing component if the period between the date of transfer of promised good or service to a customer and the date of payment for that good or service will be one year or less. Advances received under such contracts are treated as short-term where the respective supplies are expected in the same month of the following year or earlier.

Warranty liabilities

In accordance with the Group's standard contractual terms, the warranty period for railcars varies on average from 2 to 8 years (up to the date of the first depot repair for railcars produced and sold in same reporting period). The Group does not adjust revenue for warranty liabilities as the historical information of warranty returns indicates near-zero returns from customers.

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 included into the price until they are ready for the planned use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are recognized as an expense in the period in which they are incurred.

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Government grants

The Group receives the following types of government grants:

- Compensation of interest expense on bank loans;
- Grants related to assets, that is – compensation of expenses for acquisition of long-term assets (railcars) and compensation of expenses for purchase of materials for production of railcars.
- Grants related to compensation of transportation costs incurred on sales of produced railcars.

Government grants are recognized at their fair value when there is a reasonable assurance that the grant will be received and the Group will comply with the conditions attached.

Government grants related 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.

Government grants related to assets are deducted from the carrying value of the related asset in the consolidated statement of financial position. Grants are recognized in profit or loss on a straight-line basis over the period of use of a depreciated asset and reduce the amount of depreciation expense, or are recognized immediately in profit or loss if the related asset is sold or disposed of.

Government grants related to compensation of the Group's transportation and other operating costs reduce the amount of such expenses in the consolidated statement of profit or loss and other comprehensive income.

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 the shareholder is at the Group's discretion.

Loans receivable from the parent

Loans receivable from 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.



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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 1 021 thousand (2018 limit) the rate of 10% is applied to the excess amount to determine the amount of the respective contributions. In 2018 contributions were limited to the employee's income threshold of RUB 815 thousand, upon the achievement of which contributions are not charged.

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 consolidated financial statements but are disclosed when an inflow of economic benefits is probable.

3. NEW OR REVISED INTERNATIONAL FINANCIAL REPORTING STATEMENTS

New and revised Standards and Interpretations adopted in the current period and applicable to the Group's consolidated financial statements

The following new and revised Standards and Interpretations have been adopted in the current period and have affected the amounts reported in these consolidated financial statements.

- IFRS 9 *Financial Instruments*;
- IFRS 15 *Revenue from Contracts with Customers (and the related Clarifications)*

IFRS 9 Financial Instruments

Adoption of IFRS 9 *Financial Instruments* as of 1 January 2018 resulted in certain changes in the accounting policy. The Group applied IFRS 9 without making adjustments to comparative information for prior periods of the consolidated financial statements for the year ended December 31, 2018, because during transition to the new standard, the Group applied a modified retrospective approach which allows to account for the changes related to adoption of the new accounting policy in retained earnings (accumulated deficit) as at the beginning of the period.

IFRS 9 replaced the provisions of IAS 39 and introduced new requirements for classification, recognition and measurement of financial assets and financial liabilities, derecognition of financial instruments and impairment of financial assets. Adoption of IFRS 9 as of 1 January 2018 resulted in certain changes in the accounting policy and adjustments to the consolidated financial statements.

The Group's financial assets comprise cash and cash equivalents, short-term bank deposits, accounts receivable and loans receivable. Financial liabilities mainly comprise bank loans, including bonds. As all of the Group's financial assets and liabilities are measured at amortized cost using effective interest method, their recognition in the consolidated statements under IFRS 9 did not differ significantly from the IAS 39 accounting model. Amendments to accounting policies related to the classification and measurement of financial assets and liabilities are disclosed in Note 2 *Significant Accounting Policies*.

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The table below presents the differences in classification of financial assets under IFRS 9 and IAS 39.

	Classification	
	IAS 39	IFRS 9
Loans receivable	Loans and receivables	At amortized cost
Long-term trade receivables from the sale of railcars	Loans and receivables	At amortized cost
Restricted cash	At amortized cost	At amortized cost
Trade and other receivables	Loans and receivables	At amortized cost
Short-term bank deposits	Loans and receivables	At amortized cost
Cash and cash equivalents	At amortized cost	At amortized cost

The Group applied a simplified approach to recognition of lifetime expected credit losses for its trade and other receivables. The Group performed a historical analysis of bad debt allowance accruals and write-offs to profit and loss with respect to its trade and other receivables. Based on the results of the analysis the Group determined that the amount of allowance for doubtful receivables accrued as at 1 January 2018 was adequate taking into account the impairment provisions of IFRS 9.

As at 1 January 2018 the impairment amount for financial assets at amortized cost (loans receivable) was recognized in accordance with the expected credit loss model under IFRS 9, which result in earlier recognition of credit losses, and had the following effect on the financial statements:

	1 January 2018 (as previously reported)	IFRS 9 adoption	1 January 2018 (as restated)
<i>Non-current assets</i>			
Loans receivable	12 503	(200)	12 303
Change in accounting policy due to IFRS 9 adoption		(200)	

IFRS 15 Revenue from Contracts with Customers

As of 1 January 2018, the Group has applied IFRS 15 *Revenue from Contracts with Customers*. IFRS 15 introduces a five-step approach to revenue recognition and certain disclosure requirements applicable to specific cases. Adoption of IFRS 15 resulted in certain changes in the accounting policy and certain adjustments to the consolidated financial statements.

The Group's accounting policy in respect of revenue recognition is disclosed in Note 2 *Significant Accounting Policies*.

In accordance with IFRS 15 transition rules, the Group's management assessed the impact of IFRS 15 on the consolidated statements and concluded that the impact is limited to effect of a significant financing component inherent in some railcar supply contracts that adjusts the promised amount of consideration for the time value of money. The Group did not apply a retrospective approach on transition to IFRS 15 and did not recognize the effect of transition as an adjustment of accumulated deficit as at 1 January 2018, as the Group had not had such contracts with customers until 2018.

The application of IFRS 15 did not have a material impact on the Group's financial position and performance, except for adjustments related to financing component (Note 11).



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Standards and interpretations that have been issued, 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:

- IFRS 16 *Leases*¹;
- IFRS 17 *Insurance Contracts*²;
- IFRIC 23 *Uncertainty Over Income Tax Treatments*¹;
- Amendments to IFRS 10 and IAS 28 *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*³;
- Amendments to IFRS 9 *Prepayment Features with Negative Compensation*¹;
- Amendments to IAS 19 *Employee Benefits*¹;
- Amendments to IAS 28 *Long-Term Interests in Associates and Joint Ventures*¹;
- Annual Improvements to IFRSs 2015-2017 Cycle¹.

¹ Effective for annual periods beginning on or after 1 January 2019, earlier application permitted.
² Effective for annual periods beginning on or after 1 January 2021, earlier application permitted.
³ Effective date will be determined later, earlier application permitted.

The management of the Group does not anticipate that the application of standards and amendments listed above will have a significant impact on the Group's consolidated financial statements in the future, except for the effect of IFRS 16 *Leases* as described below.

IFRS 16 *Leases*

IFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. IFRS 16 will supersede the current lease guidance including IAS 17 *Leases* and the related interpretations when it becomes effective.

IFRS 16 distinguishes leases and service contracts on the basis of whether an identified asset is controlled by a customer. The standard introduces a single accounting model for lessees that requiring recognition of the capitalized right to use the asset, as well as the corresponding liability, on the balance sheet. Thus, distinctions of operating leases and finance leases are removed for lessee accounting. This accounting method is applicable for all leases except for short-term leases and leases of low-value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exception) less accumulated depreciation and impairment losses, adjusted for any measurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. Furthermore, the classification of cash flows will also be affected as operating lease payments under IAS 17 are presented as operating cash flows, whereas under IFRS 16 model, the lease payments will be split into a principal and an interest portion which will be presented as financing and operating cash flows respectively.

Furthermore, extensive disclosures in the consolidated financial statements are required by IFRS 16.

IFRS 16 is effective for annual reporting periods beginning 1 January 2019, and interim periods within those periods. Early application of IFRS 16 is permitted.

Based on a preliminary analysis of the Group's leases as at 1 January 2019 and the facts and circumstances known at that date, the Group's management estimated lease liabilities to range from RUB 1 000 million to RUB 1 600 million.

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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 underlying assumptions are based on historical experience and other relevant factors. 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 period in which the estimate is revised 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.

Depreciation periods for 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 or at the date of revaluation of property, plant and equipment carried at revalued cost. 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.

The key assumptions used in the calculation of fair values of property, plant and equipment

The Group recognizes its property, plant and equipment included in the *Production Plant and Buildings* and *Production Equipment and Motor Vehicles* categories at revalued cost (fair value) using a number of accounting estimates.

The general practice presumes determining the fair value of general-purpose assets based on market data as the key source of information that predetermines the use of the so-called comparative approach. Where there is no active market or market information for specific categories of assets, other sources and approaches may be used. Special-purpose assets that do not have active market on a stand-alone basis account for roughly 95% of the total carrying value of the Group's property, plant and equipment carried at revalued cost. Special-purpose assets are measured using the cost method which presumes the determination of residual cost of replacement.

Since the average age of the Group's production property, plant and equipment is around 3 to 4 years, in determining the full replacement cost under the cost method, the Group used the historical cost indexation approach which ensures sufficient accuracy for a relatively new property.

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.

Allocation of goodwill to CGUs is disclosed in Note 15. Intangible assets with indefinite useful lives were allocated to CGU "Production" which represents operating segment "Production".



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Annually the Group performs the following procedures to test for impairment of goodwill allocated to CGUs and intangible assets with indefinite useful life (before 2018):

- Analysis of significant events which could have influenced cash flows (restructuring of the Group, implementation of investment programs, change in market trends, terms of financing and taxation, etc.);
- Review the list (update of the current list) of identifiable assets and cash-generating units ("CGU") which will be further tested for impairment. Those significant CGUs are reviewed, at which goodwill have been allocated (this could be separate business units, subsidiaries or segments). Upon completion of the list, a factor of materiality is considered, as well as impairment indicators (reduction in the value of net assets, incompleteness of the budget, accounting losses);
- Identification of a discounting rate, reflecting an adjusted weighted cost of capital of the Group;
- Summarizing the information on the value of assets including goodwill (property, plant and equipment, intangible assets, construction in progress), expected in a middle-term (no more than 5 years) cash inflows-outflows and forecasted changes in the value of the assets. For this purpose management uses budgets and forecasts prepared during the planning process.

The results of the impairment test in respect of intangible assets with indefinite useful life and goodwill, as well as estimates used by the Group in performing those tests, are disclosed in Notes 14 and 15, respectively.

Provisions and contingencies

From time to time, the Group may become a party to legal proceedings. It may also receive claims, including claims from regulators as regards the Group's business, transactions and tax positions that involve a high degree of uncertainty. Provisions for bonuses and other employee compensations that depend on certain performance indicators of the Group are also subject to uncertainty. Among other assumptions, the Group's management makes assumptions about the likelihood of adverse outcome and the possibility for making reliable estimates of related costs or losses. Unexpected events or changes in such assumptions may require the Group increase or decrease the existing allowance or create an allowance for events that have not been previously considered probable. Provisions accrued at the reporting date and contingencies are further disclosed in Notes 28 and 31.

Critical judgments in applying accounting policies

Classification of the Group's operations under the railcar fleet replacement program

In the first half of 2017, the Group's management decided to introduce a program to replace the old fleet of rail cars (previously leased out by the Group under the operating leases) with the new generation of railcars manufactured by the Group. Accordingly, a portion of railcars manufactured during the year ended 31 December 2017 were transferred to property, plant and equipment and leased out under an operating lease to replace a portion of the old railcar fleet that was sold during 2017. The program also assumes that the Group will continue to sell old railcar fleet upon reaching a certain age and/or in case of a favorable market price. The decisions to replace the disposed railcars with new ones will be approved separately subject to the agreement with the lessee and the banks in case the railcars are subject to pledge arrangements.

Thus, management believes the Group will regularly generate revenues from the sale of previously leased old railcars in the normal course of business. In accordance with IAS 16 after the approval of the decision to sell the railcars they were transferred to inventories at their carrying value. Income from the sale of such railcars was included in the revenue line item of the consolidated statement of profit or loss and other comprehensive income for the years ended 31 December 2017 and 2018, in particular the sales of railcars item of the respective disclosure (Note 7). Expenses related to the disposal of the old railcar fleet were included in the cost of sale item of the consolidated statement of profit or loss and other comprehensive income and disclosed in the respective note (Note 8).

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In preparing the consolidated statement of cash flows, the Group's management considered requirements of IAS 7, which specifies that cash payments made to produce assets held for lease and subsequently held for sale are classified as cash flows from operating activities, and cash proceeds from the lease and subsequent sale of such assets are also treated as cash flows from operating activities. Accordingly, cash paid for the production/ (acquisition) of railcars and received from the sale of own railcars are included in operating activities in the consolidated statement of cash flows.

Timing of revenue recognition for sales of railcars to PJSC GTLK in 2016

On December 19, 2016 the Group entered into a tripartite agreement for sale of 2 312 innovative railcars for the amount of RUB 6 589 million with Public Joint Stock Company "State Transport Leasing Company" (PJSC GTLK or the "Buyer") and Vostok 1520 LLC (the Lessee), whereby the buyer of the railcars is PJSC GTLK, and the physical receiver of railcars is Vostok 1520 LLC in accordance with the finance lease agreement, concluded between PJSC GTLK (the Lessor) and Vostok 1520 LLC (the Lessee). Under the terms of the sales agreement, PJSC GTLK paid a 100% advance in December 2016, while delivery of the railcars under the contract was due to take place until January 31, 2017 after receiving of consent from the Federal Antimonopoly Service ("FAS"), if such consent is required by virtue of the current legislation of the Russian Federation. The reply from the FAS was received on 21 February 2017, confirming the absence of requirements for the coordination of such a transaction by the FAS, and the acts of acceptance for the transfer of railcars were signed in March 2017. These railcars were produced by the Group in the second and third quarters of 2016 and were leased to Vostok 1520 LLC under operating lease contract.

Management of the Group carried out an analysis of the fulfillment of the revenue recognition criteria set out in IAS 18 and concluded that revenue should be recognized in 2016, as an agreement to sell these cars was reached in 2016 and cash was collected in full. At the same time, the probability of the negative decision by FAS was deemed minimal, and therefore not taken into account for the analysis.

If the Group recognized the sale in 2017, the effect on the consolidated financial statements for the year ended December 31, 2017 would be as follows:

Consolidated financial statement line item	As reported in 2017	The effect if the sale would be recognized in 2017	Would be reported in 2017 if the sale was recognized in 2017
Revenue	62 020	6 589	68 609
Cost of sales	(52 073)	(5 374)	(57 447)
Income tax expense	(875)	243	632
Loss for the year from continuing operations	(4 525)	972	(3 553)

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5. SEGMENT INFORMATION

The Group is divided into business units on the basis of goods manufactured and services rendered, and incorporates two reporting segments:

- The *Production* segment is involved in manufacturing and sale of railway cars;
- The *Lease* segment provides operating lease of railway cars.

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 "Other segments". Accounting principles of the reportable segments are consistent with the Group accounting policies described in Note 2. The Group's management assesses performance of operating segments based on profit before tax adjusted for the following amounts in the consolidated statement of profit or loss and other comprehensive income ("EBITDA"):

- Finance costs (Notes 11 and 22);
- Finance income (Note 10);
- Foreign exchange gain/(loss), net;
- Depreciation and amortization of property, plant, and equipment and intangible assets (Notes 8 and 9);
- Impairment of non-current non-financial assets (Notes 13 and 14).

This is the measure reported to the chief operating decision maker for the purposes of resource allocation and assessment of segment performance.

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

	Production segment	Lease segment	Other segments	Total segments	Adjustments and eliminations	Consolidated
31 December 2018						
Revenue	67 077	6 900	5 109	79 086	(2 643)	76 443
including inter-segment revenue	1 482	122	4 066	5 670	(5 670)	-
Cost of sales, including:	(63 853)	(1 701)	(5 769)	(71 323)	4 549	(66 774)
- Inventories	(45 874)	(33)	-	-	-	-
- Payroll	(7 207)	-	-	-	-	-
- Property tax	(150)	(148)	-	-	-	-
- Maintenance and repairs of railcars ¹	(486)	(264)	-	-	-	-
- Depreciation and amortization	(4 625)	(1 104)	-	-	-	-
- Write-down of inventories to net realizable value	(255)	(54)	-	-	-	-
- Other	(5 256)	(98)	-	-	-	-
Selling, general and administrative expenses	(1 376)	(1 254)	(473)	(3 103)	(816)	(3 919)
Other operating income, net	43	3	(5)	41	34	75
Share of (loss)/profit of associates and joint ventures	(98)	96	-	(2)	-	(2)
Depreciation and amortization	4 660	1 104	231	5 995	(95)	5 900
EBITDA	6 453	5 148	(907)	10 694	1 029	11 723
Finance income	172	4 458	6 250	10 880	(9 116)	1 764
Finance costs	(5 983)	(11 684)	(7 006)	(24 673)	9 161	(15 512)
Impairment of non-current non-financial assets	(1 580)	-	-	(1 580)	-	(1 580)
Depreciation and amortization	-	-	-	-	-	(5 900)
Foreign exchange gain, net	-	-	-	-	-	51
Loss before income tax						(9 454)

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	Production segment	Lease segment	Other segments	Total segments	Adjustments and eliminations	Consolidated
31 December 2017						
Revenue	54 742	6 146	3 271	64 159	(2 139)	62 020
including inter-segment revenue	12 944	16	3 010	15 970	(15 970)	-
Cost of sales, including:	(48 786)	(1 900)	(3 816)	(54 502)	2 429	(52 073)
- Inventories	(32 319)	(8)	-	-	-	-
- Payroll	(6 644)	-	-	-	-	-
- Property tax	(64)	(123)	-	-	-	-
- Maintenance and repairs of railcars	(406)	(397)	-	-	-	-
- Depreciation and amortization	(4 659)	(1 302)	-	-	-	-
- Write-down of inventories to net realizable value	(94)	-	-	-	-	-
- Other	(4 598)	(68)	-	-	-	-
Selling, general and administrative expenses	(1 176)	(416)	(409)	(2 001)	(624)	(2 625)
Other operating income, net	408	38	(50)	396	(358)	38
Share of profit of associates and joint ventures	(140)	21	488	369	-	369
Depreciation and amortization	4 658	1 302	241	6 201	(1 210)	4 991
EBITDA	9 708	5 193	(276)	14 625	(1 906)	12 719
Finance income	32	5 820	7 818	13 670	(11 222)	2 448
Finance costs	(5 814)	(10 451)	(8 759)	(25 024)	11 349	(13 675)
Depreciation and amortization	-	-	-	-	-	(4 991)
Foreign exchange loss	-	-	-	-	-	(153)
Loss before income tax						(3 651)

¹ The cost of maintenance and repairs of railcars in the *Production* segment comprises the cost of railcar repair services sold by the segment, including the cost of inventories, payroll and other costs.

