

The background of the cover is a photograph of a blue freight train moving from left to right. The train is blurred to convey a sense of speed. The sky is a mix of orange and yellow, suggesting a sunrise or sunset. The entire image is overlaid with a large, diagonal blue graphic that splits the cover into two main sections.

TRUSTED PLATFORM

CONFIDENT OUTLOOK

TRANSCONTAINER
ANNUAL REPORT 2013

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Liability Disclaimer
This annual report ("the Annual Report" hereinafter) was prepared with the use of information available to Open Joint Stock Company TransContainer Cargo Transportation Centre ("the Company" hereinafter) and its subsidiaries ("the Group" hereinafter) as of the time of preparing the Annual Report, including information obtained from third parties. The Company reasonably believes that the presented information is complete and accurate as of the date of publication of the Annual Report, but does not represent or warrant that this information will not be further refined, revised or otherwise altered.

Whenever the words "intend", "seek", "design", "expect", "estimate", "plan", "believe", "anticipate", "may", "must", "will", "continue" and other similar words are used in a statement, they normally imply that the respective statement has a forward-looking nature.

Forward-looking statements, by their very nature, involve inherent risks and uncertainties, both general and specific, and there is a possibility that predictions, forecasts, projects, and other forward-looking statements prove to be erroneous. Given the existence of such risks, uncertainties and assumptions, the Company cautions that actual results may differ materially from those projected, either directly or indirectly, in such forward-looking statements which are only valid as of the time of writing this Annual Report.

The Company does not represent nor does it warrant that the outcomes projected in the forward-looking statements as expected to result from activities will be achieved. The Company shall not be held liable for any damages that may be sustained by persons or entities as a result of acting in reliance upon such forward-looking statements. Each of such forward-looking statements represents only one of many potential scenarios and should not be regarded as the most probable one.

This is particularly the case as there are other factors capable of affecting the financial and operational performance of the Company or the Group, its plans, projects, capital expenditures and other aspects of its operations including: changes in macroeconomic or market conditions, the activities of state authorities in the Russian Federation and other jurisdictions where the Group is analysing, developing or using assets, including changes in tax, environmental and other laws and regulations. The above list of significant factors is not exhaustive. When taking into account the forward-looking statements one should carefully consider the above factors, particularly the economic, social and legal conditions in which the Company or the Group operates. Except in cases expressly stipulated by applicable law, the Company assumes no obligation to publish updates or amendments, whether based on additional information available or future events, to any of the forward-looking statements.

TransContainer is the leading intermodal container operator in Russia.

As the market leader, TransContainer provides half of the total rail container transportation in Russia and is the owner of the largest flatcar fleet. We are also the largest container terminal operator holding a 26% market share in Russia. We own more than 60,000 containers and a network of rail-side container terminals located at 46 railway stations in Russia along with 19 rail terminals in Kazakhstan and one in Slovakia.

TransContainer provides container transportation services to clients and transit services throughout Russia and the CIS.

UNIQUE ASSET MIX

26,305 flatcars in Russia

4,641 flatcars in Kazakhstan

62,367 high-capacity containers

322 truck tractors and 509 semi-trailers

46 terminals in Russia

19 terminals in Kazakhstan

SCALE OF OUR BUSINESS

TransContainer is the largest container operator in Russia and the CIS.



Nº1

rail container transportation in Russia in 2013: 1,454 thousand TEU

Nº1

container handling operations at terminals in Russia and Kazakhstan: 1,506 thousand TEU

Nº1

flatcar fleet size in Russia and Kazakhstan: 30,946 flatcars

Nº1

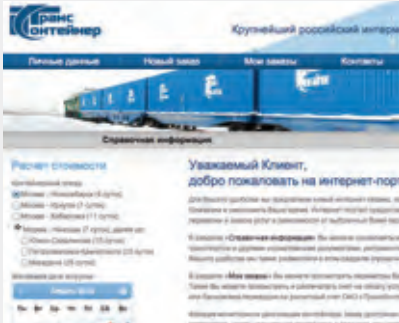
rail container transportation in Kazakhstan in 2013: 234 thousand TEU

COMPANY OVERVIEW
HIGHLIGHTS
OF THE YEAR



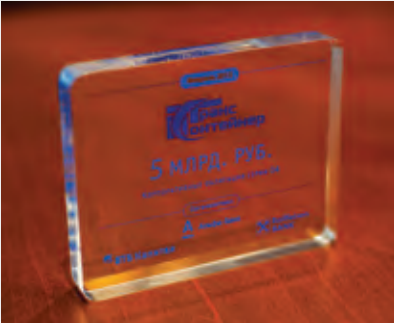
BEST ANNUAL REPORT

The Company won the key Russian Best Annual Report and Best Website contests in 2013, reaffirming its high standards of corporate governance and disclosure to investors.



ISALES FOR TRANSIB IN SEVEN DAYS PROJECT

The Company launched the iSales online service for its Transib in Seven Days project to minimise the time needed to place an order for shipment of freight via the Trans-Siberian Railway. The service is also available for several other routes (for details, please go to isales.trcont.ru).



PLACEMENT OF 04 SERIES BONDS

The Company successfully placed its five-year amortising Rouble series 04 bonds for a total of RUB 5bn with a coupon rate of 8.35% per annum. The book was far oversubscribed, with demand reaching over RUB 37bn and bonds purchased by 40 investors.



ESTABLISHMENT OF UNITED TRANSPORTATION AND LOGISTICS COMPANY

National Railways of Russia, Belarus and Kazakhstan signed an agreement on the establishment of the United Transportation and Logistics Company to facilitate the rail container transportation throughout the Common Economic Space (SEC).



REFURBISHED TERMINALS

The renovation of terminals at the Kleschikha station in Novosibirsk and the Pavletskaya station in Moscow completed in 2013 has helped alleviate infrastructural constraints and meet shippers' demand in these regions.



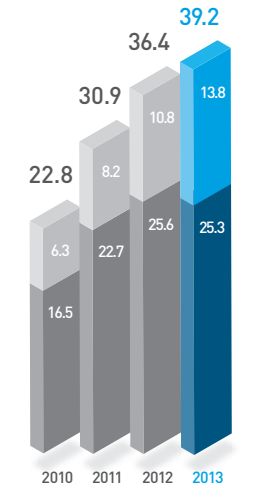
CREDIT RATINGS OUTLOOK UPGRADE

In October 2013, Moody's Investor Services changed the outlook on TransContainer's Ba3 corporate family rating and Ba3-PD probability of default rating from stable to positive. Moody's pointed out the Company's robust operating and financial performance, its market leadership and the potential for further rating upgrades.

REVENUE¹

RUB 39.2 bln
+7.7%

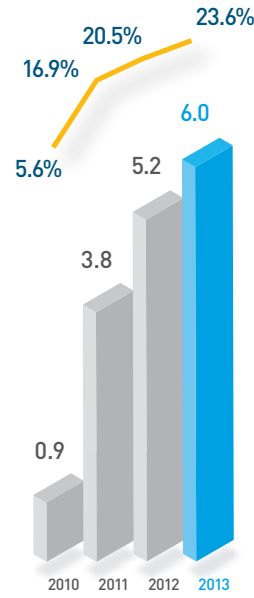
Services of co-providers at through rate
Adjusted revenue



NET PROFIT

RUB 6.0 bln
+14.2%

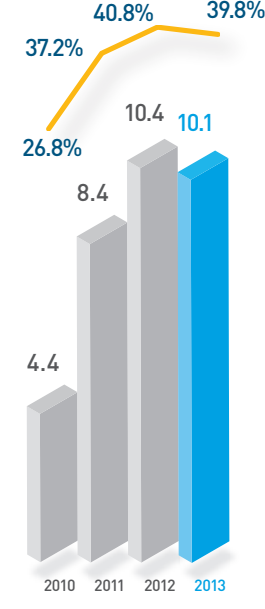
Net profit
Net margin



EBITDA

RUB 10.1 bln
-3.4%

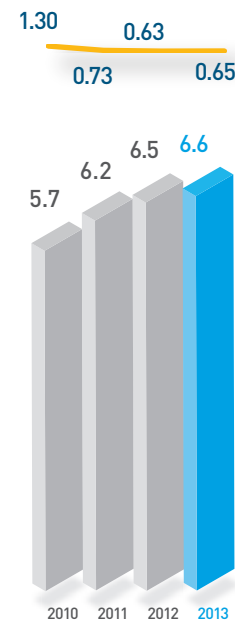
EBITDA
EBITDA margin



NET DEBT

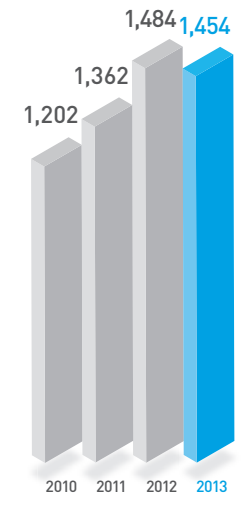
RUB 6.6 bln

Net debt
Net debt/EBITDA



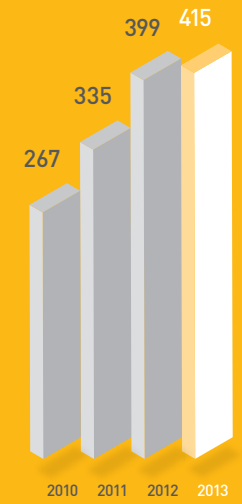
SHIPMENTS IN RUSSIA

1,454 '000 TEU
-2.0%



SHIPMENTS IN CONTAINER TRAINS

415 '000 TEU
+4.1%



30.5%
-5.4%
CONTAINER EMPTY RUN RATIO

317
LABOUR PRODUCTIVITY
+2.6%

(TRANSCONTAINER'S SHIPMENTS IN RUSSIA / AVERAGE HEADCOUNT IN RUSSIA)

236
'000 TEU
TENFOLD GROWTH

SHIPMENTS IN KAZAKHSTAN

-67%
OCCUPATIONAL INJURIES

1. Herein and after all data and calculations are presented under IFRS, except other wise stated.

COMPANY OVERVIEW
CORE OPERATIONS

Our business comprises four key segments, all interconnected in the vertically integrated business model we have based on our unique IT solutions and experience

RAIL CONTAINER
TRANSPORTATION

KEY RESULTS
TOTAL RAIL CONTAINER TRAFFIC:
1,454 THOUSAND TEU¹

20.8%

Share of consolidated revenues

47.0%

Company's share in rail container traffic.⁴

CORE SERVICES

- Provision of flatcars for transportation of clients' cargos in carrier owned containers
- Provision of flatcars for transportation of shipper owned containers
- Leasing out flatcars and containers
- Specialised container transporting services

ASSETS AS OF 31 DECEMBER 2013

- 26,305 flatcars
- 62,367 ISO containers,
- incl. 2,265 specialised containers
- 7,428 medium-duty containers (MDC)

CORE SERVICES

- Freight forwarding, including preparation of shipping documents, customs clearance, etc.
- Container cargo tracking, delivery scheduling
- Multimodal door-to-door container transportation services based on a through rate

TERMINAL
SERVICES

12.3⁴%

Share of consolidated revenues

KEY RESULTS
TERMINAL PROCESSING VOLUMES

- IN RUSSIA: 1,319,000 TE³
- IN KAZAKHSTAN: 186,400 TEU³
- 3.5 MILLION TONNES OF NON-CONTAINER CARGO

ASSETS AS OF 31 DECEMBER 2013

- Company-owned container terminals at 46 railway stations in Russia
- One leased container terminal in Slovakia (long-term lease)
- 19 terminals in Kazakstan
- 238 units of loading equipment in Russia and 144 in Kazakhstan

Core services

- Container loading, unloading and storage (through an agency agreement with Russian Railways)
- Additional terminal services (cargo loading/unloading to/from containers, preparation of containers for loading, etc.)
- Bonded warehouse services



CONTAINER
TRUCKING

KEY RESULTS
CARRIED 545,000 TEU OF ISO AND
MEDIUM-DUTY CONTAINERS

3.5%

Share of consolidated revenues

45.8%

Share of in-house trucking in terminal processing services⁴

CORE SERVICES

- Container trucking between a railside terminal and a client's warehouses
- Customs bonded carriage and delivery from customs office to client warehouses

ASSETS AS OF 31 DECEMBER 2013
Truck fleet

- in Russia: 866 vehicles,
- in Kazakhstan: 88 vehicles.

FREIGHT FORWARDING
AND LOGISTICS
SERVICES

KEY RESULTS
END-TO-END LOGISTICS TRAFFIC:
590,900 TE²

ASSETS AS OF 31 DECEMBER 2013

- 134 sales offices in Russia
- Presence in 23 countries:
- 8 representative offices
- 4 JVs
- 3 subsidiaries
- 26 agents abroad

53.0%

Share of integrated logistics service contracts in the Company's revenue generating shipments⁴

63.4%

Share of consolidated revenues

Integration of assets and technologies into a single logistics value chain

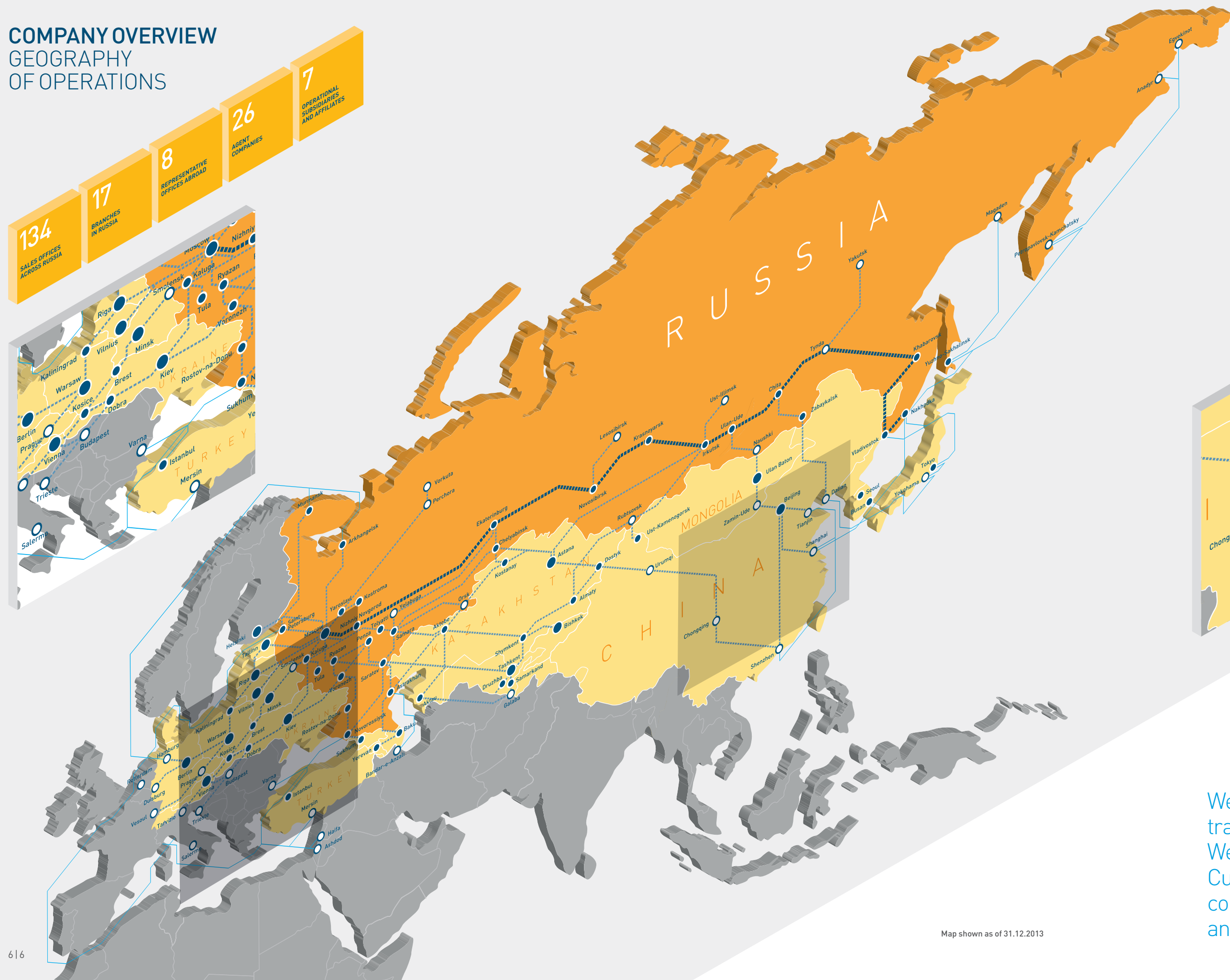
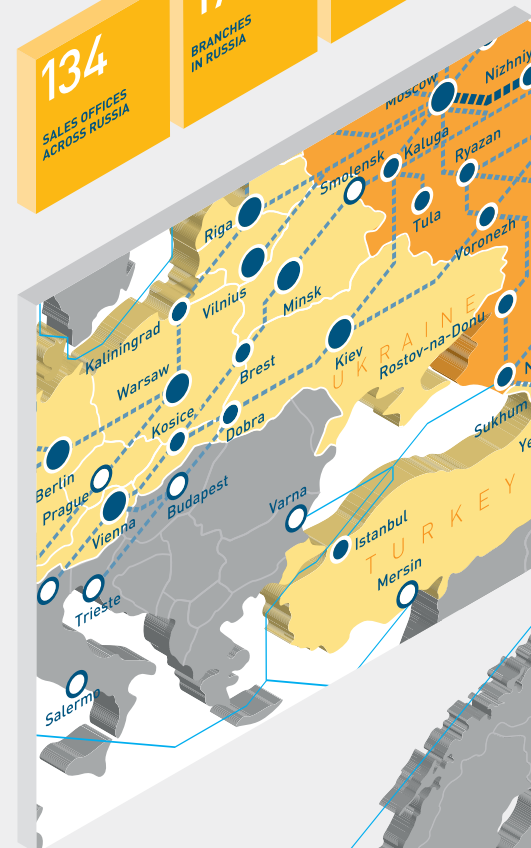
1. including end-to-end logistics traffic.

2. loaded containers.

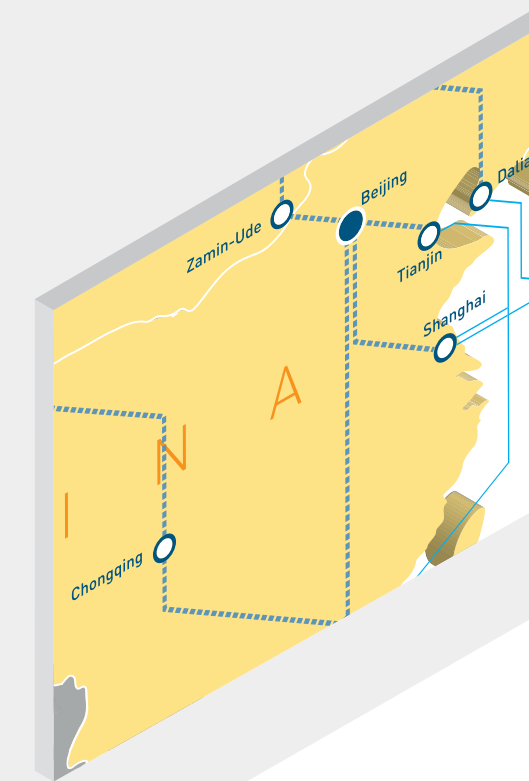
3. loaded and empty containers.

4. including revenue from bonded warehousing services.