Breakdown of the Group's revenue by main types of sold products and rendered services is presented in Note 7.

In 2017 the Group decided to replace the old railcar fleet. Revenue from the sale of old railcars amounted to RUB 14 088 million; their carrying value at the date of sale was RUB 12 112 million (Notes 7 and 8) and the effect on the EBITDA amounted to RUB 1 976 million. The cost of new railcars amounted to RUB 9 900 million. Intersegment revenue from the transfer of the railcars from the *Production* segment to the *Lease* segment amounted to RUB 12 412 million, and the effect on EBITDA amounted to minus RUB 3 722 million. Both of these transactions are disclosed in the *Adjustments and Eliminations* section and their total effect on EBITDA amounted to minus RUB 1 746 million.

In 2018, revenue from the sale of the Group's own railcars amounted to RUB 3 408 million; their carrying value at the date of sale was RUB 2 500 million; and the effect on the EBITDA amounted to RUB 908 million. In 2018, new railcars were produced and transferred to the *Lease* segment for subsequent lease out. The intersegment revenue from the transfer was RUB 1 112 million; the cost of production was RUB 1 157 million; and the effect on EBITDA was RUB 45 million. These transactions are disclosed in the *Adjustments and Eliminations* section and their total effect on EBITDA amounted to RUB 953 million in 2018.

In 2018 and 2017, the key external customer of the *Production* segment was PJSC GTLK, which accounted for 58% and 56% of the segment's external sales, respectively. In 2018, the key external customers of the *Lease* segment were Vostok 1520 LLC and SUEK OJSC, which accounted for 65% and 21% of the segment's external sales, respectively. In 2017, the sales to these customers accounted for 43% and 21% of the segment's external sales, respectively.

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Revenue in other segments includes intragroup sales of railcar components by Springs Industrial Technology Center LLC, intragroup sales of rights to R&D results and patents by VNICTT LLC and management services provided by PJSC RPC UWC.

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

6. ACQUISITION OF COMPANIES

SZIPK CJSC

In the second quarter of 2017, the Group entered into an agreement for the acquisition of 100% shares of SZIPK CJSC from one of its shareholders, the ICT Group, and made an advance payment in the amount of RUB 2 000 million, which was recorded in the respective line of the consolidated statement of financial position as at December 31, 2017. As at December 31, 2018 the Group repaid the full amount in accordance to the acquisition agreement of RUB 3 200 million. The Group obtained control over the acquired company in September 2018, upon the completion of the relevant registration procedures. Accordingly, the company was included in the Group as of 11 September 2018.

SZIPK CJSC is an operating company that provides heat and power supplies for the Group's Tikhvin manufacturing facility, performs internal transfers within the facility, and leases production and offices premises to the Groups subsidiaries.

The acquisition was accounted for using preliminary fair values of assets and liabilities acquired as provisional values. The Group is in the process of obtaining a third party valuation report on the fair value of the assets and liabilities acquired including obtaining third-party valuation of the property, plant and equipment, and accordingly, these amounts are preliminary and subject to change.

Provisional value of assets and liabilities of SZIPK CJSC at the acquisition date is presented below:

	Provisional value at the acquisition date
Property, plant and equipment	3 125
Deferred tax assets	15
Inventories	29
Long-term loans receivable	555
Trade receivables	673
Advances paid and other current-assets	20
VAT receivable	3
Cash and cash equivalents	82
Total assets	4 502
Long-term loans	(1 477)
Deferred tax liabilities	(462)
Trade and other payables	(53)
Advances received and other current liabilities	(46)
Total liabilities	(2 038)
Net assets acquired	2 464
Goodwill arising on acquisition	736
Total purchase consideration	3 200
Cash and cash equivalents of subsidiaries acquired	(82)
Prepayment for subsidiary acquisition	(2 000)
Net outflow of cash and cash equivalents on the acquisition date	1 118

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The preliminary goodwill arising on acquisition was due to expected synergies since the acquired company is located on the same site as the Group's main manufacturing companies and SZIPK's operations are focused on the provision of services to the companies of the Group.

The subsidiary was acquired in late 2018 and, therefore, did not contribute any significant revenue or profit/ (loss) to the Group's consolidated profit or loss for 2018.

In 2018 most of sales of SZIPK CJSC were done to subsidiaries of the Group and, therefore, if the acquisition had occurred on 1 January 2018, the Group's consolidated revenue for 2018 would not have changed significantly and the Group's consolidated loss would have decreased by RUB 48 million.

7. REVENUE

The Group's revenue comprised the following:

	2018	2017
Sales of railcars	64 785	55 106
<i>including sales as part of the fleet replacement program</i>	<i>3 408</i>	<i>14 088</i>
Operating lease of railcars	6 702	6 126
Sales of castings, components and other inventories (incl. spare parts)	3 394	300
Revenue from repair services	304	111
Rail transportation services	678	100
Other	580	277
Total revenue	76 443	62 020

In 2017, the Group's management decided to replace the old fleet of railcars previously leased by the Group with the new innovative railcars. Accordingly, 7 379 railcars with a carrying value of RUB 12 112 million (Note 13) were transferred from property, plant and equipment to inventories and sold to third parties. The largest customer was Federal Freight Company JSC. The total amount of revenue received by the Group from the sale of these cars was included in the sales of railcars item and amounted to RUB 14 088 million for the year ended 31 December 2017. In 2018, the Group's management decided to sell the Group's own fleet of railcars with a carrying values of RUB 2 500 million to third parties. The revenue from the sale amounted to RUB 3 408 million.

8. COST OF SALES

The Group's cost of sales comprised the following:

	2018	2017
Raw materials used in production	44 011	25 226
Carrying value of railcars sold as part of the fleet replacement program (Note 7)	2 500	12 112
Payroll and social contributions	7 508	5 268
Depreciation and amortization	5 836	4 949
Write-down of inventories to net realizable price	298	75
Property tax	296	165
Empty freight costs	258	44
Railcar repair and maintenance	188	203
Other	5 879	4 031
Total cost of sales	66 774	52 073

In 2017 the *Raw Materials Used in Production* line included government grants received by several subsidiaries of the Group to partially reimburse costs attributable to the production and purchase of innovative freight railcars in the amount of RUB 692 million. In 2018 no such grants were provided to the Group. In 2017 the *Other* line included grants for the compensation of certification costs in foreign markets in the amount of RUB 11 million (in 2018 no such grants were provided to the Group).

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Selling, general and administrative expenses comprised the following:

	<u>2018</u>	<u>2017</u>
Payroll, social contributions and other staff costs	1 983	1 075
Information and consulting services	462	410
Leases	387	357
Transportation costs for the delivery of railcars to the buyer	185	29
Railcar-sales related costs	175	119
Advertising expenses	71	87
Other	656	548
Total selling, general and administrative expenses	<u>3 919</u>	<u>2 625</u>

Transportation costs for the delivery of railcars to the buyer were decreased by the amount of grants of RUB 86 million received in 2018 (2017: RUB 96 million) being a compensation of transportation costs related to export sale of railcar.

10. FINANCE INCOME

The Group's finance income comprised the following:

	<u>2018</u>	<u>2017</u>
Interest income on loans receivable	910	1 407
Interest income on deposits, cash and equivalents	800	963
Interest income from accounting of financial assets using the effective interest rate (accounts receivable)	54	79
Total finance income	<u>1 764</u>	<u>2 449</u>

11. FINANCE COSTS

The Group's finance costs comprised the following:

	<u>2018</u>	<u>2017</u>
Interest expense on loans and borrowings	8 386	9 865
Interest expense on bonds	2 673	3 133
Increase in allowance for expected credit losses on loans receivable (Note 22)	1 759	-
Interest expense on finance lease transactions (Note 29)	1 072	-
Cost of guarantees and sureties	993	875
Significant financing component of contracts with customers	297	-
Bank commissions	344	332
Government grants	(7)	(577)
Interest expense on liabilities for acquisition of subsidiaries	-	184
Less: amounts included in the cost of qualified assets: Capitalized interest expense	(5)	(137)
Total finance costs	<u>15 512</u>	<u>13 675</u>

The Group receives subsidies for partial compensation of the interest payable on bank loans used for the acquisition and production of innovative railcars.

In 2018 and 2017, the *Bank Commissions* line included expenses related to write-off of bank commissions and other expenses related to early repayment of bank loans totaling RUB 134 million and RUB 118 million, respectively.

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

	<u>2018</u>	<u>2017</u>
Current income tax expense	(1 071)	(2 039)
Adjustment of income tax for prior years	192	(41)
Deferred income tax benefit	556	1 205
Income tax expense for the year	<u>(323)</u>	<u>(875)</u>

As of 31 December 2018, the income tax rates applicable to the entities of the Group were as follows:

- RF – 20%;
- BVI – 0%;
- Cyprus – 12.5%;
- USA – 28%.

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

	<u>2018</u>	<u>2017</u>
Loss before income tax	<u>(9 454)</u>	<u>(3 650)</u>
Theoretical tax credit at statutory tax rate: 20%	1 891	730
Tax effect of items which are not deductible or assessable for taxation purposes:		
Unrecognized tax losses of Russian and foreign subsidiaries of the Group	(760)	(301)
Effect of different income tax rates and taxation rules applicable to foreign subsidiaries of the Group	(1 604)	(1 254)
Adjustment of income tax for prior years	192	(41)
Share of profit of associates and joint ventures	-	74
Other items	(42)	(83)
Income tax expense	<u>(323)</u>	<u>(875)</u>

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.

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As at December 31, 2018 and 2017 net deferred tax assets are presented as follows:

	2018	2017
Tax losses carried forward in Russian companies of the Group	5 955	6 047
Finance lease liabilities	4 438	-
Accruals	320	183
Trade and other receivables	78	50
Inventories	(109)	(137)
Property, plant and equipment	(8 917)	(3 384)
Intangible assets	(173)	(298)
Other	44	9
Deferred tax asset, net	1 636	2 470

The movements in deferred tax during the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Deferred tax asset at the beginning of the year, net	2 470	1 265
Deferred tax benefit	556	1 205
Deferred tax liability acquired through business combination	(447)	-
Deferred tax liability on revaluation of property, plant and equipment	(943)	-
Deferred tax asset at the end of the year, net	1 636	2 470

The following amounts, determined after appropriate offsetting, are presented in the consolidated statement of financial position as at December 31, 2018 and 2017:

	2018	2017
Deferred tax asset	3 454	2 949
Deferred tax liability	(1 818)	(479)
Deferred tax asset, net	1 636	2 470

As at December 31, 2018 and 2017 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, 2018 the Group did not recognize deferred tax assets of RUB 493 million in respect of unused tax loss carry forwards of a subsidiary as the management is not certain that these assets will be recovered in full.

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13. PROPERTY, PLANT AND EQUIPMENT

Movements in the carrying value of property, plant and equipment were as follows:

Cost or revalued amount	Office					Total
	Railcars ²	Equipment and motor vehicles	Production plant and buildings	equipment and furniture	Construc-tion in progress ¹	
At 1 January 2017	38 955	33 283	23 478	314	1 765	97 795
Additions	-	-	-	-	14 155	14 155
Transfers	640	3 551	940	54	(5 185)	-
Transfer of railcars from inventories	532	-	-	-	-	532
Disposals	(55)	(82)	(5)	(7)	(14)	(163)
Railcar fleet replacement (additions)	9 900	-	-	-	(9 900)	-
Railcar fleet replacement (sales)	(16 610)	-	-	-	-	(16 610)
At 31 December 2017	33 362	36 752	24 413	361	821	95 709
Additions	128	1	-	1	3 242	3 372
Transfers	-	1 668	238	46	(1 952)	-
Acquisition of companies	-	705	2 400	10	10	3 125
Disposals	(90)	(80)	-	(2)	(68)	(240)
Gain on revaluation	-	2 246	2 468	-	-	4 714
Netting of accumulated depreciation on revaluation	-	(7 738)	(1 500)	-	-	(9 238)
Railcar fleet replacement (additions)	1 333	-	-	-	(1 333)	-
Railcar fleet replacement (sales)	(3 745)	-	-	-	-	(3 745)
Other internal transfers	(3 610)	-	-	-	-	(3 610)
At 31 December 2018	27 378	33 554	28 019	416	720	90 087
Accumulated depreciation and impairment						
At 1 January 2017	11 463	2 204	336	213	(51)	14 165
Depreciation charges	1 287	3 802	742	60	-	5 891
Disposals	(18)	(59)	(2)	(7)	-	(86)
Railcar fleet replacement (depreciation)	(4 498)	-	-	-	-	(4 498)
At 31 December 2017	8 234	5 947	1 076	266	(51)	15 472
Depreciation charges	1 101	3 567	848	72	-	5 588
Disposals	(11)	(2)	-	(1)	-	(14)
Railcar fleet replacement (depreciation)	(1 245)	-	-	-	-	(1 245)
Netting of accumulated depreciation on revaluation	-	(7 738)	(1 500)	-	-	(9 238)
Impairment loss	-	350	-	-	-	350
Other internal transfers	(3 610)	-	-	-	-	(3 610)
At 31 December 2018	4 469	2 124	424	337	(51)	7 303
Net book value						
At 31 December 2017	25 128	30 805	23 337	95	872	80 237
At 31 December 2018	22 909	31 430	27 595	79	771	82 784

¹ Construction in progress includes primarily expenses for the construction of the railway car manufacturing plant and equipment being prepared for installation.

² As at December 31, 2018 the Railcars group of property, plant and equipment includes railcars with a carrying value totaling RUB 1 157 million that were manufactured and transferred to property, plant and equipment in 2018, and not leased out as at December 31, 2018. Management believes that these railcars will be leased within 12 months from the reporting date.

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Information on capitalized borrowing costs and interest rates used for calculation is presented in Note 11. Information on property, plant and equipment pledged as collateral is disclosed in Notes 25 and 29. As at December 31, 2018 railcars with a carrying value totaling RUB 21 357 million were leased under a finance lease agreement, (Note 29).

Subsidies granted to the Group for the production of railcars

Total expenses incurred by the Group in connection with the production of railcars, which were transferred to property, plant and equipment during 2017 and held for subsequent leases as at December 31, 2017 were reduced by RUB 987 million of government grants received by the Group as compensation for the costs of production and acquisition of innovative railcars. In 2018, no such subsidies were granted to the Group.

Property, plant and equipment carried at revalued amounts

The Group's Production equipment and motor vehicles, Production plant and buildings are accounted for at their revalued amounts, representing the fair value at the date of revaluation, less any subsequently accumulated depreciation and accumulated impairment losses. Revaluation of these groups of property, plant and equipment was last performed as at 30 June 2018. The fair value of the revalued property, plant and equipment was determined using the cost approach that reflects capital expenditures/ investments required for the construction or acquisition of an asset with similar characteristics, adjusted for the actual age of the assets.

The key assumptions used in the valuation as at 30 June 2018 were the degree of deterioration (34% at revaluation date) and the replacement cost. Even a slight increase in the degree of deterioration will result in significant decrease in fair value of property, plant and equipment, and slight increase in the replacement cost will result in significant increase in fair value of the assets.

The majority of revalued property, plant and equipment items are special-purpose assets, thus, no direct substitutes are available on the market and therefore an independent appraiser applied the method of indexation of costs incurred during construction, acquisition or installation of the assets to estimate the replacement cost. Considering the unique characteristics of the revalued items, assumptions used in assessment of fair value, and level of observable input data, the fair value was categorized into Level 3.

Details of the Group's revalued items of property, plant and equipment and information about the fair value hierarchy as at the reporting period were as follows:

	Level 1	Level 2	Level 3	Fair value as at December 31, 2018
Production equipment and motor vehicles	-	-	30 707	30 707
Production plant and buildings	-	-	25 080	25 080

If the Group's revalued equipment and motor vehicles, production plant and buildings had been measured on a historical cost basis, their carrying amount would have been as follows:

	31 December 2018	31 December 2017
Production equipment and motor vehicles	20 647	23 379
Production plant and buildings	18 219	18 657

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14. INTANGIBLE ASSETS

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.

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

Cost	Intangible assets at the development stage	Know-how and patents	Software	Total
At 1 January 2017	1 688	4 800	378	6 866
Additions	988	190	100	1 278
Disposals	(6)	(3)	-	(9)
Transfers	(644)	639	5	-
At 31 December 2017	2 026	5 626	483	8 135
Additions	721	156	252	1 129
Disposals	(9)	(2)	-	(11)
Transfers	(893)	893	-	-
At 31 December 2018	1 845	6 673	735	9 253
Accumulated amortization and impairment				
At 1 January 2017	-	903	110	1 013
Depreciation charge	-	309	81	390
At 31 December 2017	-	1 212	191	1 403
Depreciation charge	-	437	74	511
Impairment loss	1 206	24	-	1 230
At 31 December 2018	1 206	1 673	265	3 144
Residual value				
At 31 December 2017	2 026	4 414	292	6 732
At 31 December 2018	639	5 000	470	6 109

Intangible assets pledged as collateral are disclosed in Note 25.

Internally generated intangible assets

As at December 31, 2018 and 2017, the historical cost of internally generated intangible assets was RUB 2 495 million and RUB 3 045 million, respectively. The respective accumulated amortization as at December 31, 2018 and 2017 was RUB 75 million and RUB 25 million, respectively. The total amount of additions of internally generated intangible assets in 2018 and 2017 amounted to RUB 610 million and RUB 980 million with amortization charges of RUB 50 million and 11 million, respectively.



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Patents

In 2018 and 2017, the Group registered a number of patents in the amount of RUB 63 million and RUB 30 million, respectively, in respect of exclusive rights to industrial designs and technical specifications. Registered patents were transferred from intangible assets under development to know-how and patents in the respective reporting periods.

Software

In 2018 and 2017, the Group acquired a license pack for SAP ERP system. Total capitalized costs amounted to RUB 198 million and RUB 75 million, respectively. SAP licenses are included in the *Software* item of this note, together with the ERP system implemented at TVSZ JSC.

Impairment of intangible assets

In 2018, in the course of the annual impairment testing of intangible assets with indefinite useful lives and assets under development, the Group identified indicators of impairment of several assets. In 2018, the Group recognized impairment loss in the consolidated statement of profit or loss and other comprehensive income of RUB 1 230 million (with RUB 1 161 million of which attributable to the Group's internal developments).

Determining and revising useful life

On 1 January 2018 the Group reconsidered the useful lives of its intangible assets. As a result, the residual useful life for assets previously recognized as assets with indefinite useful lives was set to 43 years, which is equal to the average residual life of immovable property used by the Group for the production of railway cars at the manufacturing facility. As at 1 January 2018 the carrying value of such assets totaled RUB 2 066 million with the respective depreciation charged for 2018 totaling RUB 59 million.

15. GOODWILL

The carrying value of goodwill was allocated to the following cash-generating units ("CGUs"):

	Carrying value	
	31 December 2018	31 December 2017
CGU – "Production":		
TM-Energ LLC	5 436	5 436
TAP Titran-Express JSC	2 498	2 498
SZIPK CJSC	736	-
TVSZ JSC	108	108
Total goodwill	8 778	8 042

In 2018 the Group acquire SZIPK CJSC (Note 6). The acquisition was recognized at provisional values of assets and liabilities. The preliminary estimated goodwill arising on the acquisition of SZIPK CJSC was allocated to CGU *Production*.

As at December 31, 2018 CGU *Production* represented the lowest level within the Group at which the goodwill is monitored for internal management and management reporting purposes. Neither before nor after the aggregation of the CGU *Production* had this CGU exceeded the *Production* reporting segment (Note 5).

Information about annual impairment test

At 31 December 2018 the Group performed an impairment test of goodwill. For this purpose, the recoverable amount of the CGU *Production* was calculated based on value in use approach. The 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.

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The key assumptions that management used in their value in use calculation as at December 31, 2018 were as follows:

- Forecasted cash flows are based on the Group's business plan for 2019-2023, approved by management. The production plan takes into account long-term trends developed in 2018 and provide a significant reallocation of manufacturing capacities to production of hopper cars, special-purpose cars and platforms. In addition, as of 2019, gross margins are expected to increase due to the introduction of more expensive new models of tanks and special-purpose rolling stock. In the medium term, the production of advanced models will allow to achieve gross margin targets;
- The Group calculated the average selling prices for railcars for 2019 on the basis of the current price lists and contracts for the sale of finished products actually concluded by the Group. The average cost of railcars production until the end of 2019 is based on the company's forecasts of raw materials and rates under the current supply contracts;
- Cash flows for 2020-2023 were determined by extrapolation using a growth rate equal to 1% per quarter, which is estimated based on historical experience and expectations of market development, expected production volumes and railcar selling prices in 2020 (4% annual growth rate).
- Cash flows after 2023 were determined by extrapolation using a steady growth rate equal to 3.5% per year, which reflects the forecasted long-term growth rates of Russian industry.
- Discount rate for CGU *Production* was calculated based on weighted-average cost of capital for the Group before taxation; its nominal value is 14.2%.

The analysis indicated that the estimated recoverable value of CGU *Production* exceeded its carrying amount by RUB 2 492 million.

Sensitivity analysis

During the testing it was identified that the most significant impact on the recoverable amount of the CGU *Production* was resulted by changes in sales volumes, expected gross margins and discounting rates.

The table below presents sales volumes and expected gross margins for the following five years that were used in determining the recoverable amount of the CGU *Production*

Indicators used in determining the recoverable amount	2019	2020	2021	2022	2023
Sales volumes, items	18 554	22 000	22 000	22 000	22 000
Gross margin, %	26.5%	27.2%	28.1%	28.4%	28.6%

Below is a sensitivity analysis for each of the assumption that have the most significant impact on the resulting estimate (with all the other assumptions constant):

- If the expected sales volumes decreased by 1.5 %, the recoverable amount of the CGU *Production* would have been approximately equal to its carrying amount;
- If the expected gross margin decreased by 30 basis points, the recoverable amount of the CGU *Production* would have been approximately equal to its carrying amount;
- If the discounting rate increased by 40 basis points, the recoverable amount of the CGU *Production* would have been approximately equal to its carrying amount;

The sensitivity analysis presented above may be different from the actual change in the recoverable amount of the CGU *Production* as it is unlikely that the change in assumptions would occur in isolation of one another (some of the assumptions may be correlated).

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The Group's significant associates and joint ventures include the following:

Name	Type of investment	Place of incorporation and operation	Ownership and voting interest of the Group	
			31 December 2018	31 December 2017
MRC 1520 LLC	Joint venture	Moscow, Russia	50%	50%
Timken UWC LLC	Associate	Tikhvin, Russia	49%	49%
JV Wabtec-UWC LLC	Associate	Tikhvin, Russia	49%	49%

MRC 1520 LLC

In 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's primary business is operating lease and sale of railcars to transportation and manufacturing companies within Russia.

The Group's share in profit of the joint venture for 2018 and 2017 recognized in the consolidated statement of profit or loss and other comprehensive income amounted to RUB 97 million and RUB 21 million, 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.

	31 December 2018	31 December 2017
Cash and cash equivalents	182	131
Trade receivables	4	5
Property, plant and equipment	742	569
Deferred tax assets	-	3
Other current liabilities	(27)	(13)
Non-current liabilities	(14)	-
Net assets of the joint venture	887	695
Group's ownership interest in the joint venture	50%	50%
Carrying amount of the Group's interest in the joint venture	444	347
Less a mark-up on the sale of railcars to the joint venture	(19)	-
The Group's interest in the joint venture, including sales to the joint venture	425	347
	2018	2017
Revenue	133	131
Profit and total comprehensive income for the year	194	42
Share of profits of joint venture	97	21

The above profit for the year includes the following:

	2018	2017
Gross profit from the sale of railcars	120	-
Depreciation and amortization	(20)	(42)
Interest income	7	-
Income tax expense	(49)	(11)
Foreign exchange gain/(loss)	24	(3)

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In 2015, the Group signed an agreement on establishing an associate "Timken UWC" LLC with Timken Lux Holdings II S.A.R.L. and establishing TUBC Limited, the founder of Timken UWC LLC, with a 49% share of the Group in the associate. The principal activity of the associate is the production of bearings for freight railcars. In 2015 and 2016 years, Timken UWC LLC was constructing a plant for production of bearings. The associate commenced its operating activity in 2017. 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.

The Group's share in the loss of the associate recognized in the statement of profit or loss and other comprehensive income for 2018 and 2017 was RUB 99 million and RUB 139 million, respectively.

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

	31 December 2018	31 December 2017
Cash and cash equivalents	55	158
Receivables	84	187
Inventories	396	298
Property, plant and equipment	1 109	1 312
Deferred tax assets	218	156
Trade payables	(350)	(399)
Other current liabilities	(34)	(33)
Net assets of the associate	1 478	1 679
Group's ownership interest in the associate	49%	49%
Carrying amount of the Group's interest in the associate	724	823
	2018	2017
Revenue	944	298
Loss and total comprehensive loss for the year	(201)	(284)
Group's share in loss of the associate	(99)	(139)

The above loss for the year includes the following:

	2018	2017
Cost of sales	(1 020)	(480)
Selling expenses	(116)	(145)
Foreign exchange loss	(85)	(21)
Other expenses	(5)	(8)
Income tax benefit	81	72

JV Wabtec UWC LLC

In 2015 the Group signed an agreement on establishing an associate JV Wabtec UWC LLC with Wabtec Corporation and establishing WABTEC-UWC LTD, the shareholder of JV Wabtec UWC LLC. The Group owns a 49% share in WABTEC-UWC LTD. The principal activity of the associate is the development and production of innovative components for freight rolling stock, including the heavy one. JV Wabtec-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 JV Wabtec-UWC LLC. At 31 December 2018 and 2017, the carrying value of the Group's interest in the associate amounted to RUB 5.5 million and RUB 5.5 million respectively.

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17. OTHER NON-CURRENT ASSETS

Other non-current assets comprised the following:

	31 December 2018	31 December 2017
Advances paid for investment property	687	-
Investment property	451	-
Inventories	236	200
Advances paid for guarantees and sureties	-	361
Other	-	88
Total non-current assets	1 374	649

Investment property and advances paid for investment property comprise residential apartments and a residential complex in Tikhvin.

18. INVENTORIES

Inventories comprised:

	31 December 2018	31 December 2017
Raw materials and components for railcar production	10 460	9 474
Finished goods (railcars)	1 042	2 304
Other inventories	310	340
Total inventories	11 812	12 118

19. TRADE AND OTHER RECEIVABLES

Trade and other receivables comprised the following:

	31 December 2018	31 December 2017
Trade receivables from leaseback transactions (Note 29)	4 996	-
Trade receivables from the sale of railcars	2 318	863
Trade receivables from the sale of castings, components and other inventories	551	265
Trade receivables from repair of railcars	350	92
Trade receivables from operating lease and other services	193	2 306
Other receivables	109	30
Allowance for expected credit losses	(27)	(46)
Total trade and other receivables	8 490	3 510

As at December 31, 2018 and 2017, receivables from sale of railcars included a current portion of accounts receivable from sales of railcars in the amount of RUB 397 million and RUB 349 million, respectively. The export agreements provide for a deferred repayment schedule with credit period from 17 up to 48 months from the date of shipment. Accounts receivable under these agreements were accounted for at amortized cost using the effective interest rate, which reflects the time value of money and ranges from 7% to 10.7% depending on the currency of agreements. The difference between the carrying amount and the fair value of the asset was charged to revenue from the sale of railcars for 2018 and 2017 in the amount of RUB 24 million and RUB 165 million, respectively. Non-current portion of receivables under these agreements was included in the Group's consolidated statement of financial position in non-current receivables from the sale of railcars in the amount of RUB 495 million and RUB 565 million as at December 31, 2018 and 2017, respectively.

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Management determines the allowance for expected credit losses based on the assessment of customers' credit quality, changes in industry trends, subsequent receipts and historical experience. Ageing analysis of trade receivables is as follows:

	31 December 2018	31 December 2017
Past due 31 - 90 days	327	104
Past due 91 - 180 days	133	973
Past due 181 - 365 days	14	283
Past due over 365 days	18	16
Total	492	1 376

Movements in the allowance for expected credit losses for trade and other receivables during the years ended 31 December 2018 and 2017 were as follows:

	2018	2017
Balance at the beginning of the year	46	90
Reversal of the allowance for expected credit losses	(38)	(10)
Use of the allowance for expected credit losses	-	(77)
Charge of the allowance for expected credit losses	19	43
Balance at the end of the year	27	46

20. SHORT-TERM BANK DEPOSITS

Short-term deposits with banks including accrued interest comprised:

	Currency	Interest rate, %	31 December 2018	31 December 2017
Promsvyazbank PJSC (Cyprus branch)	RUB	9.00%	-	5 038
Total short-term deposits			-	5 038

As at December 31, 2017 the Group deposited available cash of RUB 5 000 million with PJSC Promsvyazbank (Cyprus branch) with annual interest rate of 9%.

21. PREPAYMENTS TO SUPPLIERS AND OTHER CURRENT ASSETS

Prepayments to suppliers and other assets comprised:

	31 December 2018	31 December 2017
Prepayments to suppliers	4 794	2 453
Prepaid expenses	190	201
Prepaid taxes and social contributions	58	101
Prepayment to customs	35	65
Bank guarantees and sureties	-	625
Allowance for expected credit losses	(108)	(104)
Total prepayments to suppliers and other assets	4 969	3 341

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22. LOANS RECEIVABLE

Loans receivable including interest accrued were as follows:

	Currency	Interest rate (as at December 31, 2018)	31 December 2018	31 December 2017
Loans receivable at amortized cost				
Secured				
SZIZhK CJSC	RUB	11.00%	1 954	2 529
Business Engineering CJSC	RUB	11.00%	325	719
Unsecured				
NitroChemProm LLC	RUB	10.00%	6 421	6 067
IST-Capital LLC	RUB	11.50-12.50%	1 618	1 316
Re Test Cyprus LTD	USD	6.40%	650	471
SZIPK CJSC	RUB	13%	-	1 375
Others	RUB	1-12.50%	348	82
Gross loans			11 316	12 559
Allowance for expected credit losses			(1 959)	-
Total loans receivable			9 357	12 559
Short-term loans			92	56
Long-term loans			9 265	12 503
Total loans receivable			9 357	12 559

Due to the fact that ICT Group sold its interest in the Group's share capital the quality of collateral securing several loans significantly deteriorated and the Group recognized lifetime ECL on such assets.

The table below shows movements in ECL on the following financial assets:

	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Total ECL
Allowance for expected credit losses at 1 January 2018 under IFRS 9	200	-	200
Reversal of allowance due to disposal of assets	(22)	-	(22)
Decrease in allowance due to decrease in credit risk	(69)	-	(69)
Increase in allowance due to significant increase in credit risk	-	1 850	1 850
Reclassification	(61)	61	-
Allowance for expected credit losses at 31 December 2018	48	1 911	1 959

23. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprised:

	31 December 2018	31 December 2017
Bank deposits in RUB	9 796	3 072
Current accounts in RUB	886	704
Current accounts in USD	154	7
Bank deposits in foreign currency	24	3
Current accounts in EUR	11	13
Total cash and cash equivalents	10 871	3 799

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As at December 31, 2018 and 2017 the Group placed cash in overnight deposits to gain interest income. The interest rate on ruble deposits ranges from 3% to 6.9% and for the deposit in USD the interest rate is set at 2.16%.

Restricted cash as at December 31, 2018

During 2018, a number of bank guarantees were issued to one of the Group's subsidiaries as a principal in respect of railcar buyers to secure the Groups' participation in tenders, receipt of advance payments for subsequent deliveries and fulfillment of the Group's obligations under contracts. As at December 31, 2018 and 2017, the total amount of funds deposited in collateral accounts that serve as collateral for such guarantees was RUB 2 263 million and RUB 807 million, respectively. As at December 31, 2018 the long-term portion of such cash totaled RUB 146 million and was included in the consolidated statement of financial position as non-current assets.

Restricted cash as at December 31, 2017

Under the credit facility agreement concluded between the Group's subsidiary and Alfa-Bank JSC a pledge agreement was signed in respect of the bank collateral account. In accordance with the terms of the agreement, the collateral account shall accumulate proceeds from the railcar lease services under a number of the Group's lease contracts. The use of funds deposited in the collateral account is only possible for repayment of the short-term portion of the loan from Alfa-Bank JSC.

As at December 31, 2017 the amount of restricted cash accumulated on the collateral bank account of RUB 807 million was included in current assets in the consolidated statement of financial position.

Other limitations

Under the loan and security agreements between the Group's subsidiary and Gazprombank JSC and Gazprom Leasing LLC, a pledge agreement was signed in respect of the bank collateral account. In accordance with the terms of the agreement, the collateral account shall accumulate proceeds from the railcar lease services under a number of the subsidiary's lease contracts. As at December 31, 2018 the funds accumulated on the collateral account totaled RUB 239 million. The Group did not classify these assets as restricted cash, since as at December 31, 2018 the creditor had no right to restrict the use of funds in the collateral account: the restriction arises only when the Group breaches certain financial covenants established by the loan and lease agreements that had not been breached at the reporting date.

24. SHARE AND ADDITIONAL PAID-IN CAPITAL

As at December 31, 2018, the Group's issued and registered share capital amounted to RUB 116 million, divided into 116 million ordinary non-certificated registered shares with par value of RUB 1 each. The share capital was fully paid as at the reporting date.

On February 8, 2017 the Group's shareholders approved a decision to increase the share capital of the Group by an additional public issue of 7 500 000 ordinary shares. In May 2017 the Group held an additional public offering of 2 572 741 shares by listing its shares on the Moscow stock exchange for RUB 1 853 million (based on the issuance price of RUB 720 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. Issuance costs comprised RUB 26 million.