COMPANY OVERVIEW GEOGRAPHY OF OPERATIONS



- KEY
- Trans-Siberian Railway
 - Other land routes
 - Shipping routes
 - City
 - City with the Company presence



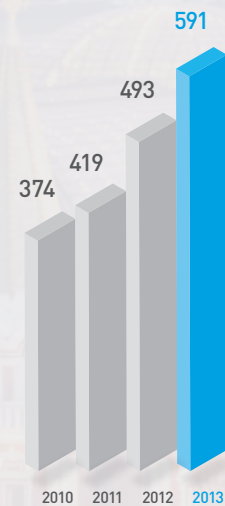
BUSINESS IN EUROPE AND ASIA

We operate both in rapidly growing rail container transportation markets and in all countries of 1520 gauge. We pay special attention to business development in the Customs Union of Belarus, Kazakhstan, and Russia connecting promising container markets of Europe and Asia

CONTAINER SHIPMENTS
IN RUSSIA:

1,454
'000 TEU

CONTAINER SHIPMENTS
UNDER INTEGRATED
LOGISTICS CONTRACTS



CONTAINER HANDLING
AT TERMINALS
IN RUSSIA:

1,319
'000 TEU

SHARE OF REVENUE
FROM SALES TO RUSSIAN
CUSTOMERS IN THE
COMPANY'S TOTAL
REVENUE (2013, IFRS)



■ Russia
■ Other

SHARE IN THE
RUSSIAN CONTAINER
TRANSPORTATION
MARKET:

47.0%

RUSSIA

Russia is the key market for the Company, accounting for over 70% of its consolidated revenue. As an undisputed leader of the Russian market, operating in all regions covered by the national rail network, TransContainer's share is almost half of the country's rail container shipments

Strong domestic performance paves the way for the Company's global growth providing the relevant asset base for container shipments between East and West

EUROPE

Our business in Europe relies on TransContainer's own sales network and long-term partnership with leading logistics companies and shippers, including DB Schenker, GEFCO, Volkswagen, Peugeot Citroen, and others. The strategic importance of the Company's operations in Europe is conditioned by a robust potential of container export and import shipments between Russia and Europe and the outlook for developing transit routes to Asia

CONTAINER SHIPMENTS
TO/FROM EUROPE:
320.5 '000 TEU

+5.0%

YoY

SIX COMPANY OFFICES
IN EUROPE

SHARE OF REVENUE FROM
SALES TO EUROPEAN
CUSTOMERS IN THE
COMPANY'S TOTAL
REVENUE



CHANGES IN CONTAINER
HANDLING VOLUMES AT
DOBRA TERMINAL
(SLOVAKIA), '000 TEU



CONTAINER HANDLING
VOLUMES AT ZABAİKALSK
STATION, '000 TEU



CONTAINER SHIPMENTS TO/
FROM CHINA AND ASIA-PACIFIC
REGION: 333.8 '000 TEU

+6.6%

YoY

SHARE OF REVENUE FROM
SALES TO CHINESE AND
ASIA-PACIFIC CUSTOMERS
IN THE COMPANY'S
TOTAL REVENUE

FOUR COMPANY OFFICES IN CHINA
AND ASIA-PACIFIC REGION (SUBSIDIARIES,
AFFILIATES, JVS, REPRESENTATIVE OFFICES)



■ China and other
■ Asia Pacific countries
■ Other

CHINA

Container shipments between Russia and China are one of the fastest growing segments of the Company's business. China is seen as one of the key regions for expanding TransContainer's international operations, especially as growth processes in its central and western regions are gaining momentum

KAZAKHSTAN

In 2013, Kazakhstan was the Company's second most important market, accounting for 14% of its consolidated revenue. The strategy for creating a Kedentransservice-based vertically integrated container operator in Kazakhstan and Central Asia has proved to be effective. TransContainer's successful partnership with Kazakhstan Temir Zholy, the country's national railway operator, within this project provides a solid basis for establishing new transportation routes between Europe and Asia.

CONTAINER SHIPMENTS
IN KAZAKHSTAN:

234

'000 TEU

REVENUE FROM
CUSTOMERS IN
KAZAKHSTAN AND
CENTRAL ASIAN
COUNTRIES IN THE
COMPANY'S REVENUES



■ Kazakhstan and Central
Asian countries
■ Other

CONTAINER HANDLING
AT TERMINALS
IN KAZAKHSTAN:

186

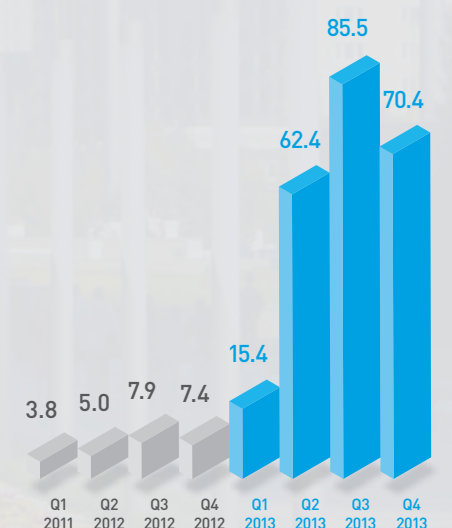
'000 TEU

NON-CONTAINER
OPERATIONS AT
TERMINALS IN
KAZAKHSTAN:

3.5

MILLION TONNES

CONTAINER SHIPMENTS IN KAZAKHSTAN, '000 TEU



STRATEGIC REPORT
CHAIRMAN’S STATEMENT

ZHANAR RYMZHANOVA
Chairman of the Board of Directors
JSC TransContainer



OUR COMPANY’S EXCELLENT
PERFORMANCE AFFIRMS THE STRATEGY WE
PURSUE TO IMPROVE BUSINESS EFFICIENCY
AND UNCOVER NEW GROWTH DRIVERS

Dear Shareholders,

It is with great pride that I present TransContainer’s operating results for 2013. It was a challenging year, rich in milestones which we believe will shape the business operations of our Company long into the future.

Despite a challenging market environment, TransContainer completed 2013 with the same success in profitability as we saw in 2013, while the IFRS net profit hit a record high of almost RUB 6 billion.

The Company’s performance in 2013 clearly demonstrates that the Board of Directors has selected the right strategy for business efficiency improvement and new growth drivers. Among such growth drivers comes Kedentransservice, our joint undertaking with Kazakhstan Temir Zholy and a fast-growing rail fleet operator business in Kazakhstan and other Central Asian countries accountable for a considerable contribution to the Company’s consolidated profit.

As global competition strengthens, entry to new markets and niches has become a key driver behind the sustainable growth in the transport business. On the back of these developments, the United Transportation and Logistics Company, a project launched by the national rail operators of the Customs Union to bring together key container assets of Russia, Belarus and Kazakhstan, has gained strategic importance for TransContainer and, indeed, the entire rail industry. The success of this project will facilitate steady container flows between the fast-growing provinces of Central and Western China and Europe, unlocking the growth potential of the container market in the 1,520 mm gauge zone.

In 2013, the Company asserted its leadership in corporate governance and information disclosures. Following the 16th Annual Reports Award sponsored by the Moscow Exchange, TransContainer took first place in the Best Mid-Cap Disclosure category for the second time running. The professional community recognised the Company’s achievements in other areas of information disclosure as well. In addition, Irina Shytkina, TransContainer’s independent director, ranked among the best in the Director of the Year Award. This award is organised by the Independent Directors Association together with the Russian Union of Industrialists and Entrepreneurs in association with PriceWaterhouseCoopers. The Board greatly appreciates this level of recognition for the Company’s achievements in corporate governance from the professional community; it encourages us to keep bringing our management practices in line with the best international practices.

2013 also saw marked progress with the approach to risk management. In the reporting year, the Board of Directors considered and approved revisions of corporate policies governing risk management procedures in the Company. An advanced risk assessment and management system is of paramount importance in this ever-changing economic environment.

This year will not be an easy one either, and the Board, alongside the management and employees, will keep focused on the long-term sustainable growth of the Company’s enterprise value in the interests of our shareholders.

In conclusion, I would like to thank members of the Board, shareholders, partners, and employees of TransContainer for their work and support and wish you success in 2014.

Sincerely,

ZHANAR RYMZHANOVA
Chairman of the Board of Directors
TransContainer

STRATEGIC REPORT
CEO'S STATEMENT

PETR BASKAKOV
CEO
JSC TransContainer



THE COMPANY FOCUSED ON MAXIMISING
PROFIT FOR THE SHAREHOLDERS,
IMPROVING QUALITY OF SERVICE, AND
LOOKING FOR NEW GROWTH DRIVERS IN
A CHALLENGING MARKET ENVIRONMENT

Dear Shareholders, Investors, Colleagues
and Partners,

The previous year saw a slowdown in Russia's economic growth, unfavourable conditions on the railway freight market and intensified competition in the container carriage segment. Following 2013, the Russian economy grew by a mere 1.3% while cargo volumes in Russian Railways' network decreased by 2.8%, coupled with lowering prices for the services of rolling stock operators.

Nevertheless, TransContainer managed to maintain its balance between market share and financial performance. The Company focused on maximising profit for its shareholders, improving service quality and seeking out new growth drivers in this challenging market environment.

KEY OPERATING AND FINANCIAL RESULTS

Although container carriage by the Company's rolling stock in Russian Railways' network saw a decrease of 2%, and revenue-generating shipments fell by 0.7% in 2013, the IFRS net profit of the Company increased by 14.2%, hitting a record high of RUB 5,974 mln. This success was thanks to the cost optimisation programme and the successful development of the Company's business in Kazakhstan.

Our highest priority throughout the previous year was to improve operating efficiency. We managed to slash the unproductive utilisation of our rolling stock with the empty run ratio of containers and flatcars in 2013 decreasing from 35.9% to 30.5% and from 7.5% to 6.7%, respectively. This brought about an 11.5% (RUB 558m) reduction in empty run costs despite rising infrastructural tariff rates. In addition to this, the Company continued to increase container shipments in block trains, including those within the TransSib in Seven Days project. Last year, container block trains transported a total of 415 thousand loaded TEU (up 4.1% year-on-year).

Refinancing our debt through TransContainer's successful bond offering in February 2013, helped us to cut back on our interest expense in the reporting year by more than RUB 100 mln year-on-year. This transaction showed, once again, TransContainer's great investment potential and the market's appreciation of its finance management policy.

CORPORATE INVESTMENT PROGRAMME

Despite the challenging market environment, the Company stayed true to its strategy and completed the CAPEX programme, covering the purchase of rolling stock and modernisation of container terminals. This saw us purchase 1,500 eighty-foot flatcars, 500 forty-foot flatcars and several thousand high-capacity containers during 2013.

The resulting share of 80-foot flatcars increased from 31.5% to 37.7% of the Company's fleet in TEU terms while the flatcar fleet capacity grew by 6.8% to exceed 80 thousand TEU. Following extensive modernisation, we commissioned the Kleschikha container terminal in Novosibirsk and the Paveletskaya terminal in Moscow. The terminals are now capable of handling full-length block trains at significantly reduced time intervals – a marked increase in the quality of service we provide.

DEVELOPING EASTWARDS

The previous year affirmed the effectiveness of the strategic decision we made back in 2011 to enter the Kazakhstan and Central Asian markets. We achieved this by acquiring a stake in Kedentransservice and then, capitalising on our expertise and technology, transforming it into a vertically integrated transportation and logistics operator. In 2013, Kedentransservice increased its container transportation volumes almost tenfold – from 24 thousand TEU to 236 thousand TEU.

Today the Company operates a fleet of over 5 thousand flatcars making it a major operator in both Kazakhstan and the Customs Union. The container terminal business in Kazakhstan is also on the rise; container handling volumes in the reporting period grew by 10.7% to 186 thousand TEU while the non-container cargo handled in the country went up by 17.0%, reaching 3.5 mln tonnes.

These results would never have come about without the partnership of Kazakhstan Temir Zholy, the other shareholder of Kedentransservice. In December 2013, the partners followed through with earlier agreements to hold equal shares in the operator.

The successful cooperation of TransContainer, Kazakhstan Temir Zholy and Belarusian Railways paves the way for more ambitious projects to tap global container flows.

With that in mind, the trilateral agreement signed by Russia, Kazakhstan and Belarus in 2013 to establish United Transportation and Logistics Company opens up new prospects for the Company and offers an opportunity to become involved in shaping a large, new market of transit container shipments between China and Central Europe.

CORPORATE GOVERNANCE
AND SOCIAL RESPONSIBILITY

Instability in the market has led the Company to focus on risk management and build up the best risk management practices. Based on our accumulated expertise, we revised our Risk Management Policy and Framework, and created a standing risk management committee that includes the Company's senior executives.

We are committed to maintaining high corporate governance standards. In 2013, the professional community placed TransContainer among the market leaders in corporate disclosures.

The Company takes an active stand for social responsibility – charity donations in 2013 totaled RUB 122 mln, while environmental spending reached RUB 34 mln. Health and safety is another corporate priority; we spent RUB 48 mln in this area alone and were rewarded with a significant reduction in the number of accidents in 2013.

OUTLOOK FOR 2014

Although the growth rate in the container market exceeded expectations in the first quarter of 2014, the ongoing slowdown of the Russian economy will doubtless affect container shipments and effective demand for transportation services.

With these trends in mind, we should turn our attention to the quality of customer services, learning to respond to the ever-changing market environment promptly and pro-actively, while also offering new transportation products and services to our customers. We will continue to work on further improving our operating efficiency, looking for opportunities to lower costs and increase our return on investments.

I am confident that our team will once again re-establish its position as a leader even in the toughest market environments and continue to benefit our customers, partners and shareholders.

Sincerely,

PETR BASKAKOV
CEO
TransContainer

COMPANY
MISSION

PROVIDE EFFECTIVE SUPPORT TO CLIENTS
BY OFFERING PROMPT, RELIABLE, AND
COMPREHENSIVE CONTAINERISED CARGO
DELIVERY AND LOGISTICS SOLUTIONS

STRATEGIC
GOAL

INCREASE THE COMPANY’S MARKET
CAPITALISATION THROUGH EXPANDING
THE SCALE AND IMPROVING THE EFFICIENCY
OF OUR BUSINESS

TARGET
BUSINESS MODEL

A VERTICALLY INTEGRATED TRANSPORTATION
AND LOGISTICS GROUP PROVIDING CONTAINER
FREIGHT CARRIAGE AND LOGISTICS SERVICES
THROUGHOUT EUROPE AND ASIA

THE STRATEGY PROVIDES FOR
THE COMPANY’S LEADERSHIP IN
THE MARKET, BUSINESS GROWTH
AND IMPROVEMENT OF BUSINESS
EFFICIENCY, AS WELL AS FURTHER
DEVELOPMENT OF HIGH ADDED
VALUE SERVICES

LEADERSHIP

MAINTAIN LEADERSHIP OF THE
GROWING CONTAINER FREIGHT
MARKET IN TERMS OF BUSINESS
VOLUME, NEW TRANSPORT
PRODUCT OFFERINGS AND
INNOVATIVE TECHNOLOGIES

KPI
– MARKET SHARE
– NUMBER OF NEW
TRANSPORT PRODUCTS

**2013 RESULTS
POSITIVE**
TransContainer retains its
leadership in the Russian rail
container transportation market.

TransContainer’s subsidiary
Kedentransservice (Kazakhstan)
took the lead in the container
transportation market in
Kazakhstan in 2013.

NEGATIVE
In 2013, the Company’s share in the
Russian rail container transportation
market declined to 47% from 50%
(see the Operations section).

STRATEGIC TARGETS FOR 2020
The largest player and undisputed
leader of the Russian and CIS rail
container transportation market.

RISKS
Growing competition from other
rail container operators and other
modes of transport (see the Risk
Management section).

GROWTH

INCREASE THE VOLUME OF
OPERATIONS BY EXPANDING
OUR CUSTOMER BASE AS
WELL AS GROWING THE
NUMBER OF TERMINAL
AND TRANSPORT ASSETS

KPI
– REVENUE
– TRAFFIC VOLUME
– NET PROFIT

**2013 RESULTS
POSITIVE**
Volume of Kedentransservice’s
rail freight traffic in Kazakhstan
grew 9.7 times in 2013 to
233.7 thousand TEU.

Container handling volumes at
Kedentransservice’s terminals
in Kazakhstan grew by 11%.

Net profit grew by 14%.

Flatcar fleet capacity grew
6.7% to 80,000 TEU.

NEGATIVE
TransContainer’s domestic rail
container traffic declined by 2%.
Container handling volumes at
the Company’s Russian terminals
decreased by 7.6% (see the Operating
Results and the Financial Results
sections).

STRATEGIC TARGETS FOR 2020.
Rail container freight traffic to reach
2.7 mln TEU and container flatcar
fleet to reach 42,000 cars by 2020.

RISKS
Growing competition from other rail
container operators and other modes
of transport.

The risk of inefficient customer
service.

Deterioration in the macroeconomic
environment, economic slowdown
or stagnation (see the Risk
Management section).

EFFICIENCY

CONTINUE TO INCREASE
OPERATING EFFICIENCY AND
CAPACITY UTILISATION BY
OPTIMISING RAILCAR FLEET
MANAGEMENT, THE TERMINAL
NETWORK AND IT SYSTEMS

KPI
– EMPTY RUN RATIO
– FLEET CAPACITY
UTILISATION RATE
– SHARE OF BLOCK TRAINS
IN THE TOTAL TRAFFIC
– PROFITABILITY

**2013 RESULTS
POSITIVE**
The share of high-efficiency 80-foot
flatcars in the total fleet capacity
increased from 31.5% at the end
of 2012 to 37.7% at the end of 2013;
flatcar empty run ratio improved from
7.5% to 6.7%; container empty run
ratio improved from 35.9% to 30.5%;
share of block train carriage increased
from 26.9% to 28.5%.

Net profit margin reached 23.6%
vs 20.5% in 2012 (see the Operations
and the Financial Results sections).

STRATEGIC TARGETS FOR 2020
50% share of 80-foot flatcars in
the total fleet capacity, lower empty
run ratio, better car fleet turnover.

RISKS
Inefficient organisation
of transportation.

Insufficient capacity of Russian
Railways’ network
(see the Risk Management section).

ADDED VALUE

EXPAND THE VALUE-ADDED
OFFERING INCLUDING INTEGRATED
LOGISTICS SERVICES

KPI
– INTERMODAL
TRANSPORTATION VOLUME
– CUSTOMER SATISFACTION INDEX

**2013 RESULTS
POSITIVE**
Shipments under integrated logistics
contracts grew by 19.9% to 591
thousand TEU; the share of integrated
logistics services in net revenue
reached 41.2% vs 33.3% in 2012.

STRATEGIC TARGETS FOR 2020
Integrated logistics and freight
forwarding services to generate
50% of revenue by 2020 .

RISKS
Growing competition from other rail
container operators and other modes
of transport.

The risk of inefficient customer service
(see the Risk Management section).

STRATEGIC REPORT
STRATEGY OVERVIEW
(CONTINUED)

Our strategy focuses on leveraging TransContainer’s vertically integrated business model as Russia’s largest container operator and offering a full range of transportation and logistics services for containerised cargo shipments



Pavel Chichagov
Deputy General Director

STRATEGY HIGHLIGHTS

The most recent version of TransContainer’s Development Strategy through to 2020 (the “2020 Strategy”) was approved by the Company’s Board of Directors on 21 January 2013.

The Company’s Strategy is focused on leveraging its vertically integrated business model as the largest national container operator offering a full range of container transportation and logistics services throughout Russia and the CIS.

The 2020 Strategy enables TransContainer to retain its leading position in the fast-growing rail container transportation market, to align its terminal-handling business with the expected changes in cargo mix and further decommissioning of medium-duty containers in Russia, and to continue expanding its added value service offering and improving business efficiency.

Improving asset utilisation efficiency is the Company’s key strategic priority to be achieved through the assimilation of new transportation technologies, upgrading and optimising the Company’s fleet, and introducing modern IT solutions and management practices. TransContainer’s priority strategic objectives include increasing container block train traffic by launching a block train circulation between the Company’s own hub terminals for a better consolidation of container flows.

The Company sees significant potential for further reduction of empty runs, increasing car capacity utilisation, and improving fleet turnaround.

The 2020 Strategy envisages further additions to the high-efficiency fleet, primarily 80-foot flatcars and 40-foot containers, as well as commissioning new types of containers and rolling stock: articulated flatcars (to be built from two standard 60-foot cars from our existing fleet), 60-foot open-top containers, etc. Special-fleet container transportation is also set to grow, while the share of the total revenue generated by logistics and freight forwarding services should reach 50%.

To achieve these targets, the Company plans to allocate an average of 20% to 30% of its annual net revenue (depending on the market situation) to fund its capex projects with the larger part of this investment directed into the car fleet expansion and optimisation.

STRATEGY DELIVERY
BUSINESS PROCESSES

TransContainer’s ability to achieve strategic objectives is driven by the effectiveness of its corporate management. The Company has a process-oriented system of corporate management, with process-based management tools and practices linked to the performance and risk management systems.

The Company’s processes are identified and described, and the data is used for developing quality management regulations and formalised business requirements for new information systems.

Process owners (members of the Company’s top management) are accountable for managing processes assigned to them as stipulated by the Company’s internal policies.

KEY PERFORMANCE INDICATORS

In terms of the Company’s day-to-day operations, implementation of the 2020 Strategy is supported by a balanced system of key performance indicators (KPIs) that set the management team’s priority targets for each calendar year.

The Company’s KPIs are split into corporate, i.e. applicable to all company managers, and individual, i.e. set for the company managers based on their area of responsibility.

Corporate KPIs, that also serve as the CEO’s individual KPIs, shall be set by the Company’s Board of Directors (see the Corporate Governance section on p. 88). 2013 corporate KPIs established by the Board included the Company’s EBITDA, net profit as well share price performance. Individual KPIs for other company managers are set by the CEO.

The system of KPIs for the Company’s top management and heads of branches has been in use since 2011 and for deputy heads of branches since 2013. 2014 is set to see KPIs for the Company’s mid-level managers introduced.

STRATEGY OVERSIGHT

To ensure delivery of its Strategy, the Company develops annual strategy delivery plans defining activities to achieve its strategic goals and objectives, broken down by area of business and functional area, and specifying the required delivery time and resources. The annual strategy delivery plan, aligned with the Company’s investment programme, is approved by the CEO. The CEO, the Strategy Committee, and the Board of Directors supervise the delivery of the Company’s Strategy (see the Corporate Governance section on p. 62).

STRATEGY DELIVERY IN 2013

The progress in delivering the Company’s Strategy in 2013 was significantly affected by the changes in the external environment, specifically, economic slowdown in Russia and the consequent slump in demand for container transportation services, as well as the decline in the adjacent transportation market segments, altogether leading to a stiffer competition in the rail container transportation market. A tougher competitive environment resulted in growing competition over the quality of container transportation services and pressure on prices of operators’ services (see the Container Transportation Market section).

Against this background, the Company developed a Programme of Priority Action for 2013–2014 to Ensure Delivery of TransContainer’s 2020 Strategy, including, inter alia, the following key initiatives:

1. Steps to improve the quality of customer service, including:
 - developing and implementing a corporate standard for customer service;
 - implementing a model of services based on bills of lading across the entire TransContainer’s sales network;
 - improving online customer service.
2. Steps to improve the quality of customer orders execution, including:
 - eliminating technological bottlenecks and improving the quality of terminal services;
 - implementing a unified order management system (end-to-end delivery);
 - enhancing control over the accuracy of shipments and container train traffic schedules.

3. Optimising the Company’s tariff policy and improving cost efficiency.

Despite the deterioration in the external environment, the increased share of shipments in container block trains, significantly improved flatcar and container empty run ratios, and optimisation of costs in other areas helped TransContainer retain its 2012 margin levels in 2013 (see the Financial Results section).

In 2014, the Company will continue working on its strategic goals.

PROSPECTIVE AREAS FOR
STRATEGIC DEVELOPMENT

The project aimed to unlock the potential of container cargo transit between Central and Western China and Eastern and Central Europe through the Common Economic Space (CES) countries may serve as an important growth driver both for the Russian container transportation market and the Company.

In the coming years, central and Western China is expected to become one of the country’s major industrial centres, with potential rail container transit between China and Europe projected to exceed 1 mln TEU by 2020 (source: The Third International Rail Business Forum «1520 Strategic Partnership: Central Asia»). Today, the share of the CES countries in the total container transit traffic between China and the EU accounts only for 0.2%, which is due to a low transit speed, lack of a single transit rate, and insufficient quality of services, including extended idle time to clear customs and the lack of a single sales window to provide end-to-end service to customers.

To unlock this transit potential, on 22 November 2013, the Russian Railways Board of Directors gave preliminary approval to Russian Railways’ participation in the share capital of United Transportation and Logistics Company, which is subject to further approval by the Russian Government and the final approval by the Russian Railways Board. United Transportation and Logistics Company is to be established by Russian Railways, National Company Kazakhstan Temir Zholy and State Association of Belarusian Railways.

Russian Railways will secure its initial share in the company by contributing its stakes of 50% plus two shares in TransContainer and 100% less one share in RZD Logistics.

United Transportation and Logistics Company is intended to facilitate the development of transport and logistics infrastructure in Russia, Belarus and Kazakhstan on the basis of a uniform pricing policy and principles, the mutual use of the rolling stock, and roll-out of a unified technology of transportation services across the Common Economic Space, and to meet the challenges of growing competition over the global transport corridors, primarily, from the EU and China.

TransContainer expects a positive impact of this project’s successful implementation on the Russian container transportation market and the Company’s strategic positioning.

STRATEGIC REPORT

BUSINESS MODEL

Our business model is based on a flexible, customer-oriented approach implemented across all key components of the container transportation value chain. The Company's integrated asset mix and broad network coverage ensure flexibility in responding to the needs of all types of customers in offering both integrated end-to-end delivery solutions and specific container transportation and terminal handling services.

The proven, well-adjusted business processes based on individual approach to all types of customers enable the Company to maintain and enhance its competitive advantage in the challenging market environment.

INTEGRATED CONTAINER CARGO DELIVERY VALUE CHAIN

LAST MILE/MULTIMODAL TRANSPORTATION

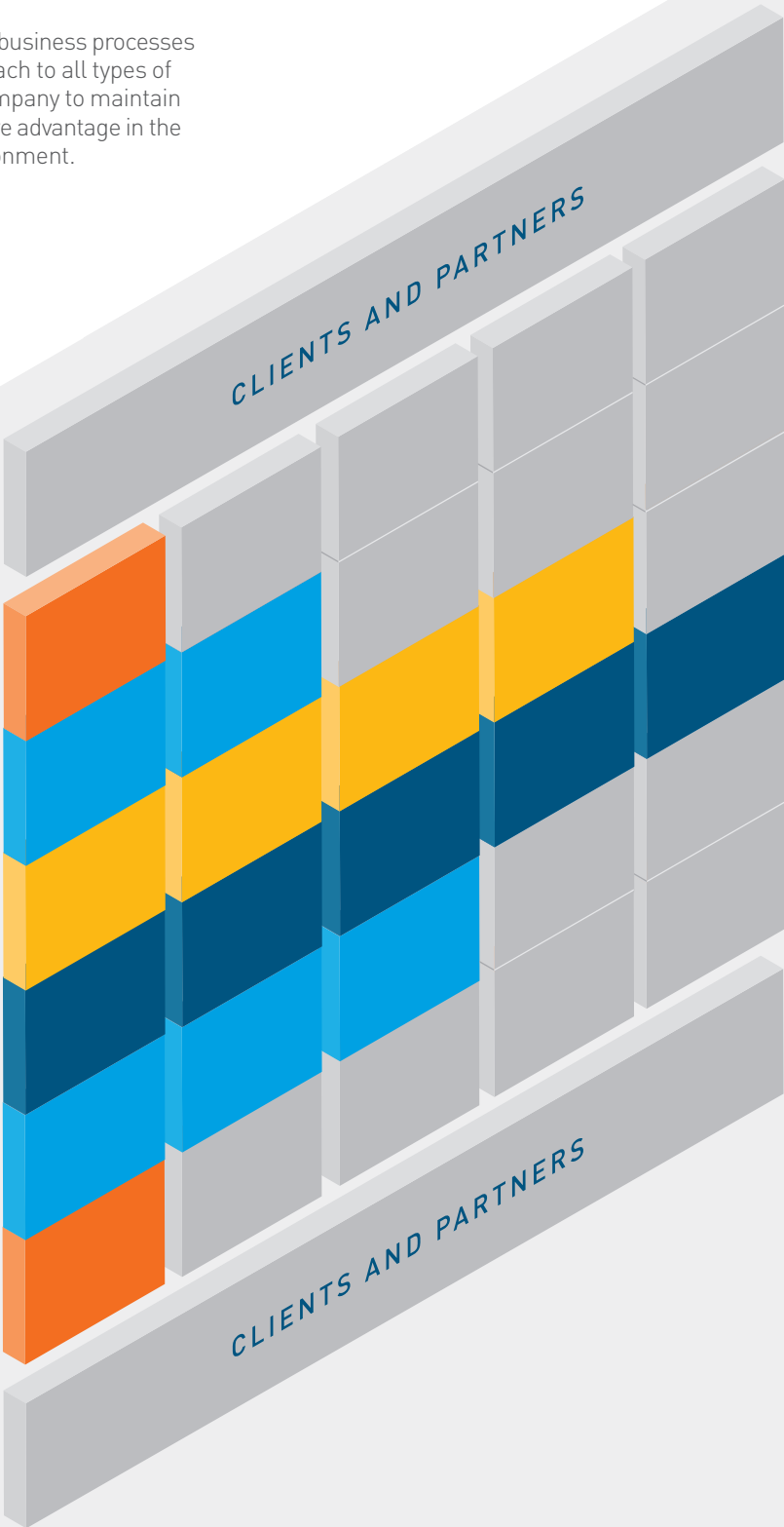
RAILWAY CONTAINER TERMINALS
(LOADING, STORAGE)

FREIGHT FORWARDING AND LOGISTICS SERVICES

OPERATOR OF RAIL TRANSPORTATION SERVICE

RAILWAY CONTAINER TERMINALS
(LOADING, STORAGE)

LAST MILE/MULTIMODAL TRANSPORTATION



OUR BUSINESS ASSETS

FLATCARS

QUANTITY AS OF
31 DECEMBER 2013

26,305

USES
Special railcars for transportation of ISO containers. Depending on size (40-, 60-, or 80-foot), flatcars are used for carriage of light, heavy or mixed cargo

ISO CONTAINERS

QUANTITY AS OF
31 DECEMBER 2013

62,367

USES
Cargo containers compliant with ISO standards. Depending on size (20- or 40-foot), they can be used for transportation of light, heavy or mixed cargo. Can be modified for heavy-bulk cargo, liquid cargo, or perishable goods

LIFTING EQUIPMENT

QUANTITY AS OF
31 DECEMBER 2013

238

USES
Special gantry cranes for container handling, special loaders for ISO containers (reach stackers), low-tonnage loaders for warehousing and repair operations

MOTOR VEHICLES

QUANTITY AS OF
31 DECEMBER 2013

866

USES
Truck tractors, ISO container trailers, high-sided trucks

RAILWAY CONTAINER TERMINALS

QUANTITY AS OF
31 DECEMBER 2013

46

Terminals in Russia

20

Terminals abroad

USES
Equipped sites adjacent to rail tracks, with lifting machinery and other equipment and facilities designed for loading and unloading containers to and from railcars and trucks, storage of cargo and containers, and other operations related to container transportation

Our business model is based on a full range of transportation and logistics services to various groups of clients, including end clients. While broad geographical coverage, continuous service improvement, and the potential of growing demand for containerised cargo transportation help TransContainer maintain an efficient and flexible business model, its commitment to developing partner relations with freight-forwarding companies both in Russia and abroad also reinforces its competitive strength

BREAKDOWN OF CLIENTS BY SHARE IN PAYMENTS RECEIVED IN 2013



Freight forwarders 30.1%
End clients 69.9%

STRATEGIC REPORT
CONTAINER
TRANSPORTATION
MARKET

In 2013, despite the continuing growth in global traffic, the situation in the global and Russian container transportation markets remained unstable

GLOBAL CONTAINER
TRANSPORTATION MARKET
GENERAL OVERVIEW

2013 was another challenging year for the global containerised sea freight market. The market situation remained unstable despite the continued growth in global traffic which totalled 181.8 mln TEU (including empty runs) (up 3.1% compared to 2012, according to Drewry’s preliminary estimate).

At the same time, the growth in the global container ship fleet capacity in 2013 was still outpacing the growth in demand for containerised sea shipments almost twofold, which had a destabilising influence on the sea freight rates. Although 2013 saw as many as at least ten attempts to increase the Asia-North Europe freight rate, since the start of the year, the 40-foot container shipping rate declined by USD 450 to approximately USD 1,940 (according to Drewry).

These developments made the major shipping lines operators focus on cost cuts, including the continued use of more cost-effective vessels with higher loading capacity (10,00 TEU and more), and started the process of the industry consolidation. In June 2013, the world’s three largest container shipping lines operators (Maersk Line, Mediterranean Shipping Company (MSC), and CMA CGM announced their plans to establish a global alliance on the East-West trades, called the P3 Network, that would comprise a joint vessel operating centre, while each of the three operators would continue to have fully independent marketing and customer service functions. The alliance is expected to start operations in 2014.



Viktor Zhukov
Director of marketing and tariff policy

Facing the growing competition from the major marker players and not being able to raise prices, smaller operators experience financial difficulties. According to Drewry’s estimates, most sea container traffic carriers reported losses in 2013.

GLOBAL CONTAINER
TRANSPORTATION MARKET

The major share of global container traffic volumes is intraregional (79 mln TEU). The East-West trade route, the largest intraregional market segment, accounts for 38% of the world’s total containerised sea freight market. In 2013, container traffic along the East-West route was 68.7 mln TEU or 2.7% up as compared to 2012, with traffic between South-East Asia and North America accounting for 48%, and traffic between Asia and Europe accounting for 38% (or 26.3 mln TEU) of the total traffic volume.

GLOBAL CONTAINER TRANSPORTATION
MARKET GROWTH

In 2013, the global container transportation market grew 3.1% year-on-year, falling slightly below the rate of 4.4% reached in 2012.

See chart: Global container transportation market and GDP growth.

The global economic growth, and particularly, the growth in world trade, are the main drivers influencing the global container transportation market growth. According to Drewry, the average annual growth rate of the global container transportation market over the last thirty years was approximately 3.2 times higher than the global GDP growth, primarily due to the expansion of containerised transportation services.

According to Drewry, though this correlation tends to go down steadily owing to the natural slowdown in containerisation growth as the market grows towards saturation, the average containerisation ratio is projected to reach 1.5 by 2017.

DEMAND AND SUPPLY

Despite the continued strong demand for container transportation services, market pricing environment continues to be rather tense, mainly because growth in the overall container ship capacity outstrips growth in the demand as a result of the operator’s pre-crisis investment activity and the major carriers’ shift towards the use of more cost-effective vessels with higher loading capacity (more than 10,000 TEU).

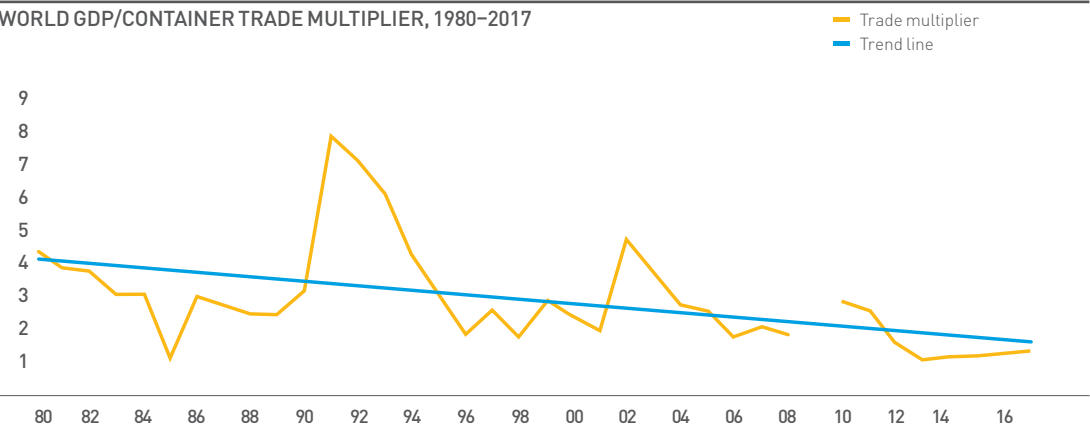
While the total container fleet capacity grew by 7.5% in 2013, the total traffic volume added only 3.1% over the period, as estimated by Drewry Maritime Equity Research. According to Alphaliner, the imbalance between supply and demand emerging from the pre-crisis bookings and persisting at the level of 3% (500,000–1,000,000 TEU) over the last five years (being the longest period of such continued imbalance ever) inevitably puts pressure on the prices.

GLOBAL CONTAINER TRANSPORTATION IN 2013 BY ROUTE (‘000 TEU)

Route	2013 Traffic volume	2013 Share	2012 Traffic volume	2012 Share	YoY, %
East-West. total	68,678	38%	66,897	38%	2.7
Far East – North America	33,050	18%	31,145	18%	6.1
North Europe – Far East	17,040	9%	17,601	10%	-3.2
Mediterranean – Far East	9,290	5%	9,203	5%	0.9
North Europe – North America	5,625	3%	5,444	3%	3.3
Mediterranean – North America	3,673	2%	3,505	2%	4.8
North-South, total	33,867	19%	30,405	17%	11.4
Intraregional	79,255	44%	78,998	45%	0.3
Global transportation volume	181,800	100%	176,300	100%	3.1

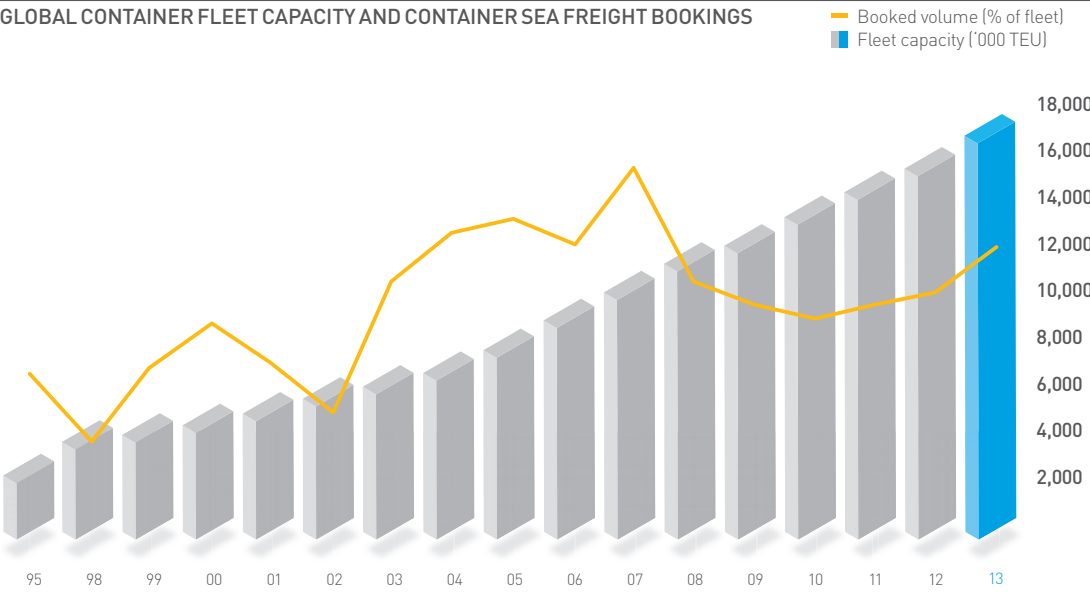
Source: Drewry

WORLD GDP/CONTAINER TRADE MULTIPLIER, 1980–2017



Source: Drewry Maritime Research

GLOBAL CONTAINER FLEET CAPACITY AND CONTAINER SEA FREIGHT BOOKINGS



Source: Drewry

STRATEGIC REPORT
CONTAINER
TRANSPORTATION
MARKET
(CONTINUED)

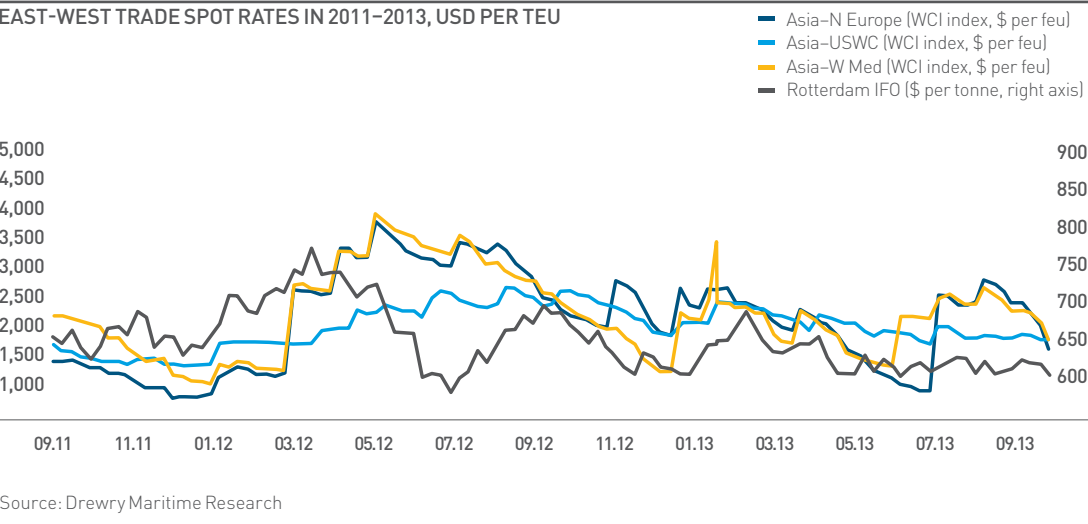
PRICING
In 2013, the Asia-North Europe sea freight rates experienced periods of high volatility: having started the year at approximately USD 2,400, the 40-foot container shipping rate fell to USD 990 by June, and then rose to approximately USD 1,940 in December. Despite stronger resistance to volatility, the Asia-US West Coast rates also showed the general downward trend, with the 40-foot container shipping rate going down from USD 2,150 in January to USD 1,640 in December 2013, notwithstanding the carriers’ efforts to limit the supply by cancelling regular scheduled voyages.

SHANGHAI CONTAINERISED FREIGHT INDEX (SCFI) IN 2012–2013
The Shanghai (Export) Containerised Freight Index (SCFI) is a weekly index published by the Shanghai Shipping Exchange since 16 October 2009, in succession to the earlier version of the SCFI index launched on 7 December 2005. The SCFI reflects the Shanghai export container transport market rates, including two freight shipping rates (indices) for 15 maritime routes and the aggregate index.

In 2013, the average aggregate SCFI totalled 1,095 points, 13.8% down vs 2012.

EXPECTATIONS FOR 2014
According to Drewry analysts, the global container market growth is expected to accelerate to 4.2% (189.4 mln TEU) in 2014 and to approximately 5% in 2015, driven primarily by favourable forecasts for the global GDP growth in the first place, the economic recovery in the USA and the end of Europe’s recession.

Given the continued inflow of large container ships, a high probability of oversupply will persist in the coming years. At least 52 new container ships min. 10,000 TEU each are expected to be commissioned until 2015, and according to Drewry’s estimates, the balance between supply and demand is therefore not to be expected until 2016.



Drewry analysts expect the East-West trade freight rates to decline in 2014 approximately by 1.4% (including the fuel component) and a zero growth rate for the market in general.

This is expected to tighten the competition in the container transportation market and to intensify the market consolidation process (primarily due to the creation of global alliances with a view to optimising fleet utilisation).