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25. LOANS AND BORROWINGS

Loans and borrowings received comprised:

At amortized cost	Maturity	Interest rate		31 Decem- ber 2018	31 Decem- ber 2017
		(at 31 December 2018)			
Otkritie FC Bank PJSC	2019-2024	Floating	Key rate of the CBR +3.5%	36 212	36,751
Otkritie FC Bank PJSC	2021	Fixed	13.80%	8 250	9 000
Gazprombank (JSC)	2028	Fixed	10.50%	6 000	-
Otkritie FC Bank PJSC	2020	Floating	MosPrime 3M + 2.5%	3 919	7 517
National Bank Trust PJSC	2023	Floating	Key rate of the CBR +2.5%	3 871	3 946
Otkritie FC Bank PJSC	2022-2024	Floating	8.75% ²	2 503	2 940
UniCredit Bank	2024	Floating	MosPrime 3M + 1.5%	718	806
ROSEXIMBANK JSC	2021	Fixed	9.00%	552	777
Industry Development Fund	2021	Fixed	5.00%	62	62
Alfa-Bank JSC	2018	Fixed	12.70%	-	18 993
National Bank Trust PJSC	2018	Floating	MosPrime 3M + 1.5%	-	1 385
Total loans and borrowings				62 087	82 177
Less: short-term portion				18 087	6 962
Long-term loans and borrowings				44 000	75 215

¹ within the range of the key rate of CBR + 1.5% and the rate for investment projects support program +2.5%

Security on loans and borrowings

Under the terms of the loan agreements as at December 31, 2018 and 2017, the Group provided the following types of security:

- Property, plant and equipment with a carrying value of RUB 38 156 and 63 297 million, accordingly;
- Intangible assets with a carrying value of RUB 47 and 0.31 million, respectively;
- Rights to claim proceeds from export revenue in the amount of RUB 734 and 914 million, accordingly;
- Other assets with a carrying value of RUB 0 and 89 million, accordingly;

In addition, as at December 31, 2018 the Group provided the pledge of share in the following subsidiaries: TM-Energo (100%), TikhvinSpecMash CJSC (100%), TikhvinChemMash CJSC (100%), AFCT Advanced Freight Car Technology Limited (100%), DEANROAD Limited (100%), Raygold Limited (100%) and TVSZ JSC (100%). As at December 31, 2017, under the terms of the borrowing and security agreements, the Group provided the pledge of share in the following subsidiaries: RAIL1520 LLC (100%), RAIL 1520 Cyprus Ltd (75%), TM-Energo (100%) and TikhvinSpecMash CJSC (100%).

Repayment schedule

The repayment schedule of loans and borrowings (excluding future interest) for five years ending 31 December 2023 and thereafter is as follows:

Year ended 31 December	Amount to maturity
2019	18 087
2020	8 195
2021	14 487
2022	3 060
2023	12 139
Thereafter	6 119
Total	62 087

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Reconciliation of financial liabilities

The change of financial liabilities including cash and non-cash movements is presented below. Liabilities arising from financial activities are those for which cash flows were or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Cash flows				31 December 2018
	1 January 2018	from financial activities ¹	Other non-cash changes	Net interest payments	
Bank loans from related parties	-	(6 604)	57 581	(93)	50 884
Bonds	30 470	(6)	-	(31)	30 433
Bank loans	82 115	(13 402)	(57 508)	(64)	11 141
Finance lease liabilities	195	17 060	4 215	-	21 470
Other borrowings	62	-	-	-	62
Liabilities under a leaseback transaction with GTLK PJSC	-	6 499	-	-	6 499
	112 842	3 547	4 288	(188)	120 489

	Cash				Net interest payments	31 December 2017
	1 January 2017	Cash flows from financial activities ¹	Non-cash changes Foreign exchange differences	Other non-cash changes		
Bank loans	69 061	12 726	504	126	(302)	82 115
Bonds	30 637	(70)	-	-	(97)	30 470
Borrowings from related parties	2 175	(2 078)	(1)	-	(96)	-
Other borrowings	862	(800)	-	-	-	62
Finance lease liabilities	13	150	-	32	-	195
	102 748	9 928	503	158	(495)	112 842

¹ Cash flows from bank loans and bonds comprise net amount of inflows and outflows related to borrowed funds specified in the statement of cash flows. Cash flows from lease liabilities comprise amount of principal under lease agreements.

Covenants

Under the terms of the loan 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.

Compliance with covenants during the year ended 31 December 2018

As at December 31, 2018 one of the Group's subsidiaries breached a number of obligatory default financial covenants stipulated in the loan agreement with Otkritie FC Bank PJSC. As at the reporting date non-current portion of liabilities under these agreement amounted to RUB 16 845 million:

- The ratio of the accounts payable less inventory and accounts receivable to total assets, determined in accordance to the statutory financial statements;
- The ratio of a company (borrower) accounts payable to other companies of the Group and borrower's accounts receivable from other companies of the Group;
- Target ratio of capital to assets of the borrower;
- The ratio of borrower's total debt as at the reporting date to EBITDA, as defined based on the financial statements prepared in accordance with Russian Accounting Standards;



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The penalties imposed on the borrower included an increase of the interest rate by 1% (percentage point) as of 8 February 2018. In 2019, the Group received an official letter from the Otkritie FC Bank PJSC confirming that it would not impose additional penalties, apart from those already notified to the borrower, for breaches of the above covenants in the first, second and third quarters of 2018. At the date of approval of these consolidated financial statements, the Group was at the final stage of the project for the restructuring of its portfolio of loans from one of the major creditors, Otkritie FC Bank PJSC. The restructuring is aimed, among other things, at the approval of a new set of financial and non-financial covenants to eliminate the breach of covenants in the fourth quarter of 2018 (Note 2).

In 2018 one of the Group's subsidiaries signed a finance lease agreement with Gazprom Leasing JSC and a respective loan agreement with Gazprombank JSC for RUB 6 000 million. In accordance with both of the agreements, the Group was required to comply with a number of default non-financial covenants which were breached as at December 31, 2018. Namely, the Group was obliged to sign pledge agreements in respect of property rights, movable property, interests in share capital and not to adjust the terms of deliveries of railcars that are the subject of financial lease. The breaches were technically remedied in February 2019. As at the date of approval of these consolidated financial statements, the Group received an official letter from bank confirming that it will not demand an early repayment of the loan or termination of the respective finance lease. As at December 31, 2018, the long-term portion of the loan was RUB 6 000 million.

The management of the Group estimated the probability that banks will demand early repayment of loans under agreements with breached covenants is low and, therefore, as at December 31, 2018 such loans were presented in the consolidated financial statements for 2018 as non-current liabilities according to the initial payment terms stipulated in the loan agreements.

Compliance with covenants during the year ended 31 December 2017

As at December 31, 2017 PJSC RPC UWC breached an obligatory financial covenant stipulated in the loan agreement, in particular prevention of the deterioration of the financial position of the Company. This covenant prohibits the increase of the financial liabilities of the borrower, including the provision of guarantees exceeding 10% of the net asset value of the borrower in favor of the third parties that are not subsidiaries of the Group. This covenant drives default. This means if the covenant is breached the creditor bank may demand an early repayment of the debt. The breach was due to a guarantee provided by the Company in 2017 in favor of Vostok1520 LLC to secure its leasing payments to PJSC GTLK. Due to the breach of covenants under the loan agreement, the creditor bank was entitled to demand an early repayment of the entire debt amount within the relevant loan agreement. On 23 March 2018, PJSC RPC UWC entered into additional agreements with PJSC GTLK and Vostok1520 LLC, under which the total amount of guarantees was reduced to RUB 812 million, which eliminated the breach of the covenant provided for by the loan agreement.

In September 2017 a subsidiary of the Group breached a covenant with respect to monthly turnover on its current accounts in the bank (Otkritie FC Bank PJSC). The bank applied 0.5% penalty charges for outstanding balance of the loan and obliged the Group to pay RUB 45 million (the penalty is included in the finance costs line of consolidated statement of profit and loss and other comprehensive income). The bank notified the Group that it did not plan to apply other penalties for the breach. As at December 31, 2017 the borrower fulfilled the covenant for the corresponding reporting period. In addition as at December 31, 2017 the same subsidiary of the Group breached a covenant stipulated in a loan agreement with Otkritie FC Bank PJSC that was transferred to National Bank Trust PJSC. The covenant prohibits providing guarantees to the third parties for the amount higher than 10% of the carrying value of the borrower's assets calculated according to the statutory financial statements. The company provided a guarantee for a promissory note issued by its related party NitroChemProm LLC. Both breached covenants drive default.

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As at December, 31 2017, one of the group's subsidiaries breached a number of default financial covenants stipulated in the loan agreement with Bank FC Otkritie PJSC. In particular: the ratio of the accounts payable less inventory and accounts receivable to total assets, determined in accordance to the statutory financial statements and the ratio of intra-group (settlements with the companies of the Group) accounts payable and accounts receivable balances. This loan agreement was concluded as part of the refinancing of the syndicated loan received by the Group's main manufacturing asset from Vnesheconombank ("VEB") and the Eurasian Bank of Development ("EABR"). The sanction applied to the borrower was an increase of the interest rate by 1% (one percentage point) from February 8, 2018. In April 2018, the Group received a waiver from the bank with a validity period of 12 months from the reporting date.

In addition as at December 31, 2017 the Group breached a number of other covenants stipulated in the loan agreements with Bank FC Otkritie PJSC. The maximum exposure for non-compliance with these covenants are penalties, but not an early demand for the debt repayment.

During the preparation of the consolidated financial statements for the year ended December 31, 2017, the Group's management estimated the probability that banks will use their right and demand an early repayment of the borrowings under agreements with breached covenants is low and, therefore, as at December 31, 2017 such borrowings were presented in the consolidated financial statements as non-current liabilities according to the initial payment terms stipulated in the loan agreements.

Available credit facilities

As at December 31, 2018 the Group had no unused credit facilities.

26. BONDS

In 2014 and 2013 the Group issued and placed 30 000 000 bonds (Series BO 01 and Series 01) at par value of RUB 1 thousand each on the MICEX.

In 2017, the Group issued and placed 5 000 000 bonds (Series BO-P03) at par value of RUB 1 thousand each on the MICEX. As at December 31, 2017 the bonds were held by a subsidiary of the Group. In 2018 the bonds were purchased by the subsidiary-issuer and repaid in full.

As at December 31, 2018 and 2017, subsidiaries of the Group held bonds for RUB 207 million and RUB 5 201 million, respectively, for a purpose of their future resale on the market.

The annual coupon rate of bonds was set at:

- 8.7% for bonds of Series 01 for the first half-year period and Russia CPI + 3% thereafter with interest being paid semi-annually. In 2018 the following coupon rates were used:
 - 4.12% from 1 January 2018 to 29 May 2018;
 - 6.68% from 30 May 2018 to 27 November 2018;
 - 6.34% from 28 November 2018 to 31 December 2018.
- 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 2018 the following rates were used:
 - 13.5% from 1 January 2018 to 12 March 2018;
 - 12% from 13 March 2018 to 31 December 2018.

The bonds are guaranteed by several entities of the Group.

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

	Maturity	Weighted average interest rate for the twelve months ended 31 December 2018	31 December 2018	31 December 2017
Series 01	24 November 2021	5.60%	14 793	14 799
Series BO 01	10 September 2019	12.29%	15 000	15 000
Total			29 793	29 799

The balance of interest accrued as at December 31, 2018 and 2017 in the amount of RUB 640 million and RUB 671 million, respectively, is included in the consolidated statement of financial position as the short-term portion of the bonds.

27. TRADE AND OTHER PAYABLES

Trade and other payables comprised:

	31 December 2018	31 December 2017
Trade payables	4 662	5 109
Payables for property, plant and equipment and intangible assets	231	284
Total trade and other payables	4 893	5 393

28. ADVANCES RECEIVED AND OTHER CURRENT LIABILITIES

Advances received and other current liabilities comprised:

	31 December 2018	31 December 2017
Advances received from customers, including:	19 223	15 810
<i>Advances received for sale of railcars</i>	19 018	15 527
<i>Operating lease prepayments</i>	128	227
Taxes payable (incl. VAT)	4 095	3 884
Provisions and accrued expenses	964	799
Other short-term payables to employees	301	175
Total advances received and other current liabilities	24 583	20 668

The line *Provisions and accrued expenses* include the short-term portion of remuneration for 2018 and 2017 payable to the key management personnel in the amount of RUB 244 million (including social contributions taxes). The long-term portion of remuneration payable not earlier than in 12 months is presented as accrued expenses for employee remuneration in the consolidated statement of financial position in the amount of RUB 150 million (including social contributions). The estimated liability of remuneration is based on the assumption that the approved key performance indicators will be achieved at 100%.

In 2018, the Group entered into a number of railcar supply agreements with suppliers due in 2020-2021. As at December 31, 2018 a portion of advances for supplies due after December 31, 2019 of RUB 78 million was included in the consolidated statement of financial position as advanced received in non-current liabilities.

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In 2018, several subsidiaries of the Group entered into a trilateral agreement for supply of railcars with subsequent leaseback. This agreement stipulates that, in the period from 2019 to 2020, the Group shall deliver 10 000 railcars to GTLK PJSC with a total value of RUB 32 000 million (net of VAT) within 21 tranches, which in turn shall transfer them to one of the Group's entities under long-term leaseback. The lease term will be 15 years from the date of supply of each tranche, future lease payments will amount to RUB 71 105 million (net of VAT). The effective interest rate is calculated excluding the effect of cash flows from VAT and varies from 12.4% to 12.8% per annum.

The agreement provides for advances to the Group for the subsequent production of railcars: in August 2018 the Group received an advance of RUB 7 552 million (incl. VAT 18% of RUB 1 152 million), which is 20% of the prepayment under each tranche. The lease liability arises for the Group only after the first tranche of railcars is delivered and leased back in accordance with the pre-set schedule, therefore as at December 31, 2018 the Group recognized the advance payment in accordance with IFRS 9 as a financial liability carried at amortized cost using the effective interest rates that determine the future lease payments under the lease agreement. As at December 31, 2018 the short- and long-term portions of this financial liability were RUB 1 509 million and RUB 4 862 million, respectively. The effect of the application of the effective interest method for calculating the amortized cost amounted to RUB 359 million and was recognized as finance expenses in the consolidated statement of profit and loss and other comprehensive income.

Finance lease liabilities

In 2018, the Group entered into a sale agreement for 11 191 own railcars, which provides for the subsequent leaseback of the sold railcars. The lease term under the agreement is 10 years, the effective interest rate calculated excluding the influence of cash flows from VAT is 11%.

Because of the Group did not fully fulfill the obligation for railcars supply, a part of the receivables related to the transaction was not paid by the leasing company as at December 31, 2018. Outstanding receivables at 31 December 2018 were RUB 4 341 million (net of VAT 18%) and were taken into account when determining the present value of the minimum lease payments. These receivables were included in trade and other receivables (Note 19) in the amount of RUB 4 996 million (incl. VAT 18% in amount of RUB 781 million).

The total interest on the lease liabilities for 2018 amounted to RUB 708 million and was recognized as finance expenses in the consolidated statement of profit and loss and other comprehensive income.

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As at December 31, 2018 and 2017 finance lease liabilities comprised:

	31 December 2018	31 December 2017
Minimum lease payments, including		
Current portion (less than 1 year)	3 463	42
From 1 to 5 years	13 754	132
More than 5 years	17 787	113
Total minimum lease payments	35 004	287
Less interest on the lease liabilities	(13 408)	(92)
Less outstanding amount under leaseback transaction as at the reporting date	(4 341)	-
Present value of minimum lease payments		
Current portion (less than 1 year)	3 188	39
From 1 to 5 years	10 092	51
More than 5 years	8 190	105
Less outstanding amount under leaseback transaction as at the reporting date	(4 215)	-
Total present value of minimum lease payments	17 255	195
Less current portion of lease liabilities	(3 188)	(39)
Outstanding receivables on transaction as at the reporting date	4 215	-
Non-current portion of lease liabilities	18 282	156

The lease agreement provides for a fixed payment with no contingent lease elements.

Upon expiry of the agreement, the Group can buy out leased property at a price close to zero.

The Group's lease agreements contain railway business-specific covenants, such as the Group's responsibility for regular maintenance, repair and insurance of the leased assets. The lease agreement also provides for financial and non-financial covenants. Information on the fulfillment of such covenants in 2018 and as at December 31, 2018 is disclosed in Note 25.

The Group's liabilities under this agreement are secured by the lessor's title to leased assets. The carrying value of the rolling stock pledged under a finance lease agreement is RUB 21 357 million.

30. 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 paid 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.

In the ordinary course of business, the Group enters into various transactions with related parties, such as sale and purchase of railcar spare parts, components and castings, or financing and investing transactions.

As at December 31, 2018 related parties with which the Group had significant balances outstanding included associates and joint ventures, as well as Otkritie FC Bank PJSC. In 2018, Otkritie FC Bank PJSC increased the effective ownership interest in the Group as at December 31, 2018, exceeding 20%, which gives the bank significant influence over the Group.

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In 2018, the ICT Group sold its share in the Group's share capital and ceased to have a significant influence on the Group. Thus, as at December 31, 2018 the outstanding balances with the ICT Group and its former subsidiaries were not included in the balances with the entities that have a significant influence on PJSC RPC UWC, but are included in related party transactions for 2018.

In 2017, transactions with United Wagon Plc were included within the transactions of the entities with significant influence over RPC UWC. In 2018, transactions with United Wagon Plc were included within the transactions with other related parties.

In 2017, for the purposes of this disclosure, transactions and balances with NitroChemProm LLC and Vostok 1520 LLC were presented as transactions with associates and joint ventures. In 2018, these entities were removed from the related parties' list.