RUSSIAN RAILWAY CONTAINER TRANSPORTATION MARKET GENERAL OVERVIEW
The container transportation market has become one of the best performing segments of the railway freight market in 2013: while the volume of cargo transported by Russian Railways’ network in 2013 decreased by 2.8% compared to 2012, the volume of containerised freight traffic grew by 5.2% to 3.1 mln TEU.

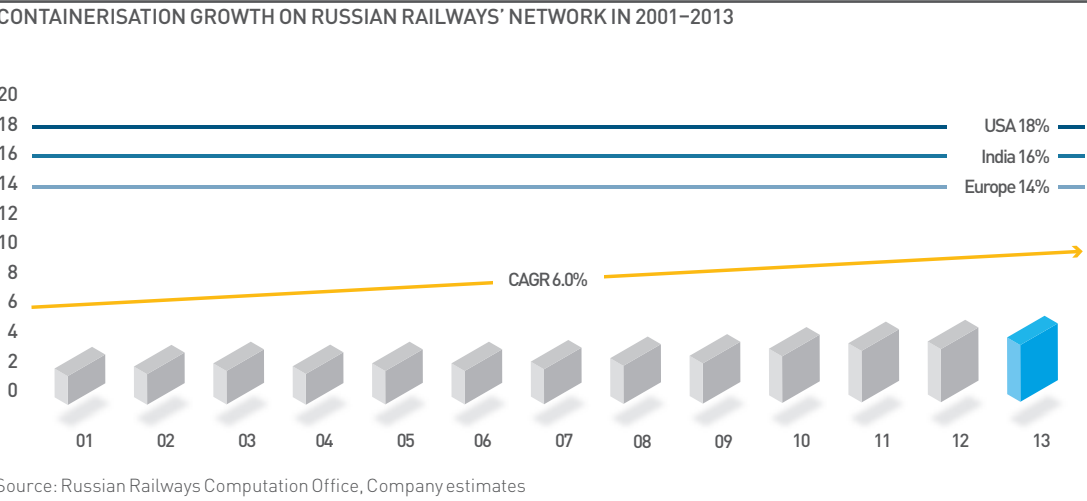
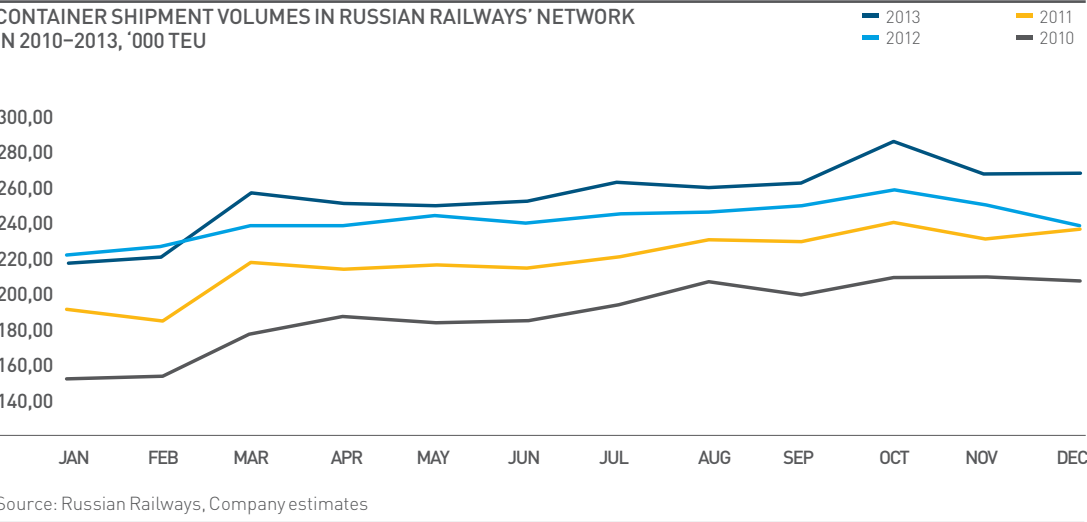
At the same time, the railway container transportation market growth slowed down considerably as compared to the 2010–2012 levels due to the general slowdown of the economic growth in Russia. According to preliminary estimates of the Ministry of Economic Development of the Russian Federation, Russia’s GDP increased by 1.3% in 2013 vs 3.2% in 2012, amid growth in manufacturing output (1.2%) and the physical volume of imports (2.4%) and the decline in physical volume of exports (3.2%). Real retail sales grew by 4.4%, serving as one of the key factors that ensured stability of the container transportation market, particularly in its imports segment.

Continued expansion of containerisation in rail transportation was an additional driver for stronger recovery of rail container traffic in 2013. The Company estimates the share of containerised cargos in Russian Railways’ network to have risen from 4.2% in 2012 to 4.5% in 2013.

The slowdown of the Russian economy and, consequently, of the Company’s target market, alongside with a considerably more challenging environment in the general cargo transportation market, were accompanied by a tougher competition from other specialised rail fleet operators as well as gondola car operators and other types of transport, altogether resulting in negative pressure on operator prices. Although the drop in railway container transportation rates was not as steep as in the gondola car transportation segment, the average container transportation rate remained below the 2012 level throughout the entire 2013.

REAL GDP GROWTH IN MAJOR ECONOMIES (% CHANGE PREVIOUS PERIOD)					
	2011	2012	2013 (f)	2014(f)	2015 (f)
Global Economy	3.9	3.2	2.9	3.5	3.7
G-10	1.4	1.5	1.0	2.0	2.0
USA	1.8	2.8	1.6	2.7	2.6
Euro area	1.5	-0.5	-0.5	0.9	1.2
France	1.7	0.0	0.1	0.6	1.2
Germany	3.0	0.7	0.4	1.8	1.8
UK	1.0	0.1	1.4	2.4	2.1
Japan	-0.6	2.0	1.8	1.3	1.3
Emerging Markets	6.5	4.9	4.8	4.9	5.2
Asia ex Japan	7.6	6.1	6.0	5.9	6.1
China	9.3	7.7	7.6	7.1	6.9
India	7.3	5.1	4.4	4.6	6.0
Latin America	4.5	2.8	2.8	3.0	3.1
Brazil	2.7	0.9	2.3	1.7	1.6
Mexico	3.9	3.8	1.1	3.7	4.4
CEEMEA	5.1	2.7	2.2	3.6	3.7
Russia	4.3	3.4	2.2	3.1	2.8
S Africa	3.1	2.5	1.8	3.0	3.5
Nigeria	7.4	6.5	6.8	7.8	7.5

Notes: (f) forecast
CEEMEA = Central/Eastern Europe, Middle East and Africa
Source: Morgan Stanley (20 November 2013)



STRATEGIC REPORT
RUSSIAN RAILWAY
CONTAINER
TRANSPORTATION
MARKET

RUSSIAN RAILWAY CONTAINER MARKET
BY TRAFFIC TYPE

The international container transportation was the fastest growing market segment in 2013 increasing by 8.1% (including import traffic growth of 10.8%) while domestic container transportation grew only by 1.8%. The Company believes that this growth was primarily driven by the performance of the respective Russia’s GDP components in 2013: a strong consumer demand, supported by rising real wages and faster growth in consumer lending, has become one of the key drivers behind the robust growth in container imports. The country’s stagnant industrial production has had a negative impact on the domestic rail container transportation growth.

As a result, the market returned to almost pre-crisis composition: international shipments accounted for 56% of the market, while the domestic traffic share decreased from 46% in 2012 to 44% in 2013.

IMPORT TRAFFIC

The import rail container segment was best performing in 2013: its traffic increased by 10.8% YoY from 618,000 to 685,000 TEU.

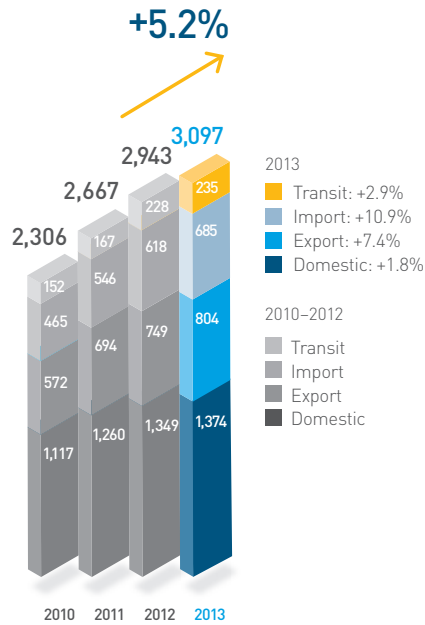
The railway container imports traffic is dominated by loaded containers: their share in the overall container imports increased from 79% in 2012 to 82% in 2013, the rate of loaded container traffic growth reached 14.9%, while empty container traffic decreased by 4.3%.

Containerised imports were dominated by automotive components (38%), consumer goods (16%), chemicals (12%), and metal goods (12%).

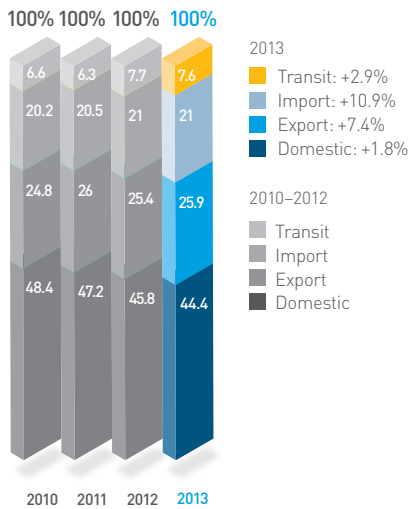
The best performing container transportation segments by cargo type were automotive components (up 9%), consumer goods (up 18%), chemicals (up 14%), and metal goods (up 18%).

The main import container flows came from the Far East (China, South Korea and Japan), and Eastern Europe.

RUSSIAN RAILWAY CONTAINER MARKET BY TRAFFIC TYPE ('000 TEU)

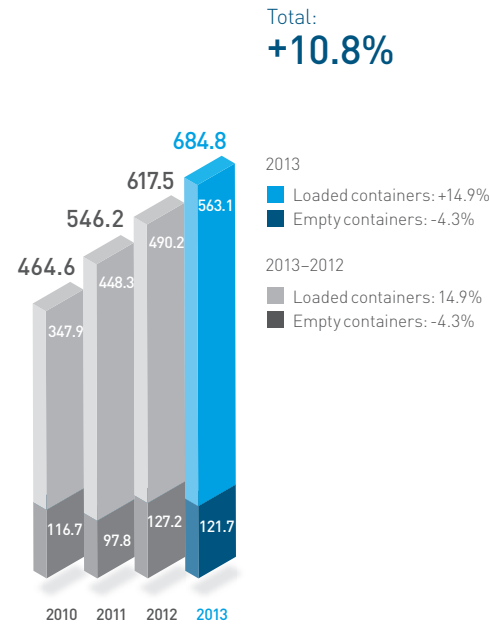


Source: Russian Railways, Company estimates



TransContainer Annual Report 2013

IMPORT CONTAINER SHIPMENTS ON RUSSIAN
RAILWAYS' NETWORK IN 2013, '000 TEU



Source: Russian Railways, Company estimates

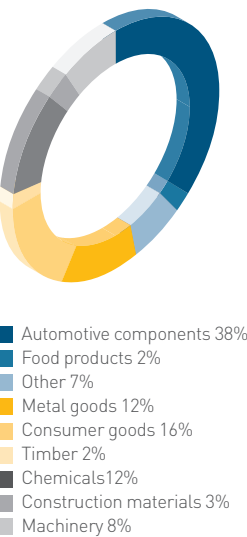
EXPORT TRAFFIC

Outgoing rail container traffic increased by 7.4% in 2013, reaching 804,000 TEU.

The railway container exports traffic is dominated by loaded containers, although their share in the overall container exports declined from 75% in 2012 to 73% in 2013. The outgoing rail container traffic growth was primarily supported by empty container traffic growth (up 16%) as the share of empty containers in export traffic increased from 25% in 2012 to 27% in 2013.

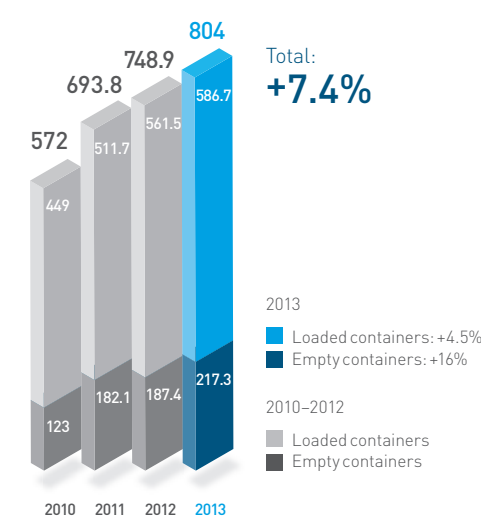
In terms of cargo types, paper and pulp along with chemical products continued to dominate containerised rail exports in 2013 with a combined share of 48%.

CONTAINERISED IMPORT TRAFFIC ON RUSSIAN
RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2013



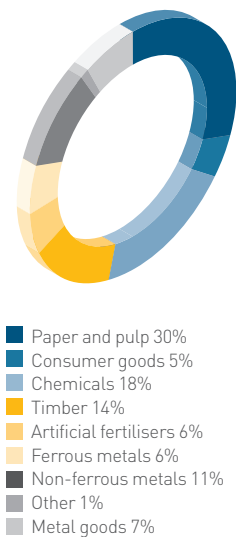
Source: Russian Railways, Company estimates

EXPORT CONTAINER SHIPMENTS ON RUSSIAN
RAILWAYS' NETWORK IN 2013, '000 TEU



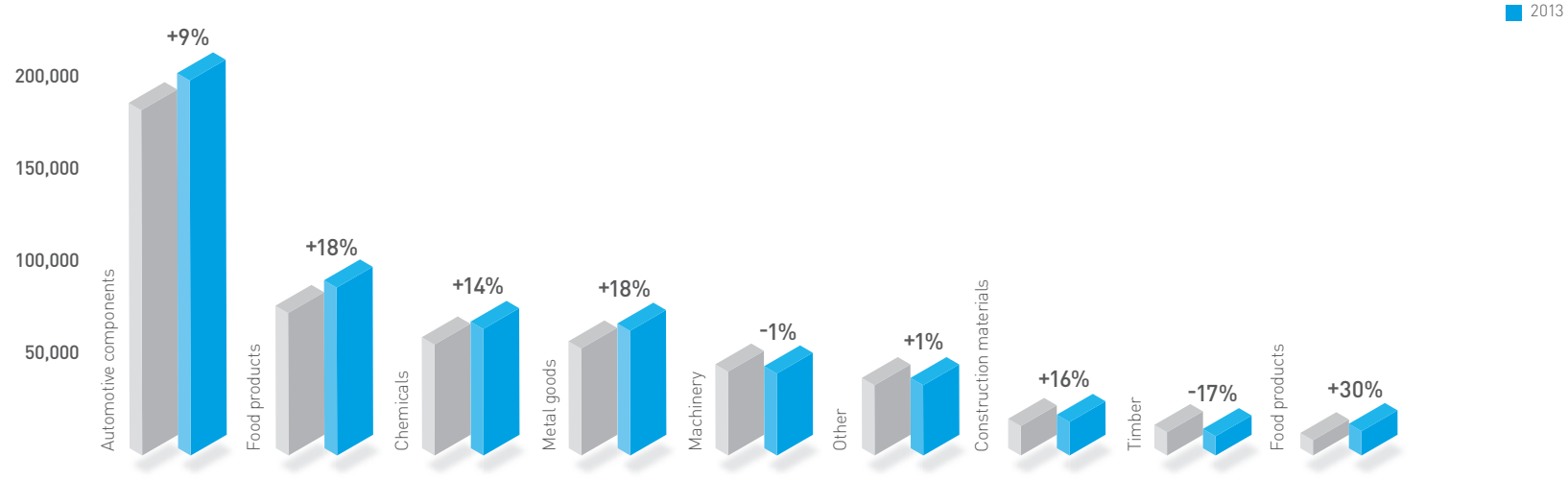
Source: Russian Railways, Company estimates

CONTAINERISED EXPORT TRAFFIC ON RUSSIAN
RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2013



Source: Russian Railways, Company estimates

GROWTH OF CONTAINERISED IMPORT TRAFFIC ON RUSSIAN RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2013



Source: Russian Railways, Company estimates

STRATEGIC REPORT
RUSSIAN RAILWAY
CONTAINER
TRANSPORTATION
MARKET
(CONTINUED)

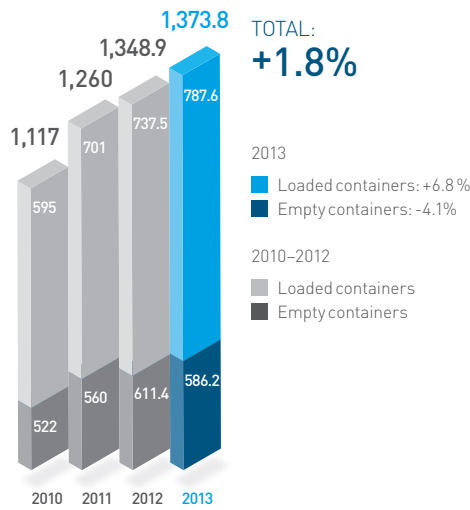
With the gradual recovery of the global economy, demand for containerised Russian exports picked up, driving the growth in containerised exports of timber (up 16% to 83,300 TEU), metal goods (up 63% to 41,400 TEU) and artificial fertilisers (up 16% to 36,100 TEU).

In 2013, most outgoing containerised exports were bound for Russia’s North-Western and Far Eastern ports and to Eastern European countries.

DOMESTIC TRAFFIC
In 2013, the volume of domestic container traffic totalled 1,373,800 TEU, up 1.8% YoY. Loaded containers accounted for 57.3% of domestic rail container traffic in 2013. The domestic rail container traffic growth was primarily supported by loaded container traffic growth (up 6.8%), while empty container traffic dropped by 4.1%, back to the 2012 level.

In terms of cargo types, domestic rail container trade was more diversified than international one. In 2013, the total domestic loaded container traffic comprised the following key cargo types: chemicals (17%), consumer goods (15%), food products (10%), machinery (10%), metal goods (9%), construction materials, petroleum and products (8%), and paper (6%).

DOMESTIC CONTAINER SHIPMENTS ON RUSSIAN RAILWAYS’ NETWORK IN 2013, ‘000 TEU



Source: Russian Railways, Company estimates

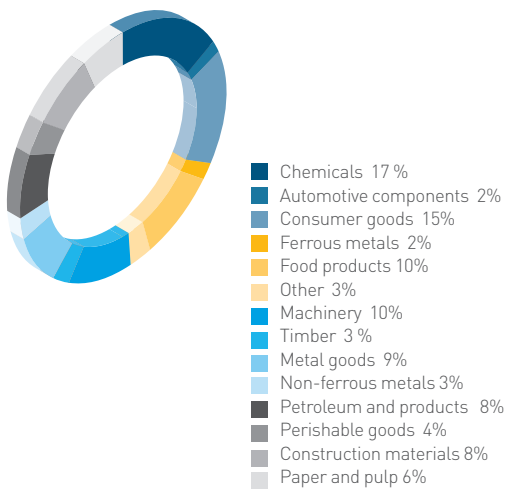
The main contributors to domestic container traffic were chemicals (up 12%), machinery (up 10%), construction materials (up 13%), and perishable goods (up 17%).

The main domestic rail container flows were between Central Russia and Siberia, as well as within European Russia.

TRANSIT TRAFFIC
Rail-based container transits grew by 2.9% in 2013, from 228,000 TEU to 234,500 TEU. Loaded containers continued to dominate, although their share in rail transit container turnover reduced to 70.7% in 2013 compared to 71.2% in the previous year.

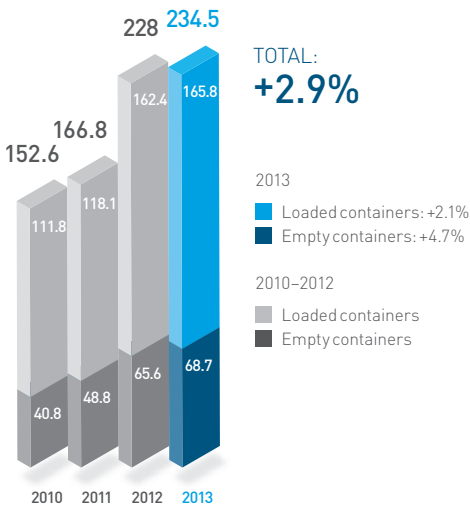
In terms of cargo types, rail-based container transits are more diversified than imports and exports. The main contributors to transit container turnover in 2013 were automotive components (up 37%), ferrous metals (up 11%), machinery (up 9%), metal goods and consumer goods (up 8%), perishable goods (up 7%) and chemicals (up 6%).