As at December 31, 2018 and 2017, the Group had the following balances with its related parties:

	31 December 2018	31 December 2017
Trade and other receivables		
Associates and joint ventures	9	2 211
Entities with significant influence over RPC UWC	-	15
Cash and cash equivalents		
Otkritie FC Bank PJSC	8 801	-
Loans receivable and deposits		
Entities with significant influence over RPC UWC	-	6 415
Associates and joint ventures	-	6 108
Prepayment for the acquisition of the subsidiary		
Entities with significant influence over RPC UWC	-	2 000
Prepayments to suppliers and other assets		
Otkritie FC Bank PJSC	31	-
Associates and joint ventures	18	485
Entities with significant influence over RPC UWC	-	995
TOTAL ASSETS	8 859	18 229
Short-term loans and borrowings		
Otkritie FC Bank PJSC	50 884	-
Bonds		
Otkritie FC Bank PJSC	23 882	-
Trade and other payables		
Otkritie FC Bank PJSC	2	-
Associates and joint ventures	1	48
Entities with significant influence over RPC UWC	-	662
Advances received		
Associates and joint ventures	19	6 183
TOTAL LIABILITIES	74 788	6 893

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For the years ended 31 December 2018 and 2017, the Group's transactions with its related parties were as follows:

	2018	2017
Sales of railcars and inventories		
Associates and joint ventures	752	64
Entities with significant influence over RPC UWC	57	7
Lease income		
Associates and joint ventures	-	3 329
Income from consulting services		
Associates and joint ventures	12	11
Rent income		
Associates and joint ventures	25	95
Entities with significant influence over RPC UWC	2	3
Other income		
Entities with significant influence over RPC UWC	21	29
Associates and joint ventures	6	75
Raw materials used in production		
Entities with significant influence over RPC UWC	(62)	(117)
Associates and joint ventures	(1 074)	(295)
Services included in the cost for the current period		
Entities with significant influence over RPC UWC	(396)	(707)
Associates and joint ventures	-	(47)
Finance income		
Associates and joint ventures	-	552
Entities with significant influence over RPC UWC	526	1 094
Otkritie FC Bank PJSC	442	-
Finance costs		
Otkritie FC Bank PJSC	(8 468)	-
Other related parties	(985)	-
Entities with significant influence over RPC UWC	-	(1 099)
Other costs		
Entities with significant influence over RPC UWC	(6)	(130)
Associates and joint ventures	-	(8)
Purchase of property, plant and equipment, intangible assets and investment property (including advances for subsequent purchase)		
Entities with significant influence over RPC UWC	(1 859)	(389)
Acquisition of subsidiaries (Note 6)		
Entities with significant influence over RPC UWC	(1 200)	(2 000)

Compensation to key management personnel

Compensation to key management personnel and to the Board of Directors is made up of a contractual salary and a performance bonus depending on operating results. The total amount of the remuneration to the key management personnel and to the Board of Directors for the year ended December 31, 2018 and 2017 amounted to RUB 1 233 and 459 million (including social contributions taxes).

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Guarantees issued under lease payments as of December 31, 2018 are as follows:

Name of debtor	Name of creditor	Start of validity period	End of validity period	Currency of the contract	The amount of the contract
Vostok 1520 LLC		31 March 2017	30 September 2034	RUB	555
Vostok 1520 LLC	PJSC GTLK	31 March 2017	31 January 2035	RUB	261
Total					816

Guarantees issued under lease payments as of December 31, 2017 are as follows:

Name of debtor	Name of creditor	Start of validity period	End of validity period	Currency of the contract	The amount of the contract
Vostok 1520 LLC		31 March 2017	30 September 2034	RUB	36 900
Vostok 1520 LLC	PJSC GTLK	31 March 2017	31 January 2035	RUB	15 844
Total					52 744¹

¹ On 23 March 2018 the Group signed additional agreements to the guarantees issued during 2017. According to the guarantees, the Group acted as a guarantor of leasing payments of Vostok 1520 LLC to the creditor PJSC GTLK. Based on the additional agreements the total amount of the guarantees were reduced from RUB 52 744 million to 812 million. Accordingly, as at December 31, 2017 the contractual amount was RUB 812 million.

As at December 31, 2018 and 2017 the promissory note issued by NitroChemProm LLC and acquired by the Group was pledged as a guarantee for the liabilities of NitroChemProm LLC.

Operating lease**The Group as a lessor**

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

Non-cancellable operating lease payments are presented as follows:

	31 December 2018	31 December 2017
Less than one year	6 302	5 804
Later than 1 year and not longer than 5 years	10 226	16 220
Over 5 years	639	1 758
	17 167	23 782

Operating environment

Because Russia produces and exports large volumes of oil and gas, Russia's economy is particularly sensitive to the price of oil and gas on the world market.

During 2018 the oil and gas prices remained low. The management cannot reasonably estimate future price changes and the impact they may have on the financial position of the Group.

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Starting from March 2014, sanctions have been imposed in several packages by the U.S. and the E.U. on certain Russian officials, businessmen and companies. Moreover, downgrade of Russia's long-term foreign currency sovereign rating by international credit agencies has led to reduced access of the Russian businesses to international capital and export markets, increased inflation, economic recession and other negative economic consequences.

The impact of 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 change rapidly. Management's interpretation of such legislation as applied to the activity of the Group may be challenged by the relevant regional and federal authorities. Recent events suggest that the tax authorities are taking a more assertive position in their interpretation of the legislation. Therefore, the tax assessment approaches that have not been challenged in the past, might be challenged during further tax audits. Fiscal periods generally remain open to tax audit by the authorities in respect of taxes for three calendar years following the year of tax audit. Under certain circumstances reviews may cover longer periods. Management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, the relevant authorities may have differing interpretations, and the effects on the financial statements could be significant.

The Group identified possible contingent tax liabilities for the three-year period ended December 31, 2018. Management estimates that the Group's possible exposure in relation to the aforementioned tax risks will not exceed 4% of the Group's total revenue.

Legal proceedings

As at December 31, 2018 the Group is involved in legal proceedings initiated by some of its shareholders (Investment Management LLC, IQG Asset Management JSC) who filed a claim against RPC UWC PJSC to redeem its ordinary shares with a total value of about RUB 8 185 million. The claim has been filed against the Group based on the respective right of the shareholders. In March 2018, the extraordinary shareholders' meeting (hereinafter – the "EGMS") of RPC UWC approve a number of large transactions with the total value exceeding 50% of the carrying amount of total assets of RPC UWC. The shareholders who did not participate in the meeting received the right to demand from RPC UWC the redemption of all or part of the shares of RPC UWC, that they own. The management of RPC UWC considers that the approval of the transactions was not within the responsibility of the general meeting of shareholders, therefore in May 2018 the General Director of RPC UWC PJSC also initiated a legal proceeding to invalidate this decision since the Company's management considers that this decision was not within the responsibility of the general meeting of shareholders.

In November 2018, Board of Appeals of the Arbitration court invalidated these EGMS decisions as the significant transactions approved by the EGMS relate to the Company's ordinary activities and are not significant for the Company, therefore, there were no grounds for their approval at the EGMS, accordingly, the EGMS decisions were beyond the competence of the general meeting of shareholders and shall be deemed invalid. Thus, according to the court decision the shareholders' claim to redeem the own shares is invalid.

Due to the consideration of the cassation appeal against the decision of the Court of Appeal and the subsequent filing of an application to reschedule the court trial, the legal proceeding was postponed to April 2019 in order to conclude an amicable agreement. On 18 April 2019, the Moscow District Commercial Court dismissed the cassation appeal and left unchanged the Court of Appeal's decision of 20 November 2018. Given the existing court practice the Company's management assesses the possibility of unfavorable outcome of the court proceedings, which could oblige the Company to redeem its own shares of about RUB 8 185 million as low. Nevertheless, the Company admits the uncertainty with respect to the outcome of the court proceeding as at the approval date of these consolidated financial statements.

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Capital expenditure commitments

As at December 31, 2018 and 2017 the Group had contractual capital expenditure commitments in respect of property, plant and equipment and intangible assets totaling RUB 333 million and 387 million. As at December 31, 2018 the Group's future liabilities for scheduled depot repair of railcars are estimated at RUB 41 million.

32. 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:

	31 December 2018	31 December 2017
Financial assets at amortized cost		
Cash and cash equivalents	10 871	3 799
Loans receivable	9 357	12 559
Trade and other receivables (including non-current accounts receivable)	8 985	4 075
Restricted cash	2 263	807
Short-term deposits	-	5 038
Investment in JSC PTK Holding	-	1 773
Finance lease receivables	-	224
Financial liabilities at amortized cost		
Loans and borrowings	62 086	82 177
Bonds	30 433	30 470
Finance lease liabilities	21 470	195
Liability under a leaseback transaction with GTLK PJSC	6 499	-
Trade and other payables	5 194	5 568
Provisions and accrued expenses	452	955

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, 2018 and 2017 were as follows:

	31 December 2018		31 December 2017	
	Carrying amount	Fair value	Carrying amount	Fair value
Loans and borrowings with variable interest	47 223	47 223	53 344	53 344
Bonds	29 793	28 017	30 470	29 788
Loans and borrowings with fixed interest	14 864	15 951	28 833	31 593
Finance lease liabilities	21 470	21 470	195	195
Liability under a leaseback transaction with GTLK PJSC	6 499	6 499	-	-
	119 849	119 160	112 842	114 920

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Inputs of Level 2 and 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 values of the financial liabilities have been 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 Group's debt portfolio discount rate of 9.55% of Otkritie FC Bank PJSC, one of its main lenders, which is equal to the weighted average interest rate on loans (in Rubles and with maturity period of 3 years) received by non-financial organizations from credit institutions in the first quarter of 2019.

In determining the fair value of financial liabilities, management of the Group relied on the assumption that the carrying amount of variable rate financial liabilities approximates their fair value at December 31, 2018, as it reflects changes in market conditions, takes into account the risk premium and the time value of money.

In determining the fair value of bonds, the Group used a weighted average market-based transaction price on these financial instruments (as a percentage of the nominal value).

To calculate the fair value of fixed rate loans received in Russian rubles in 2018 and 2017 the Group applied market value of borrowed capital at a rate of 9.55% and 10.43%, respectively, which does not include the effect of received governmental grants.

In determining the fair value of finance lease liabilities (including liability under a leaseback transaction with GTLK PJSC), the Group's management relied on the assumption that the carrying amount of finance lease liabilities approximates their fair value as at December 31, 2018 as the Group recognized these liabilities in the second half 2018 and their effective interest rate is higher compared to market indicators as at December 31, 2018 due to the Group's risk premium.

Fair value of accounts receivable, short-term loans receivable, short-term bank deposits, cash and cash equivalents corresponds to their carrying value, excluding loans receivable. For assessment of the fair value for long-term loans, inputs from Level 2 and 3 of fair value hierarchy were used. Fair value was estimated based on discounted cash flows with key assumption - discount rate. The discount rate reflects the weighted average interest rate on loans received by the Group, as it takes into account credit risk (estimated by management of the Group as average) of all borrowers, including those to whom the Group has issued the loans.

As at December 31, 2018 fair value of the loans receivable was lower than their carrying value by RUB 1 436 million. As at December 31, 2017 fair value of the loans receivable was lower than their carrying value by RUB 499 million.

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.

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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	1 year to 5 years	Over 5 years	Total
31 December 2018				
Fixed interest rate instruments	5 071	9 065	8 886	23 022
Variable interest rate instruments	36 728	58 205	129	95 062
Finance lease liabilities	3 463	13 754	17 787	35 004
Liability under a leaseback transaction with GTLK PJSC	1 649	4 885	-	6 534
Non-interest bearing liabilities	5 194	-	-	5 194
Provisions and accrued expenses	301	151	-	452
Total	52 406	86 060	26 802	165 268
31 December 2017				
Fixed interest rate instruments	5 610	26 234	11 827	43 671
Variable interest rate instruments	13 715	77 273	23 375	114 363
Finance lease liabilities	43	159	-	202
Non-interest bearing liabilities	5 568	-	-	5 568
Provisions and accrued expenses	799	156	-	955
Total	25 735	103 822	35 202	164 759

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	1 year to 5 years	Over 5 years	Total
31 December 2018				
Fixed interest rate instruments	128	3 421	14 362	17 911
Non-interest bearing assets	10 607	539	146	11 292
Total	10 735	3 960	14 508	29 203
31 December 2017				
Fixed interest rate instruments	5 362	4 297	16 595	26 254
Non-interest bearing assets	6 090	651	-	6 741
Finance lease receivables	54	217	74	345
Total	11 506	5 165	16 669	33 340

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.

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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 2018 and 2017 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:

	31 December 2018			31 December 2017		
	Monetary financial assets	Monetary financial liabilities	Net monetary position	Monetary financial assets	Monetary financial liabilities	Net monetary position
USD	1 060	69	991	598	198	400
EUR	917	498	418	1 290	197	1 093
Total	1 977	567	1 409	1 888	395	1 493

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	
	31 December 2018	31 December 2017	31 December 2018	31 December 2017
Gain	99	40	42	109

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.

During 2017 the Group entered into several forward contracts to hedge its foreign exchange risks in respect of the acquisition of certain components and raw materials. A net loss from forward transactions amounted to RUB 47 million and was included into the line Foreign exchange gain/(loss), net. In 2018 the Group did not enter into forward contracts.

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 credit risk by maintaining an appropriate mix between fixed and variable rate borrowings. The Group is also exposed to interest rate 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 and variable interest rates borrowings 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.

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Had interest rates been 3% higher/ (lower) and all other variables were held constant, the Group's consolidated loss for 2018 and 2017 would have increased/ (decreased) by RUB 2 310 and 2 406 million, respectively.

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:

	31 December 2018	31 December 2017
Cash and cash equivalents	10 871	3 799
Loans receivable	9 357	12 559
Trade and other receivables	8 985	4 075
Restricted cash	2 263	807
Short-term deposits	-	5 038
Investment in PTK Holding JSC	-	1 773
Finance lease receivables	-	224
Total	31 476	28 275

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.

Concentration of credit risk for account receivables from sale of railcars is about 57% as at reporting date. The balance is formed by outstanding amounts from external customer, however, management of the Group considers credit risk to be limited. Accounts receivable from operating lease of railcars are represented for more than 38% by receivables from SUEK. As at December 31, 2018 the credit risk associated with trade and other receivables related to the outstanding receivables on a leaseback transaction of RUB 4 341 million. The outstanding balance was fully repaid in 1Q2019 after the fulfillment by the Group of all its obligations for railcars supply under the leaseback agreement.

The credit risk on liquid funds represented by cash and cash equivalents, excluding restricted cash, is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

Name of bank	Rating agency	Rating	31 December 2018	31 December 2017
Otkritie FC Bank PJSC	Moody's	Ba2	8 801	2 860
Sberbank PJSC	Fitch Ratings	BBB-	813	4
MOSCOW CREDIT BANK PJSC	Fitch Ratings	BB-	594	859
Gazprombank (JSC)	Fitch Ratings	BB+	374	7
Other			289	69
Total			10 871	3 799

As regards loans receivable, the Group constantly monitors changes in the credit rating of its debtors and makes a provision for expected credit losses. (Note 22).



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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 25 and 26, offset by cash and cash equivalents balances), and equity.

33. EVENTS AFTER THE REPORTING DATE

On February 18, 2019 Otkritie FC Bank PJSC credit committee issued a decision that preliminarily approved a change of maturity of the B-01 series commercial bonds with outstanding amount of RUB 15 000 million. The maturity date was postponed from September 10, 2019 to December 31, 2023, and the coupon rate was decreased to 9.55% (the weighted average coupon rate was 12.29% during 2018);

In January and February 2019, one of the Group's subsidiaries repaid a loan provided by Otkritie FC Bank PJSC in the amount of RUB 8 500 million. In March 2019, the Group signed addendums to its loan agreements with Otkritie FC Bank PJSC. Those changes reduced interests to a fixed rate of 9.55%, postponed the payment date of interest accrued in 2019 by one quarter and postponed the payment of short-term portion of loan by one quarter.

In the first quarter of 2019 the Group fully fulfilled the obligation for railcars supply under the leaseback agreement, on 4 March 2019 the Group received the final payment under the supply agreement as a part of the leaseback transaction in the amount of RUB 5 122 million (incl. VAT).



REPORT ON COMPLIANCE WITH THE PRINCIPLES AND RECOMMENDATIONS OF THE CORPORATE GOVERNANCE CODE

This Report on Compliance with the Principles and Recommendations of the Corporate Governance Code was reviewed by the Board of Directors of Public Joint-Stock Company Research and Production Corporation United Wagon Company at a meeting on May 27, 2019.

The Board of Directors confirms that the data provided in this Report contains complete and reliable information about the Company's compliance with the principles and recommendations of the Corporate Governance Code in 2018.

No.	Principles of corporate governance	Criteria used to assess compliance with the principle of corporate governance	Compliance status with the principle of corporate governance	Explanations for deviations from the criteria used to assess compliance with the principle of corporate governance
1.1	The company shall ensure all shareholders are treated fair and equally as they exercise their rights to take part in the company's management.			
1.1.1	The Company shall create the most favorable conditions for shareholders to participate in a general meeting and conditions to formulate a substantiated position on the agenda items of the general meeting and coordinate their actions as well as the opportunity to express their opinion on the items under consideration.	<ol style="list-style-type: none"> The company's internal document that has been approved by the general meeting of shareholders and regulates the procedures for holding a general meeting is publicly available. The company provides an accessible way to communicate with the public, such as a hotline, email, or an Internet forum, which allows shareholders to express their views and send questions about the agenda when preparing for the general meeting. The company took these actions in the run-up to each general meeting held in the reporting period. 	Compliant	
1.1.2	The procedure for announcing a general meeting and supplying a package of information on the general meeting shall provide shareholders with the opportunity to properly prepare to take part in the meeting.	<ol style="list-style-type: none"> The notice on the general meeting of shareholders is posted (published) on the Internet website at least 30 days prior to the date of the general meeting. The notice on the meeting indicates the location of the meeting and the documents required for admission to the venue. Shareholders were provided with access to information on who proposed agenda items and who nominated candidates to the board of directors and the company's internal audit commission. 	Compliant	
1.1.3	When preparing for and holding a general meeting, shareholders shall have the opportunity to promptly obtain information about the meeting and the relevant materials, ask company executives and members of the company's board of directors questions, and interact with each other without restriction.	<ol style="list-style-type: none"> During the reporting period, shareholders were given the opportunity to ask members of the company's executive bodies and board of directors questions in the run-up to and during the annual general meeting. The position of the board of directors (including the special opinions included in the minutes) on each agenda item of general meetings held during the reporting period was included in the materials for the general meeting of shareholders. The company granted access to the list of persons entitled to participate in the general meeting to shareholders who are entitled to such access, starting from the date on which the company received the list, in all cases when general meetings were held during the reporting period 	Compliant	
1.1.4	A shareholder's right to demand the convening of a general meeting, to nominate candidates to the company's management bodies, and to propose items for the agenda of a general meeting must not be fraught with unreasonable complications.	<ol style="list-style-type: none"> During the reporting period, shareholders had the opportunity to make proposals for inclusion on the agenda of the annual general meeting for at least 60 days after the end of the calendar year. During the reporting period, the company did not refuse to accept proposals for the agenda or nominations to the company's bodies due to typographical errors or other minor shortcomings in a shareholder's proposal. 	Compliant	
1.1.5	Each shareholder shall have the opportunity to exercise the right to vote in the easiest and most convenient manner without restriction.	<ol style="list-style-type: none"> The internal document (internal policy) of the company contains provisions which state that each participant in a general meeting may request a copy of the voting papers completed by the shareholder and certified by the counting commission prior to the completion of the relevant meeting. 	Partially compliant	The Company's internal policy (Regulation on the General Meeting of Shareholders of PJSC RPC UWC) does not directly contain this provision. From the time the Company was granted public status and the Company's securities were admitted to organized trading (since 2015), no requests of this kind have been received. In the event such a request is received from a participant in a General Meeting of Shareholders, the Company will provide said participant with a copy of the completed voting papers certified by the counting commission. This provision will be included in the new version of the Regulation on the General Meeting of Shareholders, which is to be approved in the future.
1.1.6	The procedure established by the company for its general meetings shall provide all individuals and entities attending those meetings with an equal opportunity to express their views and ask questions that are of interest to them.	<ol style="list-style-type: none"> When general meetings of shareholders were held during the reporting period in the form of a meeting (joint attendance of shareholders), sufficient time was allotted for reports on agenda items and a discussion of these items. Candidates for the company's management and oversight bodies were available to answer questions from shareholders at the meeting during which their candidacies were put to a vote. When making decisions associated with preparing for and holding general meetings of shareholders, the board of directors considered the use of telecommunications to provide shareholders with remote access to attend general meetings during the reporting period. 	Partially compliant	When making decisions associated with preparing for and holding general meetings of shareholders, the Board of Directors did not consider providing shareholders with remote access to participate in general meetings during the reporting period (item 3) since the use of telecommunications is not envisaged by the Company's internal documents. The Company did not receive any requests from shareholders to hold General Meetings of Shareholders using means of telecommunication. The ability to utilize this provision of the Corporate Governance Code will be provided in the future after changes are made to a number of the Company's internal documents (including the Charter) and after the physical infrastructure is created.



No.	Principles of corporate governance	Criteria used to assess compliance with the principle of corporate governance	Compliance status with the principle of corporate governance	Explanations for deviations from the criteria used to assess compliance with the principle of corporate governance
1.2	Shareholders shall be given an equal and fair opportunity to take part in the company's profits by receiving dividends.			
1.2.1	The company shall develop and introduce a transparent and comprehensible mechanism to determine the amount of dividends and how they are paid.	<ol style="list-style-type: none"> The company has developed and disclosed its dividend policy, which has been approved by the board of directors. If the company's dividend policy uses indicators from the company's reporting to determine the amount of dividends, the relevant provisions of the dividend policy take into account consolidated financial statements. 	Compliant	
1.2.2	The company shall not adopt the decision to pay out dividends if such a decision is economically unjustified and could lead to false impressions about the company's operations, even if the decision does not formally breach any of the restrictions stipulated by law.	<ol style="list-style-type: none"> The company's dividend policy contains clear indications of the financial/economic circumstances based on which the company should not pay dividends. 	Compliant	
1.2.3	The company shall not allow any deterioration in the dividends rights of existing shareholders.	<ol style="list-style-type: none"> During the reporting period, the company did not take any actions that would result in the deterioration of the dividend rights of existing shareholders. 	Compliant	
1.2.4	The company shall strive to prevent shareholders from utilizing any means of receiving profit (income) at the company's expense other than dividends and disposal value.	<ol style="list-style-type: none"> In order to prevent shareholders from using other means of receiving profit (income) at the company's expense other than dividends and disposal value, the company's internal documents provide control mechanisms that ensure the timely identification of and approval procedure for transactions with entities that are affiliated (associated) with major shareholders (entities entitled to administer votes that are attributable to voting shares) in cases where the law does not formally recognize such transactions as related-party transactions. 	Non-compliant	At present, the Company's internal documents do not provide for the specified control mechanisms. When concluding transactions with entities that are affiliated (associated) with major shareholders (entities entitled to administer votes that are attributable to voting shares), the Company is guided by the requirements of the legislation of the Russian Federation, which the Company considers sufficient. The discrepancy with this provision of the Corporate Governance Code is time bound. The company plans to ensure compliance with this component in the future.
1.3	The company's corporate governance system and practice shall ensure equal terms for all shareholders who hold shares of a certain category (type), including minority (small) shareholders and foreign shareholders, and shall ensure that the company treats all these shareholders equally.			
1.3.1	The company shall create conditions for the fair treatment of each and every shareholder by the company's management bodies and the individuals who control these bodies, including conditions ensuring that major shareholders do not commit any wrongdoing against minority shareholders.	<ol style="list-style-type: none"> During the reporting period, the procedures for managing potential conflicts of interest among major were effective, and the board of directors paid due attention to conflicts between shareholders, if any. 	Compliant	
1.3.2	A company shall not take any action that leads to or could lead to the artificial redistribution of corporate oversight.	<ol style="list-style-type: none"> There are either no quasi-treasury shares or they were not involved in voting during the reporting period. 	Compliant	
1.4	Shareholders shall be provided with reliable and effective means of recording their share rights and with the opportunity to dispose of the shares they own without restriction or hindrance.			
1.4.1	Shareholders shall be provided with reliable and effective means of recording their share rights and with the opportunity to dispose of the shares they own without restriction or hindrance.	<ol style="list-style-type: none"> The quality and reliability of the registrar's activities to maintain a register of securities owners are consistent with the needs of the company and its shareholders. 	Compliant	
2.1	The board of directors shall handle the company's strategic management, determine the main principles and approaches to the organization of the company's risk management and internal control system, monitor the activities of the company's executive bodies, and perform other key functions.			
2.1.1	The board of directors shall be responsible for adopting decisions concerning appointments to and dismissals from executive bodies, including in connection with the failure to perform duties properly. The board of directors shall also exercise oversight over how the company's executive bodies act in accordance with the company's approved development strategy and main areas of activity.	<ol style="list-style-type: none"> The Board of Directors has the powers stipulated in the charter to appoint and dismiss members of executive bodies as well as determine their contractual terms. The board of directors reviewed the report(s) of the sole executive body and members of the collective executive body on the implementation of the company's strategy. 	Compliant	
2.1.2	The board of directors shall establish the main guidelines for the company's operations in the long term, assess and approve the key measures of the company's activities and its main business objectives, and assess and approve the strategy and business plans for the company's core activities.	<ol style="list-style-type: none"> During the reporting period, the board of directors held meetings to consider issues related to the implementation and updating of the strategy, approval of the company's financial and business plan (budget) as well as the criteria and indicators (including interim ones) for the implementation of the company's strategy and business plans. 	Compliant	
2.1.3	The board of directors shall define the principles and approaches to the organization of the company's risk management and internal control system.	<ol style="list-style-type: none"> The Board of Directors has defined the principles and approaches to the organization of company's risk management and internal control system. The board of directors conducted an assessment of the company's risk management and internal control systems during the reporting period. 	Compliant	The Risk Management and Internal Control Policy of PJSC RPC UWC was drafted and approved in 2018 in accordance with the requirements of existing legislation.
2.1.4	The board of directors shall formulate the company's policy on remuneration and/or reimbursement of expenses (compensation) for members of the company's board of directors, members of executive bodies, and other key managers.	<ol style="list-style-type: none"> The company has drafted and introduced a policy (policies) approved by the board of directors for the remuneration and reimbursement of expenses (compensation) for members of the company's board of directors, members of executive bodies, and other key managers. During the reporting period, issues related to this policy (policies) were considered at meetings of the Board of Directors. 	Compliant	



No.	Principles of corporate governance	Criteria used to assess compliance with the principle of corporate governance	Compliance status with the principle of corporate governance	Explanations for deviations from the criteria used to assess compliance with the principle of corporate governance
2.15	The board of directors shall play a key role in preventing, identifying, and resolving internal conflicts between the company's bodies, shareholders, and employees.	<ol style="list-style-type: none"> The board of directors plays a key role in preventing, identifying, and resolving internal conflicts. The company has created a system to identify transactions associated with a conflict of interest and a system of measures that aim to resolve such conflicts. 	Compliant	
2.16	The board of directors shall play a key role in ensuring the company's transparency, its prompt and complete disclosure of information, and the unhindered access of shareholders to the company's documents.	<ol style="list-style-type: none"> The board of directors approved the regulation on information policy. The company has identified persons responsible for implementing the information policy. 	Compliant	In 2015, the Company established the Directorate for Relations with Investors and Financial Institutions, which ensures the prompt and complete disclosure of information. In 2015, the Board of Directors decided to appoint a Corporate Secretary at UWC. The Corporate Secretary is responsible for interacting with shareholders and supporting the effective work of the Board of Directors and its committees. The Corporate Secretary ensures that management bodies strictly comply with their purview as well as interaction between the Company's management, the Board of Directors, and shareholders. The Corporate Secretary is also involved in ensuring the mandatory disclosure of information by the Company in accordance with the legislation of the Russian Federation on the securities market.
2.17	The board of directors shall monitor corporate governance practices at the company and play a key role in the company's major corporate events.	<ol style="list-style-type: none"> During the reporting period, the board of directors considered the issue of corporate governance practices at the company. 	Compliant	
2.2	The board of directors shall be accountable to the company's shareholders.			
2.21	Information about the work of the board of directors shall be disclosed and provided to shareholders.	<ol style="list-style-type: none"> The company's annual report for the reporting period includes information on the attendance of meetings of the board of directors and committees by individual directors. The annual report contains information on the main results of the assessment of the work of the board of directors conducted during the reporting period. 	Compliant	
2.22	The chairman of the company's board of directors shall be accessible to interact with shareholders.	<ol style="list-style-type: none"> The company has a transparent procedure that provides shareholders with the opportunity to send questions and their position on them to the chairman of the board of directors. 	Compliant	
2.3	The board of directors shall be an effective and professional management body for the company that is capable of making objective and independent judgements and adopting decisions that reflect the interests of the company and its shareholders.			
2.31	Only individuals with an impeccable business and personal reputation who possess the knowledge, skills, and experience required to adopt decisions falling within the purview of the board of directors and required for the effective performance of its functions shall be elected as members of the board of directors.	<ol style="list-style-type: none"> The procedure adopted by the company for assessing the performance of the board of directors includes, among other things, an assessment of the professional qualifications of members of the board of directors. During the reporting period, the board of directors (or its nominations committee) conducted an assessment of candidates for the board of directors in terms of their necessary experience, knowledge, business reputation, and a lack of conflicts of interest, among other things. 	Compliant	The Remuneration and Nominations Committee assesses candidates for the Board of Directors and provides its recommendations to the General Meeting of Shareholders at which the issue of electing members of the Board of Directors is considered.
2.32	Elections to the board of directors shall take place through a transparent procedure that allows shareholders to obtain information about the candidates that is sufficient to form an impression of their personal and professional qualities.	<ol style="list-style-type: none"> In all cases of general meetings of shareholders during the reporting period at which the agenda included items on the election of the board of directors, the company provided shareholders with biographical data of all candidates for the board of directors, the results of the assessment of such candidates conducted by the board of directors (or its nominations committee), information on the candidate's compliance with the criteria for independence in accordance with Recommendations 102-107 of the Code, and the written consent of the candidates for election to the board of directors 	Compliant	
2.33	The board of directors shall be balanced, including in terms of the qualifications of its members, their experience, knowledge, and business qualities, and shall enjoy the trust of shareholders.	<ol style="list-style-type: none"> As part of the procedure for the assessment of the work of the board of directors conducted during the reporting period, the board of directors analyzed its own needs in terms of professional qualifications, experience, and business skills. 	Compliant	The analysis of the Board of Directors in terms of professional qualifications, experience, and business skills is provided in the Company's Annual Report.
2.34	The number of members of the company's board of directors shall make it possible to organize the work of the board of directors in the most effective way possible, including the ability to establish committees of the board of directors, and also ensure that the company's significant minority shareholders have the ability to elect a candidate to the board of directors for which they voted.	<ol style="list-style-type: none"> As part of the procedure for the assessment of the work of the board of directors conducted during the reporting period, the board of directors considered whether the number of members of the board of directors corresponded to the company's needs and the interests of shareholders. 	Partially compliant	No assessment of the Company's Board of Directors was conducted during the reporting period. The procedure for assessing the Board of Directors is under development. The Company plans to ensure compliance with this component of the Corporate Governance Code by the Annual General Meeting of Shareholders in 2020.
2.4	The board of directors shall include a sufficient number of independent directors.			
2.41	An independent director shall be recognized as a person who has sufficient professionalism, experience, and independence to form its own position and is capable of making objective and scrupulous judgements independent of the influence of the company's executive bodies, individual groups of shareholders, or other interested parties. At the same time, it must be kept in mind that a candidate (an elected member of the board of directors) who is linked to the company, a major shareholder, a significant counterparty, a rival of the company, or to the state shall not normally be deemed to be independent.	<ol style="list-style-type: none"> During the reporting period, all independent members on the board of directors met all the criteria for independence specified in Recommendations 102-107 of the Code, or were recognized as independent by a resolution of the board of directors. 	Compliant	



No.	Principles of corporate governance	Criteria used to assess compliance with the principle of corporate governance	Compliance status with the principle of corporate governance	Explanations for deviations from the criteria used to assess compliance with the principle of corporate governance
24.2	An assessment shall be conducted of the extent to which candidates for their board of directors comply with the criteria for independence, and a regular analysis shall be carried out of the extent to which independent members of the board of directors comply with the criteria for independence. During such assessments, content shall prevail over form.	<ol style="list-style-type: none"> 1. During the reporting period, the board of directors (or the nominations committee of the board of directors) prepared an opinion on the independence of each candidate for the board of directors and presented the relevant opinion to shareholders. 2. During the reporting period, the board of directors (or the nominations committee of the board of directors) at least once considered the independence of the current members of the board of directors whom the company lists in the annual report as independent directors. 3. The company has developed procedures that determine the actions a member of the board of directors must take in the event that he/she ceases to be independent, including the obligation to promptly inform the board of directors about this. 	Compliant	
24.3	Independent directors shall comprise at least one-third of the elected members of the board of directors	<ol style="list-style-type: none"> 1. Independent directors comprise at least one-third of the members of the board of directors 	Compliant	
24.4	Independent directors shall play a key role in preventing internal conflicts at the company and major corporate actions carried out by the company.	<ol style="list-style-type: none"> 1. Independent directors (who do not have a conflict of interest) preliminarily assess major corporate actions that may entail a possible conflict of interest, and the results of this assessment are provided to the board of directors. 	Non-compliant	The procedure for the preliminary assessment of major corporate actions that may entail a possible conflict of interest is under development. To implement this procedure, changes need to be made to a number of the Company's internal documents (including the Company's Charter).
2.5	The chairman of a board of directors shall facilitate the most effective possible performance of the functions entrusted to the board of directors.			
2.5.1	An independent director or the senior independent director from among the elected independent directors who coordinates the work of independent directors and interacts with the chairman of the board of directors shall be elected chairman of the board of directors.	<ol style="list-style-type: none"> 1. The chairman of the board of directors is an independent director or a senior independent director appointed from among the independent directors. 2. The role, rights, and duties of the chairman of the board of directors (and, if applicable, the senior independent director) are duly defined in the company's internal documents. 	Compliant	The Chairman of the Board of Directors was an independent director. ¹ The functions of the Chairman of the Board of Directors are defined in the Regulation on the Company's Board of Directors.
2.5.2	The chairman of the board of directors shall ensure that meetings are held in a constructive atmosphere, there is a free discussion of the items on the meeting's agenda, and the implementation of decisions adopted by the board of directors are monitored.	<ol style="list-style-type: none"> 1. The effectiveness of the work of the chairman of the board of directors was assessed as part of the procedure for evaluating the effectiveness of the board of directors during the reporting period. 	Compliant	
2.5.3	The chairman of the board of directors shall take all necessary measures to ensure that members of the board of directors are promptly provided with the information required to adopt decisions on agenda items.	<ol style="list-style-type: none"> 1. The duty of the chairman of the board of directors to take measures to ensure that members of the board of directors are promptly provided with materials on the agenda items of a meeting of the board of directors is enshrined in the company's internal documents. 	Compliant	
2.6	Members of the board of directors shall act reasonably and in good faith in the interests of the company and its shareholders on the basis of sufficient awareness and with the appropriate level of care and prudence.			
2.6.1	Members of the board of directors shall adopt decisions based on all available information and in the absence of a conflict of interest, taking into account the equal treatment of the company's shareholders and within the framework of ordinary business risk.	<ol style="list-style-type: none"> 1. The company's internal documents stipulate that a member of the board of directors is obliged to notify the board of directors if he/she has a conflict of interest regarding any agenda item of a meeting of the board of directors or a committee of the board of directors prior to the discussion of the relevant agenda item. 2. The company's internal documents stipulate that a member of the board of directors must abstain from voting on any matter in which he/she has a conflict of interest. 3. The company has established a procedure that allows the board of directors to receive professional advice on matters falling within its purview at the company's expense. 	Compliant	
2.6.2	The rights and obligations of members of the board of directors shall be clearly formulated and enshrined in the company's internal documents.	<ol style="list-style-type: none"> 1. The company has adopted and published an internal document that clearly defines the rights and obligations of members of the board of directors. 	Compliant	
2.6.3	Members of the board of directors shall have sufficient time to fulfill their obligations.	<ol style="list-style-type: none"> 1. Individual attendance of meetings of the board and committees as well as the time taken to prepare for participation in meetings were taken into account as part of the procedure for evaluating the board of directors during the reporting period. 2. In accordance with the company's internal documents, members of the board of directors are required to notify the board of directors about their intention to become members of the governing bodies of other organizations (except for controlled and affiliated organizations of the company) as well as actual such appointments. 	Compliant	
2.6.4	All members of the board of directors shall have equal access to the company's documents and information. Newly elected members of the board of directors shall be supplied with sufficient information on the company and on the work of its board of directors as quickly as possible.	<ol style="list-style-type: none"> 1. In accordance with the company's internal documents, members of the board of directors have the right to access documents and make inquiries concerning the company and the organizations it controls, and the company's executive bodies must provide the relevant information and documents. 2. The company has an official program of introductory measures for newly elected members of the board of directors. 	Compliant	
2.7	Meetings of the board of directors, preparations for such meetings, and the involvement of members of the board of directors in said meetings shall ensure the board of directors operates effectively.			
2.7.1	Meetings of the board of directors shall take place as needed, taking into account the scale of the company's operations and the tasks it faces within a certain period of time.	<ol style="list-style-type: none"> 1. The board of directors held no less than six meetings during the reporting period. 	Compliant	

¹ Until March 2019.