DOMESTIC CONTAINERISED TRAFFIC IN RUSSIAN RAILWAYS’ NETWORK BY KEY CARGO TYPES IN 2013



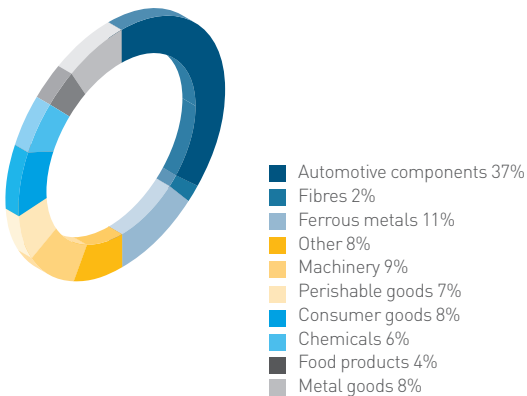
Source: Russian Railways, Company estimates

TRANSIT CONTAINER SHIPMENTS ON RUSSIAN RAILWAYS’ NETWORK IN 2013



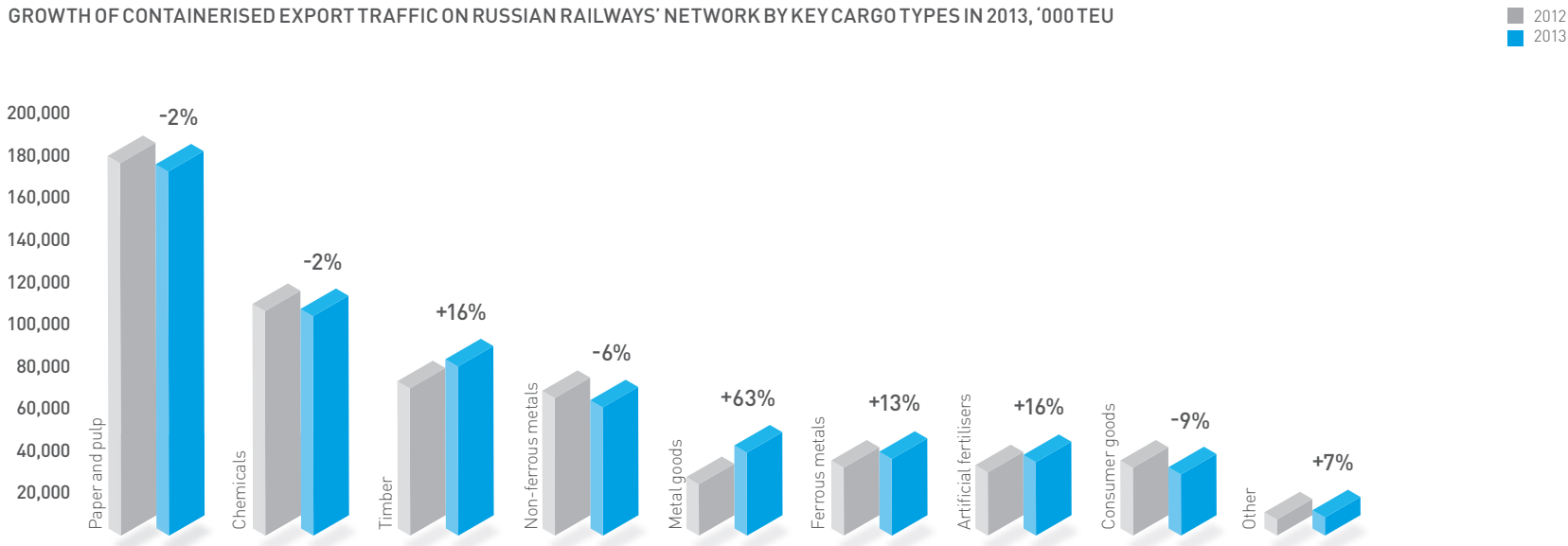
Source: Russian Railways, Company estimates

CONTAINERISED TRANSIT TRAFFIC ON RUSSIAN RAILWAYS’ NETWORK BY KEY CARGO TYPES IN 2013



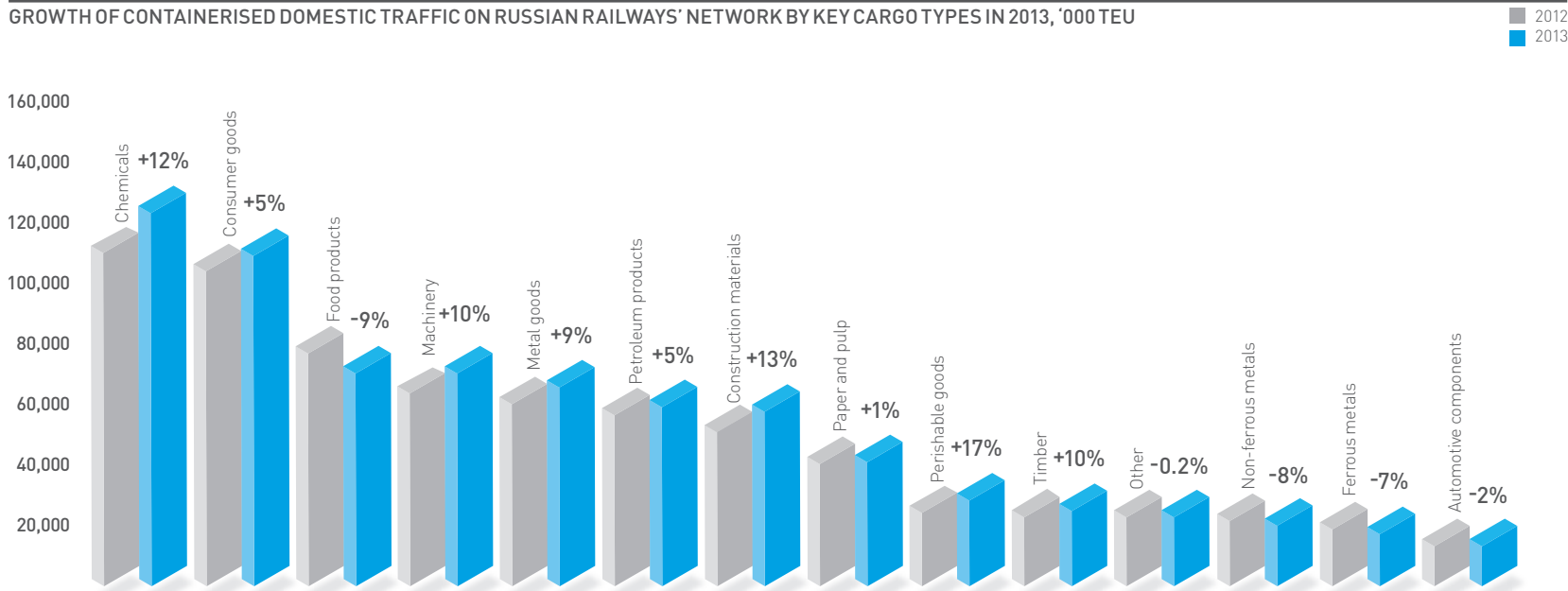
Source: Russian Railways, Company estimates

GROWTH OF CONTAINERISED EXPORT TRAFFIC ON RUSSIAN RAILWAYS’ NETWORK BY KEY CARGO TYPES IN 2013, ‘000 TEU



Source: Russian Railways, Company estimates

GROWTH OF CONTAINERISED DOMESTIC TRAFFIC ON RUSSIAN RAILWAYS’ NETWORK BY KEY CARGO TYPES IN 2013, ‘000 TEU



Source: Russian Railways, Company estimates

STRATEGIC REPORT
RUSSIAN RAILWAY
CONTAINER
TRANSPORTATION
MARKET
(CONTINUED)

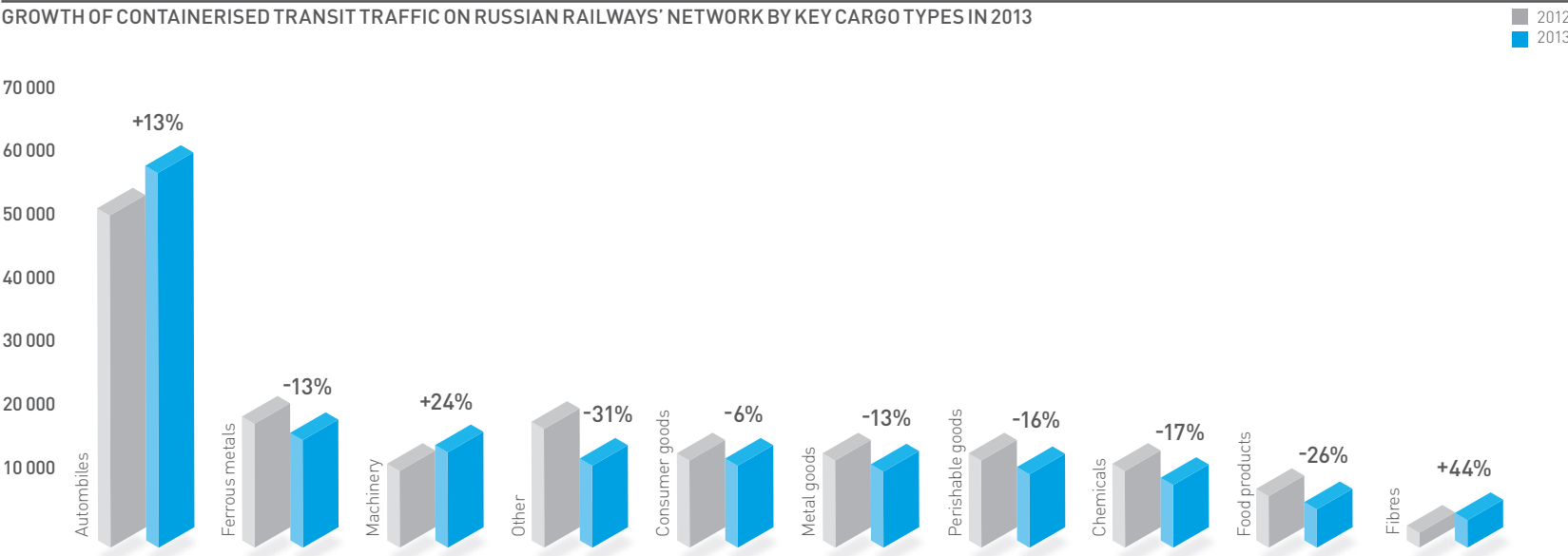
The growth of rail-based containerised transit turnover in 2013 was driven primarily by automotive components (up 13%) and machinery (up 24%).

Geographically, most of the rail container transit flows are between Eastern Europe (including the Baltic states) and Central Asia and between South-East Asia and Central Asia.

OUTLOOK FOR 2014
The deterioration in the macroeconomic environment in 2013 and the resulting downward revision of Russia’s official GDP growth forecasts for 2014–2016 have shaped up the expectations for the short term. In 2014, the Company expects the Russian container market to perform similarly to its 2013 levels, with the potential positive impact coming from the economic recovery in the USA and the EU, boosting external demand for Russian exports. The continued rouble depreciation against the major world currencies may constrain imports concurrently serving as an additional positive factor for export and to a certain extent, domestic transportation flows. Given the volatile nature of the global economic recovery, risks of adverse developments triggered by external factors cannot be ruled out.

Processes of the market evolution and the expected modest growth in demand for container transportation services will foster greater competition among operators.

At the same time, there remain major fundamental factors supporting confidence in the long-term sustainable growth of the Russian container market, such as the growth in gross domestic product, Russia’s more active involvement in international trade, and the continued growth of its containerisation ratio towards the worldwide average.



Source: Russian Railways, Company estimates

STRATEGIC REPORT
OPERATING RESULTS



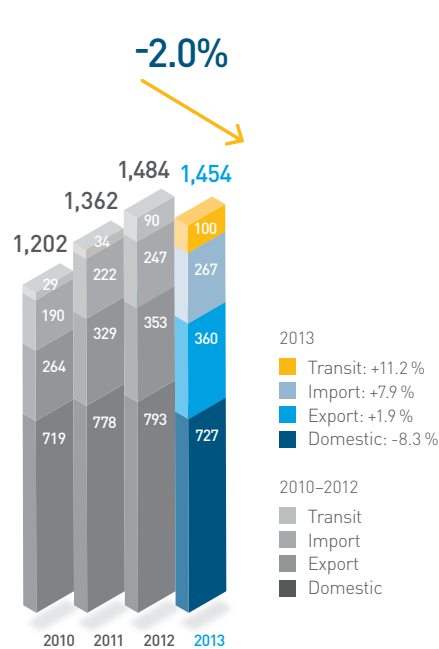
Vladimir Drachev
First Deputy General Director

In this challenging market environment, we focused on optimising operational efficiency, and 2013 saw an all-time low in empty run ratios for both containers and flatcars

RAIL CONTAINER TRANSPORTATION IN RUSSIA
The Company’s services include providing special railcars for container carriage as well as containers for cargo transportation. In 2013, the volume of rail container transportation by the Company’s railcar fleet totalled 1,454 thousand TEU, down 2.0% compared to the 2012 level. A 5.3% increase in international traffic up to 727,000 TEU could not fully offset the reduction in domestic traffic. Domestic rail container transportation dropped by 8.3% to 727 thousand TEU in 2013 on the back of the sharp deceleration of industrial production in Russia and the related spike in domestic competition.

2013 saw a slight reduction of the Company’s share in the international container carriage segment in Russia down from 43.3% to 42.2% despite a 39.5% to 42.7% growth in transit traffic. The 2013 domestic traffic share dropped to 52.9% from 58.8% in 2012. By and large, the Company’s footprint in the Russian market reduced from 50.4% to 47.0%. Nonetheless, the Company maintains and plans to further strengthen its leadership in the Russian rail container transportation market by far outstripping its major competitors.

CONTAINER TRAFFIC TRANSPORTED BY THE COMPANY’S FLEET IN 2010-2013 (LOADED AND EMPTY ISO CONTAINERS, ‘000 TEU)



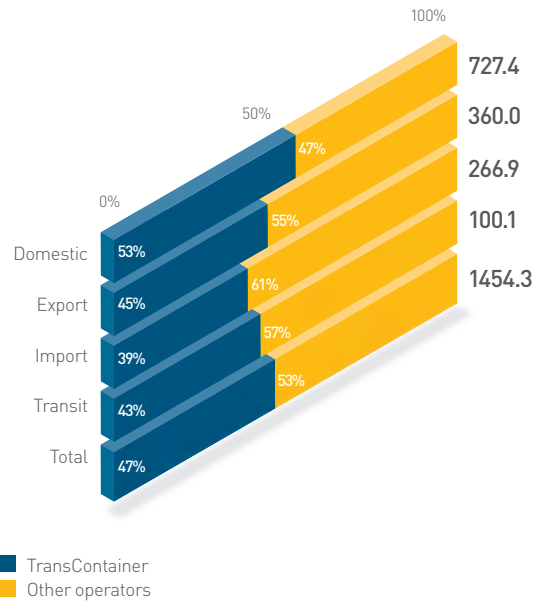
Source: Company data

BREAKDOWN OF CONTAINER TRAFFIC TRANSPORTED BY THE COMPANY’S FLEET IN 2013 BY TRAFFIC TYPE (LOADED AND EMPTY ISO CONTAINERS, TEU-BASED SHARES)



Source: Company data

THE COMPANY’S SHARE OF TOTAL CONTAINER TRAFFIC ON RUSSIAN RAILWAYS’ NETWORK IN 2013 BY TRAFFIC TYPE (LOADED AND EMPTY ISO CONTAINERS, ‘000 TEU)



Source: Russian Railways, Company estimates

STRATEGIC REPORT
OPERATING RESULTS
(CONTINUED)

The Company earns revenue by transporting shipper owned containers (SOC), including empty containers, and carrier owned containers (COC). When transporting empty carrier owned containers, the Company does not earn any revenue to cover the infrastructure and locomotive fees charged by Russian Railways and other railway administrations, leading to net costs for the Company.

The volume of revenue generating shipments transported by the Company's fleet dropped by 0.7% to 1,113 thousand TEU in 2013. At the same time, non-revenue generating empty COC traffic decreased by 6.0% and totalled 342 thousand TEU. Accordingly, the share of revenue generating shipments in the total container traffic transported by the Company's railcar fleet increased from 75.5% in 2012 to 76.5% in 2013.

The reporting year saw a significant (by 56.4%) increase in SOC transportation reaching 246 thousand TEU against 157 thousand TEU year on year driven by an increase in sea container transportation in the Russian market in the context of rapid development of international transportation and sea carriers' efforts towards optimising container logistics.

The main cargo groups transported were chemicals (17.3% of total loaded container traffic), automotive components for assembly plants (13.9%), and paper and pulp (10.1%). The structure of shipments remained largely stable compared to 2012, other than non-ferrous metals transportation, its share going down from 8% in 2012 to 6% in 2013.

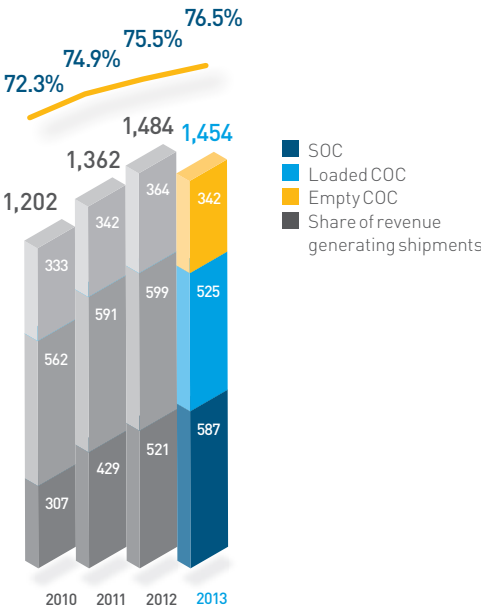
SPECIAL CONTAINER SERVICE

In 2013, the Company continued providing transportation services using thermally-insulated containers ("thermos containers"). These containers are used for transporting juice (above 50%), beer, wine, milk, and other beverages along with food. In 2013, the volume of cargo transported by the Company's flatcar fleet in thermos containers decreased to 9,000 TEU compared to 11,700 TEU in 2012. The volume of special container services amounted to approximately 0.7% of the Company's total loaded COC traffic.

The biggest thermos container customers were Lebedyansky (juice), Sady Pridonya (juice) and Terkon-Logistic (beer, juice). Together, they accounted for 70% of the total thermos container load in 2013.

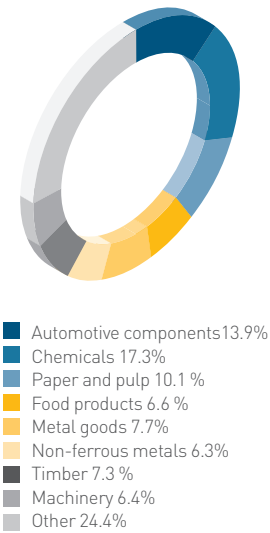
The Company continues to implement technologies that expand the range of containerisable cargo by using bulk containers and tank containers as well as flexitanks and dry liners for bulk commodities.

BREAKDOWN OF CONTAINER TRAFFIC CARRIED BY THE COMPANY'S FLEET IN 2010-2013 BY CONTAINER OWNERSHIP ('000 TEU)



Source: Company data

BREAKDOWN OF LOADED CONTAINER TRAFFIC CARRIED BY THE COMPANY'S FLEET IN 2013 BY CARGO TYPE (TEU-BASED SHARES)



Source: Company data

FLEET OPERATING EFFICIENCY METRICS IN 2012 AND 2013

	2013	2012
Metrics		
Container turnaround, days	27.1	23.1
Flatcar turnaround, days	13.7	13.3
Container empty run ratio ¹	30.5%	35.9%
Flatcar empty run ratio ¹	6.7%	7.5%
Share of shipments in container trains	28.5%	26.9%

Source: Company data

OPERATING EFFICIENCY

Given the challenging market environment and considerably slower revenue generation, the Company focused on optimising its operational efficiency.

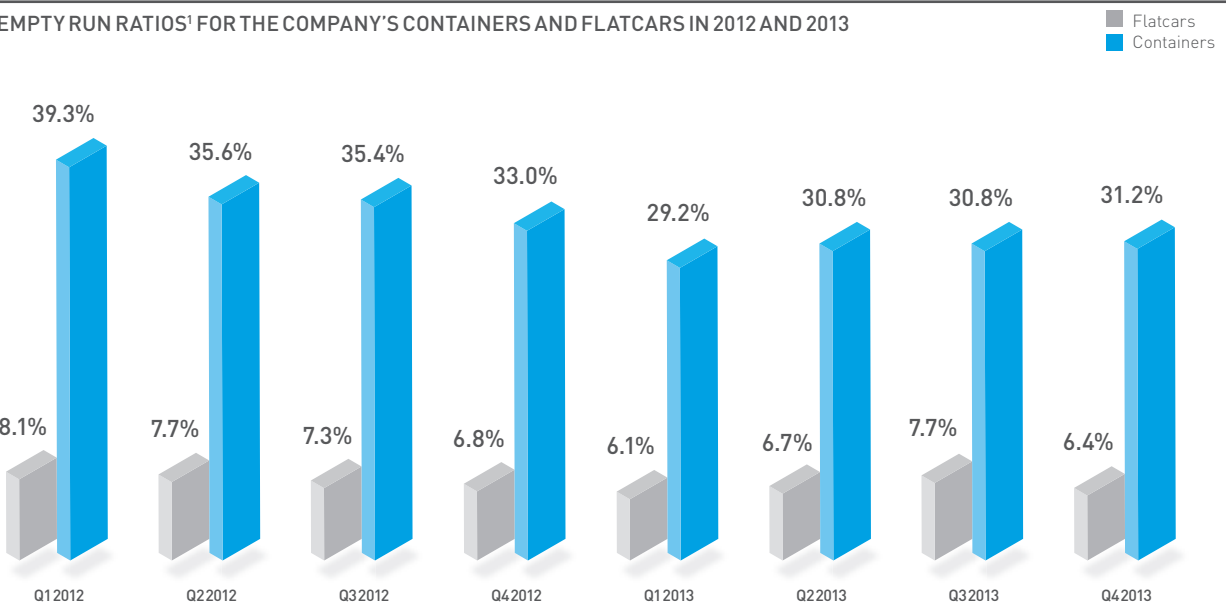
In 2013, the Company managed to considerably reduce empty runs of both containers and flatcars achieving all-time low empty run ratios for both of them.

The empty run ratio for containers went down from 35.9% to 30.5% year on year and the empty run ratio for flatcars from 7.5% to 6.7%, respectively. Lower empty run ratios have become one of the most important drivers for maintaining the Company's margins in the context of reduced revenues from operator services in Russia (see the Financial Results section). The fleet capacity utilisation rate went down from 85.0% to 82.3% in 2013 on the backdrop of a slumping demand for container transportation.

Owing to the Company's efforts in container block train transportation, the percentage of containers transported by block trains increased to 28.5% compared with 26.9% in the previous year. This method of container transportation is 2.5 to 3 times faster than carload shipments in pick-up goods trains. In 2013, the Company's container train traffic volume grew 4.1% to 415 thousand loaded TEU, up from the previous year's 399 thousand loaded TEU.

Nonetheless, the Company's flatcar turnaround in 2013 remained at the same level as in 2012 primarily due to a higher share of container train shipments.

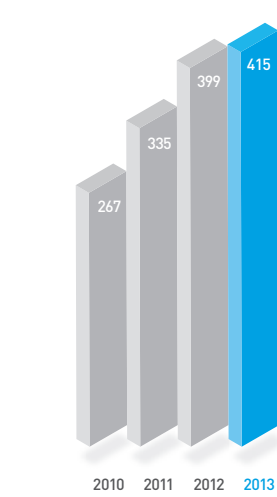
EMPTY RUN RATIOS¹ FOR THE COMPANY'S CONTAINERS AND FLATCARS IN 2012 AND 2013



Source: Company data

¹ Empty run ratio is calculated as average empty run divided by average total distance (km)

GROWTH OF THE COMPANY'S CONTAINER TRAIN TRAFFIC IN 2010-2013



Source: Company data

STRATEGIC REPORT

OPERATING RESULTS

(CONTINUED)

FLEET

FLATCAR FLEET

As of 31 December 2013, the Company had a fleet of 26,305 container flatcars, or about 58.8% of all flatcars owned by Russian companies. During 2013, the Company continued optimising its flatcar fleet structure by increasing the percentage of 80-foot flatcars and retiring aging short-base 40- and 60-foot flatcars. As a result, the number of 80-foot flatcars grew from 5,907 to 7,536 (up 27.6%), while their capacity share in TEU terms increased from 31.5% to 36.7% by year end.

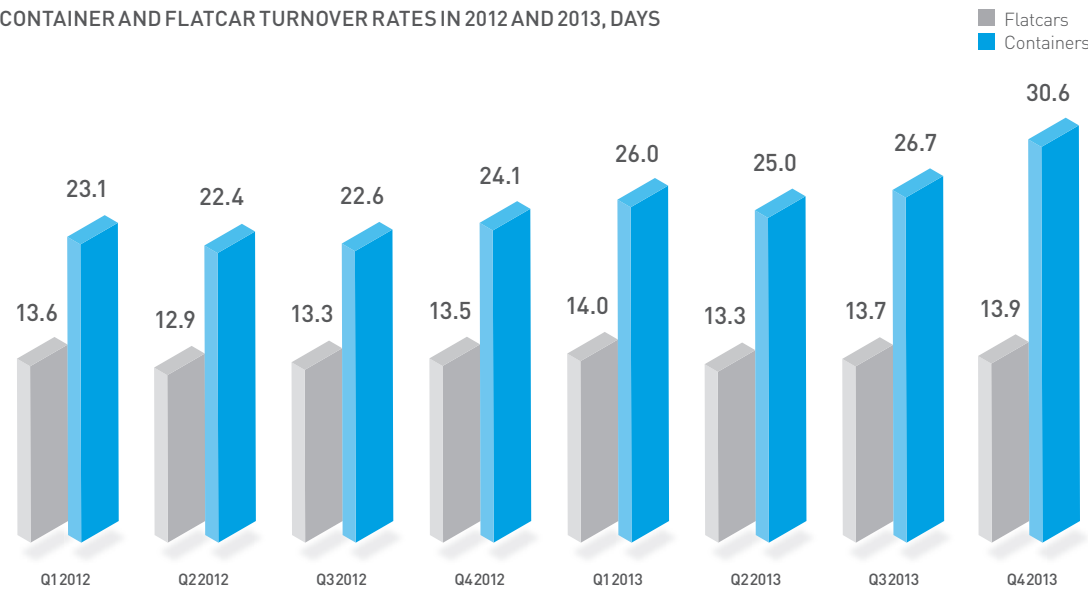
Following the acquisitions and retirements of 2013, the total number of flatcars operated by the Company increased by 4.9%, from 25,086 to 26,305 cars. At the same time, due to the fleet’s improved structure, its capacity increased by 6.7% to 80,053 TEU. The average flatcar fleet age remained almost unchanged during 2013 and was 17.3 years.

CONTAINER FLEET

The Company’s ISO container fleet increased by 1,545 units over the reporting year, reaching 62,367 by year end, comprised of 22,311 40-foot containers and 40,056 20-foot containers. The Company’s specialised container fleet as of 31 December 2013 totalled 2,265 units, including 115 open-top containers, 14 hard-top containers, 70 bulk containers, and 2,063 thermos containers.

As of the end of 2013, TransContainer also owned 7,428 medium-duty (3-tonne and 5-tonne) containers, which were leased out to Russian Railways. The medium-duty containers (MDC) fleet decreased by 11,997 containers during 2013 due to their continued decommissioning.

CONTAINER AND FLATCAR TURNOVER RATES IN 2012 AND 2013, DAYS



Source: Company data

FLATCAR FLEET BREAKDOWN AS OF 31 DECEMBER 2013

Flatcars	Owned	Leased	Total	Capacity, TEU	Average age, years
40 ft	6,398	–	6,398	12,796	11.0
60 ft	12,371	–	12,371	37,113	25.7
80 ft	7,336	200	7,536	30,144	4.0
Total	26,105	200	26,305	80,053	17.3

Source: Company data

RAIL CONTAINER SERVICE IN KAZAKHSTAN AND CENTRAL ASIA

In 2013, the Company’s project of launching an integrated container transportation and logistics operator in Kazakhstan and Central Asia through its joint venture Kedentransservice gained momentum. By year end, Kedentransservice operated a total of 5,141 flatcars, including 500 cars provided by the Company, with the remainder leased from third parties. As compared to the total of 689 flatcars, operated by Kedentransservice in 2012 (including 200 cars provided by the Company), its fleet grew almost 7.5-fold over the reporting period.

Kedentransservice’s container traffic reached 234,000 TEU in 2013 versus 24,100 TEU in 2012. As estimated by the Company, the share of Kedentransservice in the Kazakh container transportation market rose by 4% from 39% in 2012 to 39% in 2013, which positions the Company as a container transportation market leader of the Central Asian region.

In close cooperation with Kazakhstan Temir Zholy, the Kazakh national railway operator, the Company will continue to expand the footprint of its rail container shipments and integrated logistics services in Kazakhstan and Central Asia, relying on its own and third-party rolling stock along with Kedentransservice’s extensive terminal network.

TERMINAL HANDLING

The Company provides a wide range of container handling services at its own rail terminals, including loading and unloading railcars and trucks, container sorting and storage, and others (including pre-loading container treatment, cargo handling, container sealing, etc.).

As of 31 December 2012, the Company owned 46 rail container terminals located in all of the 17 Russian Railways networks. The Company also controls Kedentransservice, the largest private rail terminal operator in Kazakhstan, with 19 terminals in the Kazakh Railways network and one terminal on the Chinese border, at the Dostyk crossing point. Kedentransservice also runs non-container operations at the Altynkol crossing, another point on the Chinese border. In addition, the Company operates a container terminal at the Dobra station in Slovakia under a long-term lease.

TERMINAL BUSINESS IN RUSSIA

All of the Company’s Russian terminals are public areas under the Russian Federal Law On Railway Transport, and the Company provides a range of services (loading containers onto flatcars, unloading containers from flatcars, marshalling in transit, etc.) as an agent of Russian Railways.

The Company’s terminal handling volumes in Russia decreased by 7.6% to 1,319 thousand TEU in 2013. Further examination shows that ISO container handling dropped by 0.9% to 1,293 thousand TEU in 2013 and MDC handling dropped by 78.7% from 124 thousand TEU to 26 thousand TEU due to a gradual decommissioning of MDC fleet from the Russian railway network.

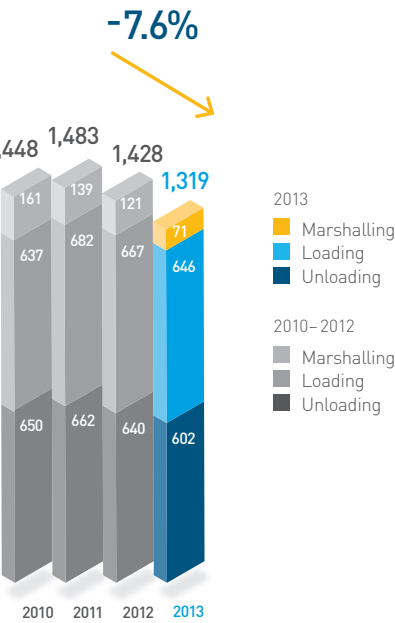
The Company’s terminals accommodate 10 bonded warehouses with a total storage area of 20,600 square metres.

In 2013, the Company completed two major projects to upgrade its terminal network. In September 2013, the Kleschikha container terminal in Novosibirsk was put on stream refurbished after reconstruction started in 2007. The renovated terminal is six times larger and has a new container site boasting up-to-date transport and engineering infrastructure. The capacity of this renovated terminal provides for a simultaneous 6-hour handling of a full-length block train consisting of 71 standard cars (51 60-foot cars). The container storage capacity has increased 2.5-fold to 3,338 TEU. Approximately RUB 700 mln was invested into the project since the start of its reconstruction.

Moscow-based freight terminal Moskva–Tovarnaya–Paveletskaya saw completion of renovation in October 2013 and now offers usable space of over 32,000 sq.m. A new container site was put into operation with a capacity of more than 1,500 TEU for ISO containers to be handled by telescopic reach stacker type loaders. The capacity of the renewed terminal is enough to handle a whole full-length block train. The reconstruction increased the terminal’s handling capacity by more than 1.5 times. RUB 250 mln was invested into the project since the start of its reconstruction.

As of 31 December 2012, there were 238 units of loading equipment at the Company’s terminals versus 240 units at the beginning of 2012. The decrease was primarily due to the decommissioning of cranes and loaders used to handle medium-duty containers.

CONTAINER HANDLING VOLUMES AT THE COMPANY’S RUSSIAN TERMINALS (ISO + MDC) IN 2010-2013, ‘000 TEU



Source: Company data

STRATEGIC REPORT
OPERATING RESULTS
(CONTINUED)

TERMINAL BUSINESS ABROAD

Until 23 December 2013, the Company owned 67% of Kedentransservice, the leading provider of terminal services in Kazakhstan. On 23 December 2013, 17% of the Company’s shares were repurchased by Kazakhstan Temir Zholy, the second shareholder. Following the transaction, as of 31 December 2013, the Company and Kazakhstan Temir Zholy owned 50% of Kedentransservice each, as was stipulated by the shareholders’ agreement concluded in March 2011.

Kedentransservice operates 17 freight terminals across Kazakhstan and railroad decks at the Dostyk and Altynkol crossing points on the Kazakhstan–China border. As of 31 December 2012, Kedentransservice’s asset base included 144 handling machines and 88 trucks.

In 2013, Kedentransservice handled 114,400 TEU at the Dostyk station compared to 82,100 TEU a year earlier (up 39.3%). This increase in container handling at the Dostyk station was mostly due to the lease of an additional railroad deck in the fourth quarter of 2012.

2.7 mln tonnes of non-container cargo was handled by Kedentransservice at the Dostyk and Altynkol crossings compared to 2.3 mln tonnes in 2012, showing an annual growth rate of 14%. This growth was driven by increased transloading of heavyweight cargoes (steel, pipes, equipment, and machinery) and unitised cargo in covered railcars and by growing operations at Altynkol reloading points in 2013.

At terminals other than Dostryk, the volume of Kedentransservice’s container handling operations totalled 72,000 TEU, showing a 16% decrease compared to 86,200 TEU in 2012. The decrease is attributable mostly to MDC decommissioning resulting in a 44% reduction in MDC handling volume.

The volume of cargo handling across Kedentransservice’s terminal network, other than at border crossing points, reached 792 thousand tonnes, up 29% from 2012.

In addition, through its subsidiary TransContainer Slovakia, the Company operates a container terminal located at the Dobra crossing point on the Slovakia–Ukraine border. The Dobra container handling volume amounted to 12,200 TEU in 2013.

CONTAINER TRUCKING SERVICES

The Company’s container trucking services consist mostly of “last mile” transportation from one of the Company’s terminals to the ultimate destination. For this the Company uses its own truck fleet or subcontracts third-party trucking companies. TransContainer enjoys customs-bonded motor carrier status.

In 2013, 545 thousand TEU was transported by the Company’s own truck fleet and third-party vehicles, down 9.6% against 2012. The reduction in container trucking reflects a lower terminal handling volume at our Russian rail terminals.

The share of the Company’s fleet out of the total trucking volume increased slightly to 45.8% in 2013 compared to 4.1% a year earlier, while the share of ISO containers in the traffic breakdown increased from 93% in 2012 to 99% in 2013.

As of 31 December, the Company’s truck fleet totalled 866 units as compared with 859 in the previous year. The decommissioning of 16 equipment units intended for MDC transportation was more than offset by the acquisition of 8 truck tractors and 15 semi-trailers for the transportation of ISO, given the increase of ISO transportation in the overall haulage volume.

LOGISTICS AND FREIGHT FORWARDING SERVICES

The Company provides a wide range of logistics and freight forwarding services, including paperwork, interaction with the carrier, container cargo tracking, customs and border clearance.

Taking advantage of its business model, the Company offers integrated transportation and logistics solutions, including through-rate door-to-door container shipping (integrated logistics service). This service is provided on an “all inclusive” basis with the use of the Company’s own assets (flatcars, containers, terminals and trucks) and subcontractor services (Russian Railways, foreign railway operators, agent companies, shipping lines, etc.).

Integrated logistics enjoys high demand due to the combination of convenience (one-stop shop for the customer), simplicity (single price), and reliability (the Company has its own assets throughout the container delivery chain). The volume of our integrated container logistics amounted to 591 thousand TEU in 2013 versus 493 thousand TEU in the previous year. At the same time, the integrated logistics service brings with it a higher degree of liability and requires more complex solutions than conventional carrier business.

The share of the integrated logistics service in the Company’s total revenue generating shipments increased from 44% in 2012 to 53% in 2013, driven by higher demand, including from small and medium-sized customers.

Major customers that employed our integrated logistics service included Volkswagen, RUSAL, GM Daewoo, Samsung, KIA, Sollers. Many regional clients also increasingly prefer door-to-door deliveries.

CUSTOMER BASE AND SALES ORGANISATION

TransContainer is the only rail container operator in Russia with a presence in all major Russian cities – the Company’s sales network spans the entire country. As of the end of 2013, the Company had 134 sales offices in Russia (including the central sales office in Moscow).

As of 31 December 2013, the Company’s international network included three subsidiaries, four joint ventures, eight representative offices and twenty six agent companies and regional partners, servicing 23 countries, including the CIS as well as Central European and Southeast Asian countries.

In 2013, the Company introduced new scheduled block train services focusing on domestic shipments and launched block train circulation on the following routes:

- Novosibirsk – Vladivostok
- Novosibirsk – Khabarovsk
- Kaliningrad – Moscow
- Saint Petersburg – Yekaterinburg
- Moskva–Tovarnaya–Paveletskaya (Moscow) – Vladivostok
- Panerai (Lithuania) – Kostanay
- Novosibirsk – Nakhodka
- Saint Petersburg – Solikamsk
- Saint Petersburg – Novosibirsk
- Saint Petersburg – Yelabuga and other.

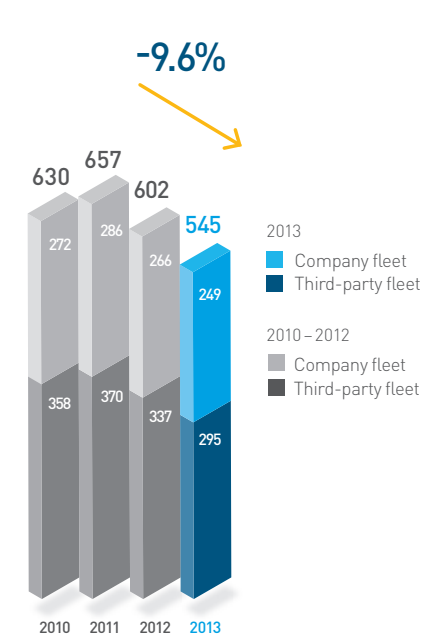
In response to growing client demand for multimodal transportation services, in November 2013 the Company issued a multimodal bill of lading designed in coordination with a British TT Club Mutual Insurance Limited. The bill of lading complies with international laws and spares our customers from making additional shipping contracts with different carriers by offering integrated international transportation services. The Company expects this bill of lading to improve the quality of its international transportation services to customers.

In 2013, the Company also progressed with its **Transsib in Seven Days** project by launching the iSales online service designed to make ordering easier, faster and more convenient for customers. Now customers can place online orders, get quotes, track order status and container location and view order history through their customer account. The service allows payments by bank cards which is especially convenient for small and medium-sized enterprises. The iSales are available for the Moscow – Novosibirsk, Moscow – Irkutsk and Moscow – Khabarovsk routes.

More than 64,000 customers employed the Company’s services in 2013. The top ten clients generated 23.4% of sales revenues in 2013, and the biggest client, UNICO Group, which is our partner for all imports and transit traffic coming from Korea and China (for Samsung, GM, Hyundai, Ssang Young, and other shippers), accounted for 4.9 % of all customer payments.

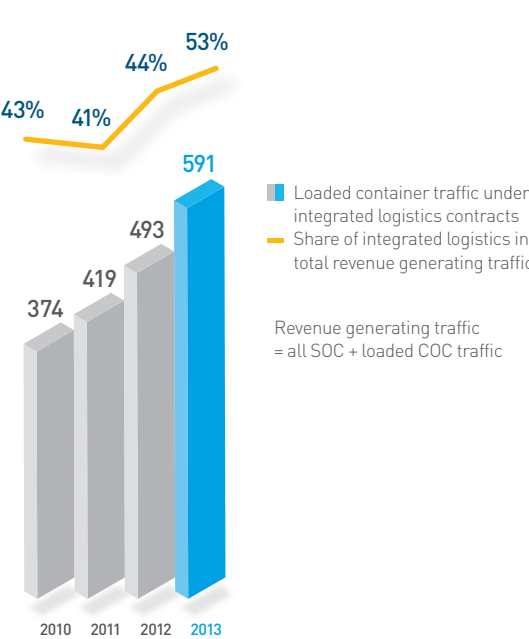
The share of end-customers and consignees in our customer base was 30.1% in 2013 (see the Business Model section).