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2.72	The company's internal documents shall stipulate the procedure for preparing for and holding meetings of its board of directors so as to ensure members of the board of directors have the opportunity to properly prepare for such meetings.	1. The company has approved an internal document that specifies the procedure for preparing for and holding meetings of the board of directors, which, among other things, stipulates that a notice about a meeting should generally be provided at least 5 days prior to the date of the meeting.	Compliant	
2.73	The format for a meeting of the board of directors shall be determined taking into account the importance of the agenda items. The most important items shall be resolved at meetings conducted in person.	1. The charter or an internal document of the company stipulates that the most important items (according to the list provided in Recommendation 168 of the Code) should be considered at in-person meetings of the board.	Compliant	
2.74	Decisions on the most important items concerning the company's operations shall be adopted at a meeting of the board of directors by a super majority or a majority vote of all elected members of the board of directors.	1. The company's charter stipulates that decisions on the most important items set forth in Recommendation 170 of the Code shall be adopted at a meeting of the board of directors by a super majority of at least three-quarters of the votes or a majority vote of all elected members of the board of directors.	Partially compliant	Most of the issues specified in Recommendation 170 of the Code fall within the purview of the Company's Board of Directors under the Charter and legislation. The majority of votes required for the adoption of a decision by the Board of Directors is determined by legislation and the Company's Charter. The issue of implementing this recommendation of the Corporate Governance Code is under development and requires amendments to a number of the Company's internal documents (including the Company's Charter). The discrepancy with this provision of the Corporate Governance Code is time bound, and the Company plans to comply with this component of the Code in the future.
2.8	The board of directors shall set up committees for the preliminary consideration of the most important aspects of the company's operations.			
2.81	An audit committee comprised of independent directors shall be set up for the preliminary consideration of issues related to the monitoring of the company's financial and business operations.	1. The board of directors has established an audit committee comprised solely of independent directors. 2. The company's internal documents specify the tasks of the audit committee, including the tasks contained in Recommendation 172 of the Code. 3. At least one member of the audit committee, who is an independent director, has the experience and knowledge needed for the preparation, analysis, evaluation, and audit of accounting (financial) statements. 4. The audit committee held meetings at least once a quarter during the reporting period.	Partially compliant	Meetings of the Audit Committee were held less than once a quarter during the reporting period, although five meetings were held during the reporting period, three of which were held in the fourth quarter of 2018. Thus, meetings of the Audit Committee are held in a sufficient amount as the need arises.
2.82	A remuneration committee comprised of independent directors and headed by an independent director who is not chairman of the board of directors shall be set up for the preliminary consideration of issues related to the formulation of effective and transparent remuneration practices.	1. The Board of Directors has established a remuneration committee that is comprised solely of independent directors. 2. The chairman of the remuneration committee is an independent director, who is not the chairman of the board of directors. 3. The company's internal documents specify the tasks of the remuneration committee, including the tasks contained in Recommendation 180 of the Code.	Compliant	
2.83	A nominations (appointments, human resources) committee shall be set up with a majority of independent directors for the preliminary consideration of issues concerning the implementation of human resources planning (succession planning) and the professional structure and effectiveness of the board of directors.	1. The board of directors has a nominations committee (or its tasks as specified in Recommendation 186 of the Code are implemented within another committee) with a majority of independent directors. 2. The company's internal documents specify the tasks of the nominations committee (or the corresponding committee with combined functions), including the tasks contained in Recommendation 186 of the Code.	Compliant	
2.84	Taking into account the scale of the company's operations and the risk level, the company's board of directors shall make certain that the structure of its committees are fully consistent with the goals of the company's operations. Additional committees shall either be formed or deemed to be unnecessary (strategy committee, corporate governance committee, ethics committee, risk management committee, budget committee, health, safety and environment committee, etc.).	1. In the reporting period, the company's board of directors considered the compliance of the structure of its committees with the objectives of the board of directors and the goals of the company. Additional committees were either formed or were deemed to be unnecessary.	Compliant	
2.85	The members of committees are determined in such a way as to ensure a comprehensive discussion of the items tentatively under consideration taking various views into account.	1. The committees of the board of directors are headed by independent directors. 2. The company's internal documents (policies) contain provisions whereby persons who are not members of the audit committee, the nominations committee, and the remuneration committee may attend meetings of the committees only at the invitation of the chairman of the relevant committee.	Compliant	
2.86	The chairmen of committees shall regularly inform the board of directors and its chairman about the work of their committees.	1. During the reporting period, the chairmen of the committees regularly reported on the work of the committees to the board of directors.	Compliant	
2.9	The board of directors shall ensure an assessment is conducted on the quality of the work of the board of directors, its committees, and members.			
2.91	The assessment of the quality of work of the board of directors aims to ascertain the level of effectiveness of the work of the board of directors, its committees, and members and the extent to which their work complies with the company's development needs, to step up the work of the board of directors, and to identify areas where its work could be improved.	1. The self-assessment or external assessment of the work of the board of directors conducted during the reporting period included an assessment of the work of the committees, individual members of the board of directors, and the board of directors as a whole. 2. The results of the self-assessment or external assessment of the board of directors conducted during the reporting period were reviewed at an in-person meeting of the board of directors.	Non-compliant	The procedure for assessing the work of the Company's Board of Directors is under development and the discrepancy with the provision of the Corporate Governance Code is time bound. The Company plans to achieve compliance with this component of the Code by the Annual General Meeting of Shareholders in 2020.



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2.9.2	The work of the board of directors, its committees, and the members of the board of directors shall be assessed on a regular basis and at least once a year. In order to provide an independent assessment of the quality of work of the board of directors, companies shall hire an external organization (consultant) at least once every three years.	1. The company hired an external organization (consultant) to conduct an independent assessment of the quality of work of the board of directors at least once during the last three reporting periods.	Non-compliant	The quality of the work of the Board of Directors was not assessed by an external consultant. The procedure for assessing the work of the Company's Board of Directors is under development and the discrepancy with the provision of the Corporate Governance Code is time bound. The Company plans to develop a procedure for assessing the work of the Board of Directors, including regulating issues related to the hiring of an external organization in the assessment procedure, by the Annual General Meeting of Shareholders in 2020.
3.1	The company's corporate secretary shall ensure effective ongoing interaction with shareholders and the coordination of the company's actions to protect the rights and interests of shareholders and support the effective work of the board of directors.			
3.1.1	The corporate secretary shall have the knowledge, experience, and qualifications sufficient to perform its assigned duties and an impeccable reputation, and shall enjoy the confidence of shareholders.	1. The company has adopted and disclosed an internal document – the regulation on the corporate secretary. 2. The company's website and the annual report contain biographical information about the corporate secretary with the same level of detail as is given for members of the company's board of directors and executive management.	Compliant	
3.1.2	The corporate secretary shall be sufficiently independent of the company's executive bodies and have the necessary powers and resources to fulfill the tasks assigned to it.	1. The board of directors approves the appointment, dismissal, and additional remuneration of the corporate secretary.	Compliant	
4.1	The level of remuneration paid by the company shall be sufficient in order to attract, motivate, and retain individuals who have the skills and qualifications required by the company. Remuneration for members of the company's board of directors, executive bodies, and other key managers shall be paid in accordance with the remuneration policy adopted by the company.			
4.1.1	The level of remuneration the company offers members of its board of directors, executive bodies, and other key managers shall provide additional motivation for them to work effectively, thus enabling the company to attract and retain skilled and qualified specialists. The company shall also avoid paying remuneration that is higher than required and avoid an unjustifiably large gap between the level of remuneration for these individuals and the company's employees.	1. The company has adopted an internal document(s) – a policy (policies) on remuneration for members of the board of directors, executive bodies, and other key managers, which clearly defines the approaches to remuneration for these individuals.	Compliant	
4.1.2	The company's remuneration policy shall be developed by the remuneration committee and approved by the company's board of directors. With the support of the remuneration committee, the board of directors shall monitor the introduction and implementation of the remuneration policy at the company and, if necessary, review and make changes to the policy.	1. During the reporting period, the remuneration committee reviewed the remuneration policy (policies) and the practice of its (their) introduction and, if necessary, presented the relevant recommendations to the board of directors.	Compliant	
4.1.3	The company's remuneration policy shall contain transparent mechanisms for determining remuneration levels for members of the company's board of directors, executive bodies, and other key managers and shall also regulate all forms of payment, benefits, and privileges granted to these individuals.	1. The company's remuneration policy (policies) contains (contain) transparent mechanisms for determining remuneration levels for members of the company's board of directors, executive bodies, and other key managers and also regulates (regulate) all forms of payment, benefits, and privileges granted to these individuals.	Compliant	
4.1.4	The company shall determine the policy for the reimbursement of expenses (compensation), which specifies the list of expenses subject to reimbursement and the level of service which members of the company's board of directors, executive bodies, and other key managers may seek. Such a policy may be an integral part of the company's remuneration policy.	1. The company's remuneration policy (policies) or other internal documents establishes (establish) rules for the reimbursement of expenses of members of the company's board of directors, executive bodies, and other key managers.	Compliant	
4.2	The remuneration system for members of the board of directors shall ensure that the directors' financial interests are consistent with the shareholders' long-term financial interests.			
4.2.1	The company shall pay fixed annual remuneration to members of the board of directors. The company shall not pay remuneration for participation in individual meetings of the board or committees of the board of directors. The company shall not employ forms of short-term motivation or additional material incentives for members of the board of directors.	1. Fixed annual remuneration was the only monetary form of remuneration paid to members of the board of directors for their work on the board of directors during the reporting period.	Compliant	



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4.2.2	Long-term ownership of the company's shares is most conducive to ensuring that the financial interests of members of the board of directors are consistent with the long-term interests of shareholders. Moreover, the company does not make the right to sell shares conditional upon achieving certain performance indicators, and the members of the board of directors do not participate in option programs.	1. If an internal document(s) – the company's remuneration policy (policies) – provides (provide) for the provision of the company's shares to members of the board of directors, clear rules that aim to encourage long-term share ownership should be provided and disclosed for the ownership of shares by members of the board of directors.	Compliant	The UWC remuneration policy does not provide for the provision of the Company's shares to members of the Board of Directors.
4.2.3	No additional payments or compensation shall be provided in the event of the early termination of the powers of members of the board of directors in connection with a change in control over the company or other circumstances.	1. The company does not offer any additional payments or compensation in the event of the early termination of the powers of members of the board of directors in connection with a change in control over the company or other circumstances.	Compliant	
4.3	The remuneration system for the company's executive bodies and other key managers shall ensure that remuneration depends on the results of the company's operations and their personal contribution to the achievement of these results.			
4.3.1	Remuneration for the company's executive bodies and key managers shall be determined in such a way as to ensure a reasonable and justified correlation between the fixed portion of the remuneration and the variable component of the remuneration, which depends on the results of the company's operations and an employee's personal (individual) contribution to the end result.	1. During the reporting period, annual performance indicators approved by the board of directors were used to determine the size of the variable remuneration for members of the company's executive bodies and other key managers. 2. During the latest assessment of the system of remuneration for members of the company's executive bodies and other key managers, the board of directors (remuneration committee) made sure that the company applies an effective ratio of the fixed portion of remuneration and the variable portion of remuneration. 3. The company has a procedure in place to ensure that bonuses that were wrongly received by members of the company's executive bodies and other key managers are returned to the company.	Compliant	The Company has developed a list of key performance indicators (KPIs) that provide an objective assessment of the implementation of plans and help with making decisions on remuneration for management and each employee of UWC. The degree to which employees achieve the key performance indicators on a quarterly or annual basis is tied to the variable portion of their remuneration.
4.3.2	The company shall introduce a long-term incentive program for members of the company's executive bodies and other key managers using the company's shares (options or other derivative financial instruments for which the company's shares are the base asset).	1. The company has introduced a long-term incentive program for members of the company's executive bodies and other key managers using the company's shares (financial instruments based on the company's shares). 2. The long-term incentive program for members of the company's executive bodies and other key managers stipulates that the right to sell shares and other financial instruments used in such a program shall take effect no earlier than three years after they are granted. Moreover, the right to sell them is dependent on the achievement of certain indicators in the company's operations.	Non-compliant	No incentives are provided for members of the UWC executive bodies and other key managers using the Company's shares.
4.3.3	The amount of compensation (golden parachute) paid by the company in the event of the early termination of the powers of executive bodies or key managers at the company's initiative and in the absence of any unscrupulous action on the part of said executive bodies or key managers shall not be more than double the fixed component of annual remuneration.	1. The amount of compensation (golden parachute) paid by the company in the event of the early termination of the powers of executive bodies or key managers at the company's initiative and in the absence of any unscrupulous action on their part did not exceed double the fixed component of annual remuneration during the reporting period.	Compliant	
5.1	The company shall have an effectively functioning risk management and internal control system that is designed to provide reasonable assurance that the company's goals shall be achieved.			
5.1.1	The company's board of directors shall determine the principles of and approaches to the establishment of the risk management and internal control system within the company.	1. The functions of the company's various management bodies and departments within the risk management and internal control system are clearly defined in the company's internal documents / relevant policies approved by the board of directors.	Compliant	In accordance with the requirements of existing legislation, the Risk Management and Internal Control Policy of PJSC RPC UWC was drafted and approved in 2018.
5.1.2	The company's executive bodies shall provide for the establishment and continued functioning of an effective risk management and internal control system at the company.	1. The company's executive bodies ensured the distribution of functions and powers with respect to risk management and internal control among the managers (heads) of departments and divisions that are accountable to them.	Compliant	UWC has an independent risk management unit. It is part of the Company's Financial Directorate and reports directly to the CEO. The risk management unit maintains a Risk Map and also establishes and maintains up-to-date risk management policies based on which the Company's functional units take steps to identify and minimize them. In addition, the risk management unit regularly provides UWC management with information about current risks and ensures control over the implementation of measures to hedge them.
5.1.3	The company's risk management and internal control system shall provide an objective, fair, and clear picture of the current situation at the company and its prospects and also ensure the completeness and transparency of the company's financial statements and the advisability and acceptability of risks taken by the company.	1. The company has approved a policy to counter corruption. 2. The company has established an accessible way of informing the board of directors or the audit committee of the board of directors about violations of the law, internal procedures, and the company's code of ethics.	Compliant	See the comments to principles 5.1.2.
5.1.4	The company's board of directors shall take all necessary and sufficient measures in order to be confident that the risk management and internal control system in effect at the company complies with the principles of and approaches to its organization, and that it functions effectively.	1. During the reporting period, the board of directors or the audit committee of the board of directors conducted an assessment of the effectiveness of the company's risk management and internal control system. Information on the main results of this assessment is included in the company's annual report.	Compliant	The UWC Annual Report presents an assessment of the effectiveness of the Company's risk management and internal control system.