CONTAINER TRANSPORTATION BY IN-HOUSE AND THIRD-PARTY TRUCK FLEET (ISO CONTAINERS + MDC) IN 2010–2013



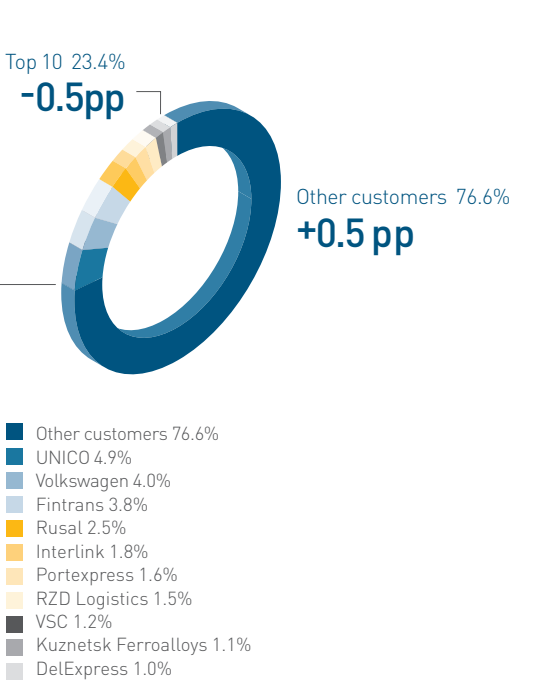
Source: Company data

LOADED CONTAINER TRANSPORTATION UNDER INTEGRATED LOGISTICS CONTRACTS IN 2010–2013



Source: Company data

TOP 10 CUSTOMERS IN 2013 BY SALES REVENUE



Source: Company data

STRATEGIC REPORT
FINANCIAL RESULTS



Anton Lopatin
Deputy General Director, CFO

A weak operational and pricing environment in the Russian railway container transportation market in 2013 was balanced out by the Company’s efforts to improve operational efficiency and cost cuts and the performance of its business in Kazakhstan. As a result, TransContainer managed to deliver record high net profit and net margin in 2013

COMPANY’S KEY FINANCIAL RESULTS FOR 2012-2013, IFRS

RUB mln	2013	2012	Year on Year change	Year on Year change [%]
Revenue	39,164	36,365	2,799	7.7%
Other operating income	747	417	330	79.1%
Operating expenses	(32,859)	(29,359)	(3,500)	11.9%
Interest expense	(782)	(885)	103	(11.6%)
Interest income	223	212	11	5.2%
Foreign exchange gain, net	65	(1)	66	–
Share of result of associates and JVs	2	(19)	21	–
Gain on disposal of controlling interest in subsidiary	757	0	757	–
Gain from disposal of associate	0	72	(72)	–
Gain from early termination of finance lease obligations	32	0	32	–
Profit before income tax	7,349	6,802	547	8.0%
Income tax expense	(1,375)	(1,570)	195	(12.4%)
Profit for the period	5,974	5,232	742	14.2%
Attributable to:				
Equity holders of the parent	5,865	5,183	682	13.2%
Non-controlling interest	109	49	60	2.2x
Other comprehensive income for the period	178	(307)	485	(158.0%)
Remeasurements of post-employment benefit plans	119	(104)	223	–
Remeasurements of investment property	70	0	70	–
Income tax effect	(20)	5	(25)	–
Exchange differences on translating foreign operations	9	(208)	217	–
Total comprehensive income for the period	6,152	4,925	1,227	24.9%
Attributable to:				
Equity holders of the parent	5,995	4,940	1,055	21.4%
Non-controlling interest	157	(15)	172	–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

The table above sets out the Company’s results for the year ended 31 December 2013 and 2012.

The Company’s financial results for the year ended 31 December 2013 reflect primarily the relatively weak operating and pricing environment in the rail container transportation market in Russia, which were however compensated by the Company’s efforts to improve its operational efficiency, cost optimisation and one-off gain on disposal of a 17% stake in KedenTransService.

On the back of the challenging market conditions during 2013, the Company’s total revenue increased by 7.7% year on year to RUB 39,164 mln, while adjusted revenue was down 1.0% year on year to RUB 25,328 mln. EBITDA declined by 3.4% from RUB 10,427 for the year ended 31 December 2012 to RUB 10,074 mln for the year ended 31 December 2013, with profit for the period increasing by 14.2% from RUB 5,232 mln to RUB 5,974 mln respectively.

NON-IFRS FINANCIAL INFORMATION

Adjusted Revenue, Adjusted Operating Expenses, EBITDA, Adjusted EBITDA Margin and Adjusted Net Profit Margin are not recognised under IFRS as measures of financial performance, but are presented as supplemental indicators of the Company’s operating performance. These supplemental measures have limitations as analytical tools, and investors should not consider any of them in isolation, or any combination of them, as a substitute for analysis of our results as reported under IFRS.

REVENUE

The following table sets out the breakdown of total revenue for the year ended 31 December 2013 and 2012 respectively.

Total revenue increased by RUB 2,799 mln, or 7.7%, from RUB 36,365 mln for the year ended 31 December 2012 to RUB 39,164 mln for the year ended 31 December 2013. This was primarily a result of an increase in integrated freight and transportation services, driven by higher transportation volumes under through-rate contracts in Russia and the solid growth of operations in Kazakhstan.

The increase in revenues from the Company’s integrated freight forwarding and logistics services was partially offset by a drop in revenues from Rail-based container shipping services, Other freight forwarding services and Truck deliveries, driven by a weaker pricing environment and by a decrease in the Company’s rail container transportation and terminal handling volumes in Russia.

ADJUSTED REVENUE

The table sets out adjusted revenue calculations for the year ended 31 December 2013 and 2012 respectively.

Adjusted revenue (as defined above) declined by 1.0% from RUB 25,574 mln for the year ended 31 December 2012 to RUB 25,328 mln for the year ended 31 December 2013. This was primarily due to a 0.7% decrease in revenue-generating rail container transportation volumes by the Company’s fleet in Russia and a 7.6% decrease in terminal handling volumes in Russia amid the weak pricing environment in the rail container transportation market. This decrease was partially offset by an increase in container transportation and terminal handling volumes in Kazakhstan.

SUPPLEMENTAL INDICATORS OF COMPANY’S OPERATING PERFORMANCE

RUB mln	2013	2012	Year on Year change	Year on Year change [%]
Adjusted Revenue ¹	25,328	25,574	(246)	(1.0%)
Adjusted operating expenses ²	19,023	18,568	455	2.5%
EBITDA ³	10,074	10,427	(353)	(3.4%)
Adjusted EBITDA margin ⁴	39.8%	40.8%		
Adjusted Net Profit Margin ⁵	23.6%	20.5%		
Total debt	8,438	9,188	(750)	(8.2%)
Net debt ⁶	6,554	6,531	23	0.4%
Net debt/EBITDA	0.65	0.63		

¹ Adjusted Revenue is calculated as total revenue less cost of integrated freight forwarding and logistics services.
² Adjusted Operating Expenses are calculated as operating expenses less cost of integrated freight forwarding and logistics services.
³ EBITDA is defined as profit for the period before income tax, interest expense and depreciation and amortisation.
⁴ Adjusted EBITDA Margin is defined as EBITDA divided by Adjusted Revenue.
⁵ Adjusted Net Profit Margin is defined as profit for the period divided by Adjusted Revenue.
⁶ Net Debt is calculated as long-term debt, finance lease obligations, short-term debt and current portion of long-term debt less cash and cash equivalents and short-term investments.

COMPANY REVENUE IN 2012 AND 2013

RUB mln	2013	2012	Year on Year change	Year on Year change [%]
Integrated freight forwarding and logistics services	24,273	19,307	4,966	25.7%
Rail-based container shipping services	8,154	9,962	(1,808)	(18.1%)
Terminal services and agency fees	4,181	4,031	150	3.7%
Truck deliveries	1,367	1,631	(264)	(16.2%)
Other freight forwarding services	571	824	(253)	(30.7%)
Bonded warehousing services	317	388	(71)	(18.3%)
Other	301	222	79	35.6%
Total revenue	39,164	36,365	2,799	7.7%

ADJUSTED REVENUE IN 2012 AND 2013

RUB mln	2013	2012	Year on Year change	Year on Year change [%]
Total revenue	39,164	36,365	2,799	7.7%
Cost of integrated freight forwarding and logistics services	13,836	10,791	3,045	28.2%
Adjusted Revenue	25,328	25,574	(246)	(1.0%)

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The following table sets out the components of relative contribution to adjusted revenue for the year ended 31 December 2013 and 2012 respectively.

The structure of the Adjusted Revenue changed for the year ended 31 December 2013 compared to the same period of 2012. The share of rail-based container transportation services in the Adjusted Revenue decreased from 39.0% for the year ended 31 December 2012 to 32.2% for the year ended 31 December 2013, while the share of integrated freight forwarding and logistics services, net of cost of integrated freight forwarding and logistics services, increased to 41.2% from 33.3%.

Shares of terminal services and agency fees and bonded warehousing services remained almost flat at the level of ca. 16.5% and 15.8% respectively. Shares of other freight forwarding services, truck deliveries and other revenues changed marginally.

INTEGRATED FREIGHT FORWARDING
AND LOGISTICS SERVICES

Revenue from integrated freight forwarding and logistics services increased by 25.7% year on year to RUB 24,273 mln for the year ended 31 December 2013.

The following table sets out the Adjusted integrated freight forwarding and logistics services calculation for the year ended 31 December 2013 and 2012 respectively.

Adjusted revenue from integrated freight forwarding and logistics services grew by 22.6% year on year to RUB 10,437 mln in the reporting period. This increase reflects transportation volumes under integrated logistics contracts in Russia growing by 19.9% to 591 thousand TEU in the year ended 31 December 2013 from 493 thousand TEU a year earlier, as well as a rapid growth in rail container transportation volumes in Kazakhstan for the respective periods.

ADJUSTED REVENUE STRUCTURE, 2012 AND 2013

	2013 RUB mln	2013 share (%)	2012 RUB mln	2012 share (%)	Year on Year change RUB mln (%)	
Adjusted integrated freight forwarding and logistics services	10,437	41.2%	8,516	33.3%	1,921	22.6%
Rail-based container shipping services	8,154	32.2%	9,962	39.0%	(1,808)	(18.1%)
Terminal services and agency fees	4,181	16.5%	4,031	15.8%	150	3.7%
Truck deliveries	1,367	5.4%	1,631	6.4%	(264)	(16.2%)
Other freight forwarding services	571	2.3%	824	3.2%	(253)	(30.7%)
Bonded warehousing services	317	1.3%	388	1.5%	(71)	(18.3%)
Other	301	1.2%	222	0.9%	79	35.6%
Total adjusted revenue	25,328	100%	25,574	100%	(246)	(1.0%)

ADJUSTED REVENUE FROM INTEGRATED FREIGHT FORWARDING AND LOGISTICS SERVICES, 2012 AND 2013

RUB mln	2013	2012	Year on Year change	Year on Year change (%)
Integrated freight forwarding and logistics services	24,273	19,307	4,966	25.7%
Cost of integrated freight forwarding and logistics services	13,836	10,791	3,045	28.2%
Adjusted revenue from integrated freight forwarding and logistics services	10,437	8,516	1,921	22.6%

COMPANY'S OPERATING EXPENSES IN 2012 AND 2013

RUB mln	2013	2012	Year on Year change	Year on Year change (%)
Cost of integrated freight forwarding and logistics services	13,836	10,791	3,045	28.2%
Payroll and related charges	5,048	5,009	39	0.8%
Freight and transportation services	4,315	4,873	(558)	(11.5%)
Materials, repair and maintenance	2,985	2,806	179	6.4%
Depreciation and amortisation	1,943	2,740	(797)	(29.1%)
Rent	1,869	538	1,331	247.4%
Taxes other than income tax	724	591	133	22.5%
Other operating expenses	2,139	2,011	128	6.4%
Total operating expenses	32,859	29,359	3,500	11.9%

RAIL-BASED CONTAINER
TRANSPORTATION SERVICES

Revenue from rail-based container transportation decreased by 18.1% to RUB 8,154 mln for the year from RUB 9,962 mln in 2012. This was mainly due to a decrease in revenue-generating transportation volumes, other than under integrated logistics contracts, by 16.8% from 627 thousand TEU for the full year 2012 to 522 thousand TEU for the full year 2013, as well as due to a deterioration in the pricing environment and a change in the mix of services in favour of the provision of Company's flatcars for transportation of clients containers.

TERMINAL SERVICES AND AGENCY FEES

Revenue from terminal services, including agency fees, increased by 3.7% to RUB 4,181 mln for the year ended 31 December 2013 from RUB 4,031 mln for the same period of 2012, as a result of opposite dynamics of terminal handling volumes in Russia and Kazakhstan.

Agency fees in Russia, which are charged for services the Company renders as an agent of Russian Railways, decreased by 6.1% to RUB 1,734 mln for the year ended 31 December 2013 compared to RUB 1,846 mln for 2012, as a result of a 7.6% decrease in TransContainer's terminal network throughput in Russia, mainly associated with the continued phasing out of medium-duty containers (MDCs).

Container handling volumes of KedenTransService's rail-side terminals grew by 10.7% to 186 thousand TEU in 2013. This was driven by both organic growth of the business and taking over a new handling yard at the Dostyk station under a long-term lease agreement in the fourth quarter of 2012. Non-container cargo handling by KedenTransService's terminals for the year ended 31 December 2013 increased by 17% year on year to 3.5 mln tonnes.

TRUCK DELIVERIES

Revenue from truck deliveries decreased by RUB 264 mln, or 16.2%, to RUB 1,367 mln for the year ended 31 December 2013 from RUB 1,631 mln for the corresponding period of 2012. This was due to a 9.5% reduction in container transportation volumes by the Company's own and outsourced truck fleet from 602 thousand TEU for the full year of 2012 to 545 thousand TEU for the reporting period, predominantly associated with a decrease in the Company's terminal throughput, as well as due to the tough pricing environment.

OTHER FREIGHT FORWARDING
AND LOGISTICS SERVICES

Revenue from other freight forwarding and logistics services, which are freight forwarding and logistics services of a non-integrated nature, fell by 30.7% from RUB 824 mln for the year ended 31 December 2012 to RUB 571 mln for the year ended 31 December 2013. This decrease was primarily due to a reduction in transportation volumes other than those under integrated logistics contracts and a decline in demand for added-value services amid the weak economic environment.

BONDED WAREHOUSING SERVICES

Revenue from bonded warehousing services decreased by RUB 71 mln, or 18.3%, to RUB 317 mln for the year ended 31 December 2013 from RUB 388 mln for the same period of 2012, as a result of reductions in the contribution from bonded warehousing services in Kazakhstan, partly offset by the growth in revenues from bonded warehousing services in Russia.

OPERATING EXPENSES

The above table sets out a breakdown of the Company's operating expenses for the year ended 31 December 2013 and 2012 respectively.

TransContainer's total operating expenses grew by RUB 3,500 mln, or 11.9%, to RUB 32,859 mln for the year ended 31 December 2013 from RUB 29,359 mln for the year ended 31 December 2012. This was primarily due to an increase in the Cost of integrated freight forwarding and logistics services, Rent, Materials, Repair and maintenance costs and Taxes other than income tax, and Other operating expenses partially offset by a decrease in the costs of freight and transportation services and Depreciation and amortisation.

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The following table sets out a breakdown of the Company's largest operating expenses for the year ended 31 December 2013 and 2012 respectively.

As a percentage of the total revenue, total operating expenses increased from 80.7% for the year ended 31 December 2012 to 83.9% for the year ended 31 December 2013, as a result of an increase in operating expenses exceeding the growth in total revenue. As a percentage of total revenue, costs related to freight and transportation services decreased from 13.4% for the year ended 31 December 2012 to 11.0% for the year ended 31 December 2013; the cost of integrated freight forwarding and logistics services increased from 29.7% for the year ended 31 December 2012 to 35.3% for the year ended 31 December 2013 and the share of costs for materials, repair and maintenance remained flat; share of depreciation and amortisation in total revenue decreased from 7.5% to 5.0%.

COMPANYS LARGEST OPERATING EXPENSES STRUCTURE, 2012 AND 2013 AS A PROPORTION OF OPERATING COSTS AND REVENUES

	2013	2013	2013	2012	2012	2012
	RUB	% of	% of	RUB	% of	%
	mln	operating	total	mln	operating	of total
		expenses	revenue		expenses	revenue
Cost of integrated freight forwarding and logistics services	13,836	42.1%	35.3%	10,791	36.8%	29.7%
Payroll and related charges	5,048	15.4%	12.9%	5,009	17.1%	13.8%
Freight and transportation services	4,315	13.1%	11.0%	4,873	16.6%	13.4%
Materials, repair and maintenance	2,985	9.1%	7.6%	2,806	9.6%	7.7%
Depreciation and amortisation	1,943	5.9%	5.0%	2,740	9.3%	7.5%
Rent	1,869	5.7%	4.8%	538	1.8%	1.5%
Taxes other than income tax	724	2.2%	1.8%	591	2.0%	1.6%
Other expenses	2,139	6.5%	5.5%	2,011	6.8%	5.5%
Total operating expenses	32,859	100%	83.9%	29,359	100%	80.7%

ADJUSTED OPERATING EXPENSES, 2012 AND 2013

			Year on	Year on
RUB mln	2013	2012	Year change	Year change
				(%)
Total operating expenses	32,859	29,359	3,500	11.9%
Cost of integrated freight forwarding and logistics services	13,836	10,791	3,045	28.2%
Adjusted operating expenses	19,023	18,568	455	2.5%

COST OF INTEGRATED FREIGHT FORWARDING AND LOGISTICS SERVICES
Costs of integrated freight forwarding and logistics services increased by 28.2%, to RUB 13,836 mln for the year ended 31 December 2013 from RUB 10,791 mln for the same period of 2012. This was driven predominantly by an increase in transportation volumes under integrated logistics contracts in Russia and Kazakhstan, as well as by an increase in infrastructure tariffs including the tariffs paid to Russian Railways and JSC National Company Kazakhstan Temir Zholy. Charges paid to Russian Railways as a part of Costs of integrated freight forwarding and logistics services increased proportionally from RUB 7,061 mln for the year ended 31 December 2012 to RUB 9,030 mln for the year ended 31 December 2013.

ADJUSTED OPERATING EXPENSES
The following table sets out adjusted operating expenses for the year ended 31 December 2013 and 2012 respectively.

Adjusted operating expenses, as defined below, increased by 2.5% to RUB 19,023 mln for the year ended 31 December 2013 from RUB 18,568 mln for the same period of 2012, primarily due an increase in costs related to Rent, Materials, repair and maintenance, as well as Taxes other than income tax. This increase was to the significant extent offset by a decrease in Freight and transportation costs and Depreciation and amortisation.

The table overleaf sets out a breakdown of the Company's adjusted operating expenses for the year ended 31 December 2013 and 2012 respectively.

Company Overview	Strategic Report	Corporate Governance	Financial Statements	Additional Information		
ADJUSTED OPERATING EXPENSES STRUCTURE, 2012 AND 2013						
	2013	2013	2012	2012	Year on year change	
	RUB mln	% of adjusted operating expenses	RUB mln	% of adjusted operating expenses	RUB mln	(%)
Payroll and related charges	5,048	26.5%	5,009	27.0%	39	0.8%
Freight and transportation services	4,315	22.7%	4,873	26.2%	(558)	(11.5%)
Materials, repair and maintenance	2,985	15.7%	2,806	15.1%	179	6.4%
Depreciation and amortisation	1,943	10.2%	2,740	14.8%	(797)	(29.1%)
Rent	1,869	9.8%	538	2.9%	1 331	347.4%
Taxes other than income tax	724	3.8%	591	3.2%	133	22.5%
Other expenses	2,139	11.2%	2,011	10.8%	128	6.4%
Adjusted operating expenses	19,023	100%	18,568	100%	455	2.5%

PAYROLL AND RELATED CHARGES
Payroll and related charges increased by RUB 39 mln, or 0.8%, to RUB 5,048 mln for the year ended 31 December 2013 from RUB 5,009 mln for the previous year. This increase was mainly a result of a scheduled indexing of base salaries and an increase in average headcount in Kazakhstan from 1,614 to 1,770 employees which was offset by a 4.3% decrease in the average headcount in Russia and a decrease in performance-linked payments to the Company's personnel.

FREIGHT AND TRANSPORTATION SERVICES
Expenses relating to freight and transportation services decreased by RUB 558 mln, or 11.5%, to RUB 4,315 mln for the year ended 31 December 2013. This decrease was mainly due to a number of factors set out below:

- i) a decrease in empty run ratio of containers and flatcars, respectively, from 35.9% and 7.5% for the full year 2012 to 30.5% and 6.7% for the reporting period;
- ii) a 10.0% decrease in rail-based transportation by the Company's own containers from 963 thousand TEU for the year ended 31 December 2012 to 867 thousand TEU for the year ended 31 December 2013.

These factors were partially offset by an increase in infrastructure and locomotive tariffs charged by Russian Railways and Kazakhstan Temir Zholy, as well as by an increase in infrastructure charges paid by KedenTransService reflecting a rise in transportation volumes in Kazakhstan.

MATERIALS, REPAIR AND MAINTENANCE
Expenses related to materials, repair and maintenance grew by 6.4%, to RUB 2,985 mln for the year ended 31 December 2013 from RUB 2,806 mln for the year ended 31 December 2012. This was primarily due to a 5.3% increase in the number of flatcars repaired in Russia and an increase in the average prices of repairs and materials, as well as due to a growth in contribution to repair costs from KedenTransService.

DEPRECIATION AND AMORTISATION
Depreciation and amortisation decreased by RUB 797 mln, or 29.1% to RUB 1,943 mln for the year ended 31 December 2013 from RUB 2,740 mln for previous year, primarily due to the effect of extension of depreciable lives of the Company's fixed assets adopted in 2013. If the previous accounting policy related to depreciable lives had been applied, the depreciation charge for the year ended 31 December 2013 would have been RUB 2,844 mln.

RENT
Rent expenses grew by RUB 1,331 mln, or 3.5 times to RUB 1,869 mln in the reporting period from RUB 538 mln 2012. This was primarily due to growth in expenses related to rent of third parties' rolling stock by JSC KedenTransService, as well as rent of additional handling yards at the Dostyk and Altynkol stations by JSC KedenTransService.