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5.2	The company shall make arrangements for an internal audit in order to conduct a systematic independent assessment of the reliability and efficiency of the risk management and internal control systems and corporate governance practices			
5.2.1	The company shall establish a separate structural unit or hire an independent external organization to conduct an internal audit.	1. The company has established a separate structural internal audit unit that is functionally accountable to the board of directors or audit committee, or hired an independent external organization with the same accountability principle in order to conduct an internal audit.	Compliant	See the comments to principles 5.1.2
5.2.2	The internal audit unit shall have separate functional and administrative accountability. Functionally, the internal audit unit shall report to the board of directors.	1. During the reporting period, an assessment was conducted of the effectiveness of the internal control and risk management system as part of the internal audit. 2. The company uses generally accepted approaches to internal control and risk management.	Compliant	
6.1	The internal audit unit shall conduct an assessment of the effectiveness of the internal control system and the effectiveness of the risk management system and the corporate governance system.			
6.1.1	The company shall develop and introduce an information system that ensures effective information cooperation between the company, its shareholders, investors, and other interested parties.	1. The company's board of directors approved the company's information policy that was drafted taking into account the recommendations of the Code. 2. The Board of Directors (or one of its committees) reviewed issues related to the company's compliance with its information policy at least once during the reporting period.	Compliant	The Company fully discloses information in a timely manner in accordance with the Regulation on Information Disclosure by Issuers of Issuable Securities (approved by the Bank of Russia on December 30, 2014 as No. 454-P).
6.1.2	The company shall disclose information on its corporate governance system and practice, including detailed information on its compliance with the principles and recommendations of this Code.	1. The company discloses information on the corporate governance system at the company and the general principles of corporate governance employed by the company, including on the company's Internet website. 2. The company discloses information about members of the executive bodies and the board of directors and the independence of the board members and their membership in the committees of the board of directors (in accordance with the definition given in the Code). 3. If there is an entity that controls the company, the company publishes the controlling entity's memorandum regarding the entity's plans for corporate governance at the company.	Compliant	
6.2	The company shall disclose full, up-to-date, and reliable information about itself in a timely manner so that its shareholders and investors can make well-informed decisions.			
6.2.1	The company shall disclose information in accordance with the principles of regularity, consistency, and efficiency as well as the principles of accessibility, reliability, completeness, and comparability.	1. The company's information policy describes the approaches and criteria for determining information that could have a significant impact on the company's valuation and the value of its securities as well as procedures that ensure the timely disclosure of such information. 2. If the company's securities circulate on organized foreign markets, the disclosure of material information in the Russian Federation and in such markets is carried out simultaneously and equivalently over the course of the reporting year. 3. If foreign shareholders own a significant number of shares in the company, information was disclosed not only in Russian, but also in one of the most common foreign languages during the reporting year.	Compliant	The Company fully discloses information in a timely manner in accordance with the Regulation on Information Disclosure by Issuers of Issuable Securities (approved by the Bank of Russia on December 30, 2014 as No. 454-P).
6.2.2	The company shall avoid a formal approach to the disclosure of information and shall disclose material information on its operations, even if the disclosure of this information is not stipulated by the law.	1. During the reporting period, the company disclosed annual and semi-annual financial statements prepared in accordance with IFRS. The company's annual report for the reporting period includes annual financial statements prepared in accordance with IFRS along with an audit report. 2. The company discloses full information on its capital structure in accordance with Recommendation 290 of the Code in the annual report and on the company's Internet website.	Partially compliant	The Company's interim consolidated financial statements for the first six months of 2018 (hereinafter the "Statements") are published as a separate text of the document without the attachment of an audit report or a report on the review of said Statements, which constitutes a violation of the requirements of clause 3 of Article 5 of Federal Law No. 208-FZ dated July 27, 2010 "On Consolidated Financial Statements." According to the contract concluded with the Company's auditor for the provision of services to conduct a review, the auditor conducted a review of the interim consolidated financial statements in August 2018 for the first six months of 2018 prepared in accordance with IFRS. During the first half of 2018, the Company and the companies belonging to the Company's group of entities violated a number of obligations on loan agreements concluded with one of the Company's creditors (hereinafter the Bank), which triggered the Bank's right to demand the early repayment of the loans. The Company and the Bank reached an agreement on the Bank signing a waiver of the claim for the early repayment of the debt (hereinafter the Waiver). The Company repeatedly informed the Bank about the need for the timely provision of the Waiver for the correct disclosure of the audited Statements. However, the document was not provided prior to the expiration of the review deadline. The absence of the Waiver prevented the auditor from making assumptions about the continuity of the Company's activities in the report on the review of the Statements. Without the corresponding assumption, the report would not be accurate since there were not actually any circumstances hindering the activities of PJSC RPC UWC. Continuing to wait for the Waiver to be signed would have led to a violation of the deadline for the disclosure of the Statements itself. Based on the combination of these factors, the Company decided to publish the Statements without a report on the review under the condition that it would publish the report later after obtaining the Waiver from the Bank. At present, PJSC RPC UWC and the Bank are working on options to restructure the loan portfolio during which it plans to obtain the Waiver and, as a result, issue a report on the review of the Statements, which will result in the elimination of this violation. A corresponding report has been provided to the Bank of Russia on the measures that have been taken to prevent a violation.



No.	Principles of corporate governance	Criteria used to assess compliance with the principle of corporate governance	Compliance status with the principle of corporate governance	Explanations for deviations from the criteria used to assess compliance with the principle of corporate governance
6.2.3	As one of the most important instruments in the company's information cooperation with its shareholders and other interested parties, its annual report shall contain information that makes it possible to assess the results of the company's operations over the course of the year.	<ol style="list-style-type: none"> The company's annual report contains information on key aspects of the company's operations and its financial results. The company's annual report contains information on the environmental and social aspects of the company's operations. 	Compliant	
6.3	The company shall supply information and documents based on the requests of shareholders in accordance with the principles of equal and unrestricted access.			
6.3.1	The company shall provide information and documents based on requests from shareholders in accordance with the principles of equal and unhindered access.	<ol style="list-style-type: none"> The company's information policy describes the simplified procedure for providing shareholders with access to information, including information about legal entities controlled by the company, based on requests from shareholders. 	Compliant	
6.3.2	When the company supplies information to shareholders, it shall ensure a reasonable balance between the interests of specific shareholders and the interests of the company itself, which is interested in preserving the confidentiality of important commercial information that may have a significant impact on its competitiveness.	<ol style="list-style-type: none"> During the reporting period, the company did not deny any requests from shareholders for information, or such refusals were justified. In cases determined by the company's information policy, shareholders are warned about the confidential nature of the information and pledge to keep it confidential. 	Compliant	
7.1	Actions that have or could have a significant influence on the structure of the company's share capital and its financial situation and, consequently, on the position of shareholders (major corporate actions) shall be conducted under equal conditions that ensure the observance of shareholders' rights and interests as well as those of other interested parties.			
7.1.1	The following is classified as major corporate actions: the reorganization of the company, the acquisition of 30 or more percent of the company's voting shares (acquisition), the conclusion of major transactions by the company, an increase or reduction in the company's charter capital, the listing or delisting of the company's shares as well as other actions that could lead to a significant change in the rights of shareholders or a violation of their interests. The company's charter shall provide a list of transactions (criteria) or any other actions that constitute major corporate actions, and assign consideration of these actions to the company's board of directors.	<ol style="list-style-type: none"> The company's charter specifies a list of transactions or other actions that constitute major corporate actions and criteria for their determination. The adoption of decisions concerning material corporate actions falls within the purview of the board of directors. In cases where the performance of these corporate actions directly falls within the purview of the general meeting of shareholders by law, the board of directors provides relevant recommendations to shareholders. The company's charter regards major corporate actions as at least: the company's reorganization, the acquisition of 30 or more percent of the company's voting shares (acquisition), the conclusion of major transactions by the company, an increase or decrease in the company's charter capital, and the listing and delisting of the company's shares. 	Partially compliant	UWC is guided by the requirements of the legislation of the Russian Federation when defining major corporate actions. An extended list of transactions and other actions that constitute major corporate actions and the criteria for their determination are in the process of development. To implement this provision of the Corporate Governance Code, changes must be made to a number of the Company's internal documents (including the Company's Charter). The discrepancy with this provision of the Code of Corporate Governance is time bound. The Company plans to comply with this component of the Code in the future.
7.1.2	The board of directors shall play a key role in decision-making and the preparation of recommendations concerning major corporate actions and rely on the positions of the company's independent directors.	<ol style="list-style-type: none"> The company has a procedure whereby independent directors declare their position on major corporate actions prior to their approval. 	Non-compliant	The procedure for carrying out major corporate actions is determined by the legislation of the Russian Federation, the Charter, and the internal documents of the Company. The Board of Directors plays a key role in decision-making or preparing recommendations on major corporate actions in accordance with the purview defined by the legislation of the Russian Federation and the Company's Charter. The procedure whereby independent directors declare their position on major corporate actions prior to their approval is in the process of development. The discrepancy with this provision of the Code of Corporate Governance is time bound. The Company plans to comply with this component of the Code in the future.
7.1.3	When carrying out major corporate actions that affect the rights and legitimate interests of shareholders, equal conditions shall be ensured for all of the company's shareholders. If there are not sufficient mechanisms stipulated by law to protect the rights of shareholders, additional measures protecting the rights and legitimate interests of the company's shareholders shall be taken. In this case, the company shall not only be guided by compliance with the formal requirements of legislation, but also by the principles of corporate governance outlined in this Code.	<ol style="list-style-type: none"> The company's charter has criteria that is lower than the minimum criteria envisaged by legislation for classifying the company's transactions as major corporate actions taking into account the peculiarities of the company's activities. During the reporting period, all major corporate actions were approved prior to their implementation. 	Partially compliant	The UWC Charter does not establish criteria that is lower than the minimum criteria envisaged by legislation for classifying the company's transactions as major corporate actions. Criteria that is lower than the minimum criteria envisaged by legislation for classifying the Company's transactions as major corporate actions is in the process of development. To implement this provision of the Corporate Governance Code, changes must be made to a number of the Company's internal documents (including the Company's Charter). The discrepancy with this provision of the Code of Corporate Governance is time bound. The Company plans to comply with this component of the Code in the future.
7.2	The company shall establish a procedure for the conclusion of major corporate actions that enables shareholders to promptly obtain complete information about these actions which provides them with the opportunity to influence these actions and guarantees the observance of and an adequate level of protection for their rights when taking such actions.			
7.2.1	Information about major corporate actions shall be disclosed along with an explanation of the reasons for, the terms of, and the consequences of such actions.	<ol style="list-style-type: none"> During the reporting period, the company promptly disclosed information about its major corporate actions in detail, including the reasons and deadlines for such actions. 	Compliant	
7.2.2	The rules and procedures associated with the company's implementation of major corporate actions are enshrined in the company's internal documents.	<ol style="list-style-type: none"> The company's internal documents provide for a procedure to hire an independent appraiser to determine the value of property being alienated or acquired in a major transaction or a related-party transaction. The company's internal documents provide for a procedure to hire an independent appraiser to estimate the cost of acquiring and buying back the company's shares. The company's internal documents provide for an expanded list of the grounds on which members of the company's board of directors and other persons envisaged by law are deemed to be interested in a transaction by the company. 	Non-compliant	Major corporate actions were concluded in the manner prescribed by the legislation of the Russian Federation. Procedures for hiring an independent appraiser to determine the value of the property/shares are in the process of development. To implement this provision of the Corporate Governance Code, changes must be made to a number of the Company's internal documents (including the Company's Charter). The discrepancy with this provision of the Code of Corporate Governance is time bound. The Company plans to comply with this component of the Code in the future.



LIST OF MAJOR TRANSACTIONS IN 2018

PJSC RPC UWC did not conclude any transactions in 2018 that are recognized as major transactions in accordance with Federal Law of the Russian Federation No. 208-FZ dated December 26, 1995 "On Joint-Stock Companies."

The Company's Charter does not list other transactions whose conclusion is subject to the procedure for the approval of major transactions.

LIST OF RELATED-PARTY TRANSACTIONS IN 2018

PJSC RPC UWC did not conclude any transactions in 2018 that are recognized as related-party transactions in accordance with Federal Law of the Russian Federation No. 208-FZ dated December 26, 1995 "On Joint-Stock Companies" and have to be approved in accordance with the Chapter XI of the aforementioned law.



Learn more:
https://www.uniwagon.com/investors/corporate_disclosure/quarterly_reports/

Information about related-party transactions concluded in 2018 is contained in clause 6.6 "Information on related-party transactions concluded by the issuer" in Section VI of the quarterly reports of PJSC RPC UWC for the first through fourth quarters of 2018 posted on the Company's official website: https://www.uniwagon.com/investors/corporate_disclosure/quarterly_reports/

EXCHANGE RATES

Currency	Average nominal exchange rate versus the ruble from the beginning to the end of the year	
	2017	2018
USD	58.33	62.54
EUR	65.78	73.88

Source: "Main derivatives of ruble exchange rate indicators" of the Bank of Russia

GLOSSARIES

5S – a lean manufacturing tool to maintain order in the workplace. It determines the most rational arrangement of tools and materials, which is visualized using markings, configurations, and charts.

ERP system – a system used to manage an enterprise's resources and assets.

TPM (Total Productive Maintenance) – a methodology used to improve the equipment efficiency through analysis, maintenance, and a continuous reduction of losses (zero breakdowns, zero defects, and zero accidents) with the involvement of all personnel in the process.

UIC (French – Union Internationale des Chemins de fer, English – International Union of Railways, Russian – Международный союз железных дорог) – an international organization that brings together national railway companies to jointly solve problems concerning the development of railway transport.

Automatic regulator – a device that is part of brake rigging. It is needed to compensate for brake pad wear during operation.

Lean manufacturing – an enterprise management concept based on the constant desire to eliminate all types of losses. It involves the optimization of each employee and the maximum focus on the customer.

VNICTT – All-Union Research Center for Transport Technologies.

Sodium hydroxide (NaOH), caustic soda – caustic water-soluble alkali. It is used in food, cosmetics, pulp and paper, and oil refining industries.

Glycols – a class of organic compounds used in industry as solvents and plasticizers, antifreeze, as well as brake and hydraulic fluids.

Carrying capacity – the largest mass of cargo that a railcar can transport.

Depot repairs – railcar repairs that are carried out between major repairs to restore serviceability and the overhaul operation life with the replacement or restoration of individual components.

Kaizen – the practice of continuous improvements to production processes, business processes, and management which involves all personnel.

Coal tar – a complex mixture of organic compounds that occurs during the production of blast-furnace coke. Benzene, toluene, naphthalene, coal oils (tar, anthracene), and other products are obtained from coal tar.

Overhauls – an obligatory type of repair that is performed to restore serviceability and full or close to full restoration of a railcar with the replacement or repair of any of its components and parts, including basic ones.

Lignosulfonates – salts of lignosulfonic acids and products made from the technological processing of raw wood materials. It is used in the production of concrete and drilling fluids, binder components, dyes, and a number of other products.

Limiting equipment – critical equipment that does not have backups or has a high load and whose failure would stop production.

Boxcar – a railcar that is closed on all sides and designed to protect cargo from precipitation and damage. It is used to transport food, household appliances, building materials, equipment, and paper, among other things.

Gross weight – the sum of the carrying capacity and tare (empty railcar).

Standardized Work Methodology (SWR) – the most efficient sequence of operations based on a person's movement, which ensures quality and safety and is documented with standardized work forms. The methodology makes it possible to determine the load of personnel, identify losses that increase the cycle time of the product being manufactured, and level the flow of the production line.

Multimodal transportation – the transportation of a freight consignment using multiple types of transport (e.g. water, rail, and road).

RPC – research and production center.

Oleum – a solution of sulfuric anhydride SO₃ in 100% sulfuric acid. It is used in the industry for the production of sulfuric acid, caprolactam, and many other substances.

Homologation – the improvement of an object or technical characteristics in order to meet a consumer's standards and requirements. It also refers to documentary evidence of such compliance.



CONTACT INFORMATION

Axial load – the load on the rails from the wheelset of a railcar loaded to full capacity.

Flatcar – a railcar that is designed to transport long loads (timber, pipes, and metal structures), containers, and large-sized equipment, among other things.

Gondola car – the most common type of freight car. It is designed to transport bulk and piece cargo that does not require protection from precipitation (iron ore, crushed stone, coal, grain, etc.).

A3 format project – a production system tool used to engage staff in problem solving. It links the problem, cause, elimination method, experiment, assessment, and monitoring of the results.

Sulfuric acid (H-2SO4) – a highly reactive acid with which contact leads to the carbonization of wood, sugar, and other organic substances. It is used in the production of mineral fertilizers, chemical fibers, dyes, and batteries, in the processing of ores of rare metals and industrial organic synthesis as well as in the oil, metalworking, textile, leather, food, and other industries.

Skid – an additional lateral support between the frame of a railcar and the bogie that keeps the body from tipping over under asymmetrical loads.

Tank container – a type of railcar that has a reinforced frame in which is tank is mounted to transport liquid cargo. This combination allows tank containers to be reloaded from one type of transport to another (e.g. from sea to rail) without reloading at bulk terminals.

TVSZ – JSC Tikhvin Freight Car Building Plant.

Routine uncoupling repair (RUR) – a repair performed to restore a freight car's operating capacity with the replacement or restoration of individual parts. The railcar is uncoupled from the train and transferred to specialized tracks for this purpose.

Bogie – the chassis of a railcar, which supports its movement on the tracks. It includes the frame, wheelsets, spring suspension system (to soften the blows and reduce the amplitude of the car's oscillations), and the braking system.

TAP Titran-Express – JSC Tikhvin Assembly Plant Titran-Express.

Well car – a flatcar that is designed for the transport of large-capacity containers and equipped with specialized units for their attachment (flatcar supports).

Hopper car – a self-unloading railcar with a body in the form of a funnel and floor-based hatches for the transport of bulk cargo (coal, grain, ore, cement, and fertilizer).

Tank car – a railcar for the transportation of liquid cargo (oil and petroleum products, liquefied natural gas, acids, alkalis, etc.) as well as fine powders (flour, talc, etc.).

Public Joint-Stock Company Research and Production Corporation United Wagon Company (PJSC RPC UWC)

7/11 Novokuznetskaya St., building 1, Moscow, Russia, 115184

Tel.: +7 (499) 999-15-20

Fax: +7 (499) 999-15-21

info@uniwagon.com

<http://www.uniwagon.com>

Contact information for investors

Directorate for Relations with Investors and Financial Institutions

IR@uniwagon.com

<https://www.uniwagon.com/#investors>

Contact information for shareholders

Corporate Governance Directorate

CG@uniwagon.com

Contact information for media

Corporate Communications Directorate

press@uniwagon.com

<https://www.uniwagon.com/#!multimedia>

Registrar

JSC Petersburg Central Registration Company (PCRC)¹

6 Belovodsky Lane, letter A, St. Petersburg, Russia, 194044

Tel.: +7 (812) 424-21-22

Fax: +7 (812) 401-63-11

4242122@pcrc.spb.ru

<http://www.pcrc.spb.ru>

¹ In April 2019, JSC Petersburg Central Registration Company finalized reorganization and was merged with JSC R.O.S.T. Independent Registrar Company. Location: 107996, Moscow, ul. Stromynka, d18, bldg. 13