TAXES OTHER THAN INCOME TAX
Taxes other than income tax increased by 22.5% to RUB 724 mln for the year ended 31 December 2013 from RUB 591 mln for the previous year, primarily due to VAT settlements mainly related to international rail transportation and an increase in property tax resulted from acquisitions of fixed assets.

OTHER EXPENSES
Other expenses are an aggregate of various expense items such as security, consulting expenses, fuel and energy, licences and software, communication services, changes in various provisions, charity etc. Other expenses increased by 6.4% to RUB 2,139 mln for the year 2013 from RUB 2,011 mln in 2012. This was primarily due to an increase in expenses for licences and software, as well as changes in provisions for impairment of receivables, which were partly offset by a decrease in expenses related to consulting services, communication costs and other expenses.

GAIN ON DISPOSAL OF CONTROLLING INTEREST IN SUBSIDIARY
On 23 December 2013, the Company sold 17% of Logistic System Management B.V., which owns 100% of shares of JSC KedenTransService, to JSC National Company Kazakhstan Temir Zholy. As a result of this transaction, the Company reflected a gain in the total amount of RUB 757 mln, including a cash consideration for disposal of RUB 665 mln.

INTEREST EXPENSE
Interest expenses decreased by RUB 103 mln, or 11.6%, to RUB 782 mln for the year ended 31 December 2013 from RUB 885 mln for the year ended 31 December 2012, mainly due to a refinancing of maturing RUB-denominated bonds series 1 and loans obtained from OJSC Alfa Bank by newly issued RUB-denominated bonds series 4.

INTEREST INCOME
Interest income grew by RUB 11 mln to RUB 223 mln for the year ended 31 December 2013 from RUB 212 mln for the previous year, due to an increase in average balances in deposit accounts for the reporting period.

PROFIT BEFORE INCOME TAX
Profit before income tax increased by RUB 547 mln, or by 8.0%, to RUB 7,349 mln for the year ended 31 December 2013 from RUB 6,802 mln for the year ended 31 December 2012. This increase was due to the factors discussed above.

INCOME TAX EXPENSES
Income tax expenses decreased by RUB 195 mln, or 12.4%, to RUB 1,375 mln for the year ended 31 December 2013 from RUB 1,570 mln for the same period of 2012. This decrease was primarily due to a positive tax effect in the amount of RUB 155 mln related to the gain on disposal of a 17% stake in JSC KedenTransService, as well as due to income tax adjustments for prior periods in the amount of RUB 50 mln. For the same reason the effective tax rate in the reporting period decreased to 18.7% in 2013 compared to 23.1% in 2012.

STRATEGIC REPORT

FINANCIAL RESULTS

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PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD

As a result of the factors discussed above, the profit for the year ended 31 December 2013 increased by RUB 742 mln, or 14.2% to RUB 5,974 mln compared with RUB 5,232 mln for the previous year. Taking into account the exchange differences in translating foreign operations and re-measurements of post-employment benefit plans, the total comprehensive income for the reporting period totalled RUB 6,152 mln, compared to RUB 4,925 mln for the year 2012, up 24.9%.

LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2013, the Company's net cash and cash equivalents amounted to RUB 1,883 mln and its current assets exceeded current liabilities by RUB 1,135 mln.

The Company's business is asset and capital-intensive and requires substantial capital expenditure for, amongst other things, the purchase of flatcars and containers, the development of rail-side terminals and investment in the expansion and modernisation of other fixed assets. During the reporting period the Company's operations and its capital expenditures were financed primarily from internally generated cash flows.

CASH FLOWS

The following table sets out the principal components of the Company's consolidated cash flows for the year ended 31 December 2013 and 2012 respectively.

CASH FLOW GENERATED BY OPERATING ACTIVITIES

Cash flow generated by operating activities decreased by RUB 17 mln, or only 0.2%, to RUB 7,225 mln for the year ended 31 December 2013 from RUB 7,242 mln for the same period of 2012. This was primarily due to a decrease in operating profit before working capital changes, income tax paid and changes in other assets and liabilities by RUB 1,054 mln, or 10.3%, from RUB 10,268 mln for the year ended 31 December 2012 to RUB 9,214 mln for the year ended 31 December 2013. This decline was almost entirely offset by working capital changes: a decrease in inventory and prepayments and other assets accompanied by an increase in payables.

CASH FLOW USED IN INVESTING ACTIVITIES

Cash flow used in investing activities decreased by RUB 1,286 mln, or 21.2%, to RUB 4,775 mln for the year ended 31 December 2013 from RUB 6,061 mln for the same period of 2012. This was primarily due to a net result of short term investments, represented by bank deposits, in the amount of RUB 1,249 mln partially offset by an increase in capital expenditures by RUB 941 mln, or 16.5%, from RUB 5,691 mln in 2012 to RUB 6,632 mln in 2013.

CASH FLOW GENERATED BY FINANCING ACTIVITIES

Cash outflow generated by financing activities decreased by RUB 93 mln for the year ended 31 December 2013 to RUB 1,974 mln from RUB 2,067 mln for the same period of 2012, primarily due to proceeds from the issuance of the RUB-denominated bonds series 4 remaining after redemption of the RUB-denominated bonds series 1 and bank loans.

CAPITAL EXPENDITURE

Capital expenditure increased by RUB 941 mln, or 16.5%, to RUB 6,632 mln for the year of 2013 from RUB 5,691 mln for the year 2012, mainly due to an increase in acquisition of 80-foot flatcars from 813 units in 2012 to 1,500 units in 2013 and an increase in acquisition of ISO containers. This increase was partially offset by a decrease in prices for rolling stock, a decrease in acquisition of 40 foot flatcars from 1,575 units in 2012 to 500 units in 2013 as well as by an optimisation of construction works at terminals.

PLANNED CAPITAL EXPENDITURE FOR 2014

The Company's capital expenditure programme is aimed at maintaining TransContainer's position as a market leader in the Russian container sector, improving its position in the foreign market, as well as optimising its asset structure and key operational metrics.

The total capital expenditure for 2014 is budgeted at RUB 5.3 billion (excluding VAT), out of which up to RUB 2.9 billion to be spent on the acquisition of new flatcars; up to RUB 1.0 billion on the upgrade and modernisation of the Company's key rail-side terminals; up to RUB .0.5 billion on the acquisition of containers and up to RUB 1.0 billion on other capital expenditure items such as lifting equipment, IT and other equipment. The actual Company's investment programme is dependent on the market environment and its financial conditions.

The Company plans to continue pursuing the prudent financing policy and to finance capital expenditures predominantly by internally generated cash, while new debt is to be attracted on the opportunistic basis.

CAPITAL RESOURCES

The Company's operations and capital expenditures have historically been financed from internally generated cash flow and proceeds from issuing domestic debt. As of 31 December 2013, the Company's financial indebtedness consisted of two outstanding bond issues, financial lease obligations and other borrowings in an aggregate amount of RUB 8,438 mln compared to RUB 9,188 mln as of 31 December 2012. As of 31 December 2013, the Company's net debt was RUB 6,554 mln.

As of 31 December 2013, the major portion of the Company's financial indebtedness was unsecured, except for the obligations under finance leases, which were secured by the lessors' title to the leased assets. The Company's debt is denominated in Russian roubles and fixed-rated.

RUB-DENOMINATED BONDS SERIES 1

On 4 March 2008, the Company issued non-convertible five-year bonds for a total amount of RUB 3,000 mln at a par value of RUB 1,000 each. The coupon rate set for 2011 and 2012 was 9.5% per annum. These bonds were redeemed in February 2013 and for reporting purposes were classified as a short-term debt in the consolidated statement of financial position as at 31 December 2012.

RUB-DENOMINATED BONDS SERIES 2

On 10 June 2010, the Company issued non-convertible five-year amortising bonds for a total amount of RUB 3,000 mln at a par value of RUB 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUB 2,975 mln. The annual coupon on the bonds for five years is 8.8% with interest paid semi-annually. The series 2 bonds will be redeemed in four equal semi-annual instalments during the fourth and fifth year. As a result, these bonds are classified as long-term borrowings as at the reporting date. As at 31 December 2013, the carrying value of the bonds amounted to RUB 2,236 mln (RUB 2,982 mln as at 31 December 2012).

As at 31 December 2013, the short-term portion of long-term bonds equals RUB 1,500 mln (RUB 750 mln as at 31 December 2012) and this amount has been included as short-term debt in the consolidated statement of financial position. The amount of accrued interest is RUB 18 mln (RUB 22 mln as at 31 December 2012), and has been included as short-term debt in the consolidated statement of financial position.

KEY COMPONENTS OF THE COMPANY'S WORKING CAPITAL, 2012 AND 2013

	31 December 2013	31 December 2012
Current assets		
Inventory	358	334
Trade and other receivables	1,621	1,262
Prepayments and other current assets	3,435	4,434
Prepaid income tax	114	132
Short-term investments	1	1,339
Cash and cash equivalents	1,883	1,318
Total current assets	7,412	8,819
Current liabilities		
Trade and other payables	3,216	3,773
Short-term debt	1,693	5,695
Income tax payable	77	167
Taxes other than income tax payable	372	367
Provisions	19	10
Finance lease obligations current maturities	66	94
Accrued and other current liabilities	834	789
Total current liabilities	6,277	10,895
Working capital	1,135	(2,076)

RUB-DENOMINATED BONDS SERIES 4

On 1 February 2013, the Company issued non-convertible five-year bonds for a total amount of RUB 5,000 mln at a par value of RUB 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUB 4,988 mln. The annual coupon rate of the bonds for five years is 8.35% with interest paid semi-annually.

The series 4 bonds will be redeemed in four equal semi-annual instalments within the fourth and fifth years. As a result, these bonds are classified as long-term borrowings as at the reporting date. As at 31 December 2013 the carrying value of the bonds amounted to RUB 4,988 mln. The amount of accrued interest is RUB 175 mln and has been included as short-term debt in the consolidated statement of financial position.

BANK LOANS AND OTHER BORROWINGS

On 18 March 2011 and 17 June 2011, the Company obtained loans from OSJC Alfa Bank for the total principal amount of RUB 1,822 mln at interest rates varying from 9.5% to 9.75% per annum. These loans were drawn down to finance the acquisition of JSC KedenTransService. These loans were pre-paid in full in February 2013.

On 23 May 2011, the Company borrowed funds from LLC TrustUnion AM for the principal amount of RUB 514 mln at an interest rate of 9.5% per annum with a five year maturity to finance the acquisition of the Company's ordinary shares for a share option plan for the Company's management. The outstanding debt as of 31 December 2013 was RUB 470 mln.

WORKING CAPITAL

The Company's working capital is defined as the difference between its current assets and current liabilities. The table below sets out the key components of TransContainer's working capital for the year ended 31 December 2013.

Working capital increased by RUB 3,211 mln from negative RUB 2,076 mln as at 31 December 2012 to positive RUB 1,135 mln as at 31 December 2013. This increase was primarily due to a decline in short-term debt by RUB 4,002 mln.

STRATEGIC REPORT
RISK MANAGEMENT



Margarita Fedoseyeva
Finance Director

Risk management is one of the key components of our corporate governance system; its development and improvement is a prerequisite for achieving TransContainer’s strategic and operational goals

OUR RISK MANAGEMENT APPROACH

Since 2010, we have worked tirelessly to adopt a world-class corporate risk management system that will ensure the stability of our operations.

For TransContainer, a robust risk management system is an essential aspect of a corporate governance system, geared towards the timely identification, assessment, prevention and monitoring of risks that may affect the value, operational results and reputation of the Company. The development and refinement of the corporate risk management system is a prerequisite for achieving the strategic and operational goals of the Company.

The Company believes that an effective risk management system, applied on an integrated basis and consistently used, offers a reasonable degree of confidence in:

- achieving strategic and operational goals, factoring in the risks and risk degree that the Company is ready to assume in order to achieve its operational targets (risk appetite) by managing multiple risks as a whole;
- adequate risk-taking in line with the Company’s scope of operations;
- compliance with laws and regulations, as well as corporate governance requirements and standards;

- timely responses to changes in the external environment;
- an enhanced decision-making process, transparency of operations, and maintaining optimum control over the environment;
- finely-tuned costs control and improved operational performance;
- early identification of, and capitalisation on, new opportunities.

In December 2013, the Board of Directors approved the Company’s updated Risk Management Policy and Framework, designed in line with the widely-accepted risk management standards (COSO ERM, 2004 and ISO 31000:2009), the recommendations of Ernst & Young (CIS) B.V. as the Company’s external advisor, and the risk management experience gained by the Company between 2010 and 2013.

RISK MANAGEMENT PROCESS



Risk identification is carried out on an annual basis, the results being used to develop the risks map for the following year.



Risks are assessed in terms of probability, severity and potential impact on the Company’s performance and its strategic targets set by the development strategy. Risks are ranked by severity based on their assessed probability and potential damage.



Risk owners develop a preventative action plan for each risk included in the risk register (summarised risk list).



Risk management measures are monitored for efficiency and timeliness by each individual risk on a quarterly basis.

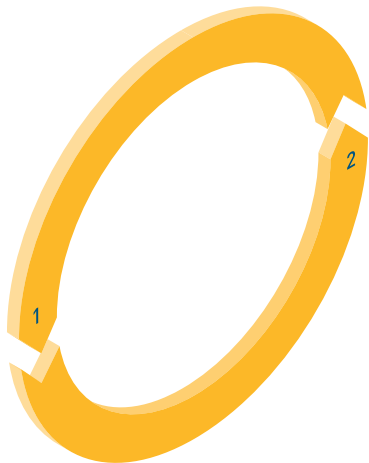
The current Risk Management Framework is grounded on the following key principles:

KEY PRINCIPLES OF RISK MANAGEMENT

PRINCIPLE	DESCRIPTION	HOW THE RISK MANAGEMENT WORKS
Consistency	The risk management framework is to be implemented at all levels of the Company.	The risk management system involves the Board of Directors, the BoD’s Audit Committee, CEO, Deputy CEOs, and the Risk Committee composed of the Company’s top managers. The risk prevention plan is mandatory for all employees of the Company.
Continuity	The continuity principle implies that the measures required to identify, assess, prevent and monitor risks are to be carried out on a regular and continuous basis.	<p>The Company updates its risk map annually to factor in the changes in the external environment.</p> <p>The Board of Directors, BoD’s Audit Committee and Risk Committee review the reports on implemented risk management initiatives and materialised risks (within the scope of their reference) at least once a quarter.</p> <p>The Company’s employees continuously monitor risks and report materialised risks to the risk management function. These are analysed on a case-by-case basis to identify causes of losses and take measures to prevent such risks in the future (loss recording).</p>
Integrity	A set of measures implemented to manage risks, which may have an impact on the Company’s value and reputation, address all the risks inherent in the Company’s operations and business processes.	All identified risks are consolidated annually in the uniform risk register (summarised risk list), with contribution from all business units.
Balance	The Company’s risk management system aims to achieve a reasonable balance between the risk management costs and the potential damage brought about by materialised risks.	As part of building the risk map, each risk is assessed by severity based on its probability and potential damage.
Distribution of authority	The Company’s decision-making rests on distributing risk management responsibilities across various management levels.	<p>Depending on the risk severity, response measures, and the preventive action plan, risk-related decisions are contemplated and adopted at the following levels of the Company (subject to the decision threshold):</p> <ul style="list-style-type: none">– line management (heads of business units and branches, business process owners);– the Risk Committee;– the BoD’s Audit Committee;– the Board of Directors.
Integration between risk management and internal controls	The Company’s risk management processes are supervised (monitored) on a comprehensive scale and a multi-level basis, involving all parties in charge of internal control, within their terms of reference.	<p>The efficiency of measures taken with respect to particular risks is evaluated by the Company’s Risk Committee together with the Internal Audit Service as well as the Board of Director’s Audit Committee.</p> <p>The Service is in charge of risk-based internal audit planning and assessing the adequacy and efficiency of risk management.</p>

STRATEGIC REPORT
RISK MANAGEMENT
(CONTINUED)

INTERACTION BETWEEN RISK MANAGEMENT
AND RISK-BASED INTERNAL AUDIT



1 RISK MANAGEMENT

Providing information on the material risks for the Internal Audit to draft the audit plan.

2 RISK-BASED INTERNAL AUDIT

Evaluating the efficiency of risk management and internal controls and issuing recommendations on approving the same (within their terms of reference).

– The Internal Audit Service uses the Corporate Risk Map in its operations.

– Audits reveal new risks and provide information about realised risks.

– The efficiency of measures taken with respect to particular risks is assessed by the Company’s Risk Committee together with the Internal Audit Service.

– The Company runs risk management processes at all levels, including the Board of Directors, the BoD’s Audit Committee, CEO, the CEO’s Risk Committee and the Director for Finance as an owner of the risk management process directly involved in managing company operations in this field.

THE RISK MANAGEMENT ROLE AND FUNCTIONS OF THE COMPANY’S MANAGEMENT BODIES

Board of Directors	<p>The Board of Directors is the supreme management body of the Company</p> <p>Reviews critical risks and determines steps to be taken to manage these risks</p> <p>Defines the goals, objectives, and principles underlying the risk management system</p> <p>Reviews and approves risk reports (the Corporate Risk Map, risk monitoring and management reports)</p>
Board of Director’s Audit Committee	<p>Exercises overall control of the risk management process, evaluates risk management efficiency, and issues recommendations on improving the same</p> <p>Reviews critical and acceptable risks and determines steps to be taken to manage acceptable risks</p> <p>Reviews the draft Corporate Risk Map and advises the Board of Directors on approving the same</p>
CEO	<p>Responsible for the efficiency of the Company’s risk management system</p> <p>Distributes risk management rights and responsibilities and, <i>inter alia</i>, appoints risk owners from the Company’s business unit managers</p> <p>Approves the Company’s internal risk management regulations other than those which are reserved for the Board’s approval</p>
Risk Committee	<p>Composed of the Company’s top managers</p> <p>Drafts risk management regulations</p> <p>Reviews and analyses risks in order to build the Corporate Risk Map</p> <p>Ranks the risks based on the Company’s risk severity criteria and approves the final draft of the Corporate Risk Map</p> <p>Approves a summarised preventive action plan for risks ranked as “insignificant”</p> <p>Decides on submitting the Corporate Risk Map and the summarised preventive action plan for critical and acceptable risks for further review by the Board of Director’s Audit Committee</p> <p>Ensures communication with the Company’s business units on risk management matters</p>
Director for Finance	<p>Director for Finance is the owner of the Risk Management process</p> <p>Ensures coordination of the Company’s risk management processes, which includes:</p> <ul style="list-style-type: none">– maintaining the process of interaction between different business units– coordinating the process of interaction between the Company’s Head Office, branches, and subsidiaries
Risk management function	<p>Provides methodological support to the risk management process</p> <p>Advises the Company’s executives on risk management matters</p> <p>Issues analytical reports on the Company’s risks and risk management measures</p> <p>Issues/consolidates risk reports</p>

When choosing its risk management strategy, the Company takes its lead from a risk management cost-benefit analysis. In line with standard practices, the following risk management strategies were used by the Company in 2013:

RISK MANAGEMENT STRATEGIES, 2013		
STRATEGY	DESCRIPTION	EXAMPLE
Risk avoidance	Risk avoidance implies avoidance of decisions that involve high risks	The Company implements a FX risk avoidance policy by avoiding borrowing in foreign currencies, given its predominantly rouble-denominated operating cash flow
Risk control and prevention	Risk control and prevention imply that the risk is being actively managed by the Company	The Company controls and seeks to prevent the risk of a negative environmental impact by using state-of-the-art equipment with a lower environmental impact and by complying with environmental laws
Risk-taking	Risks are taken when they are at a level acceptable for the Company and where implementation of risk treatment measures is not possible or cost efficient	The Company assumes the risk of economic downturn because it cannot influence the macroeconomic environment
Risk transfer	Risks are transferred when it is not possible and/or cost efficient for the Company to treat the risk, while the risk exceeds the acceptable level	The Company insures motor vehicles and weight- lifting equipment against destruction, loss or damage resulting from insurance events

KEY RESULTS FROM 2013 AND PLANS FOR 2014

As a result of its risk management activities in 2013, the Company achieved the following:

- primary risk management regulations (TransContainer’s Risk Management Policy and Framework) updated and discussed at the Audit Committee and approved by the Board of Directors;
- Risk Committee, a collective risk management body of TransContainer, set up and commenced operations;
- implementation of primary risk management processes underway at TransContainer subsidiaries;
- the efficiency of measures taken with respect to particular risks evaluated in conjunction with the Internal Audit Service;
- key risk indicators developed for selected risk groups.

Out of the main risk management objectives for 2014, the Company distinguishes the following:

- updating TransContainer’s Risk Management Regulations;
- launching automated quarterly monitoring of identified risks;
- designing a new status report for the identified risks, to be issued as part of the identified risk monitoring programme and factoring in key risk indicators.

KEY RISKS

The Company’s operations are exposed to risks that may have a significant impact on the operational and strategic performance of the Company and its reputation. Certain external risks (natural disasters, terrorism, political instability, etc.) are out of the Company’s control.

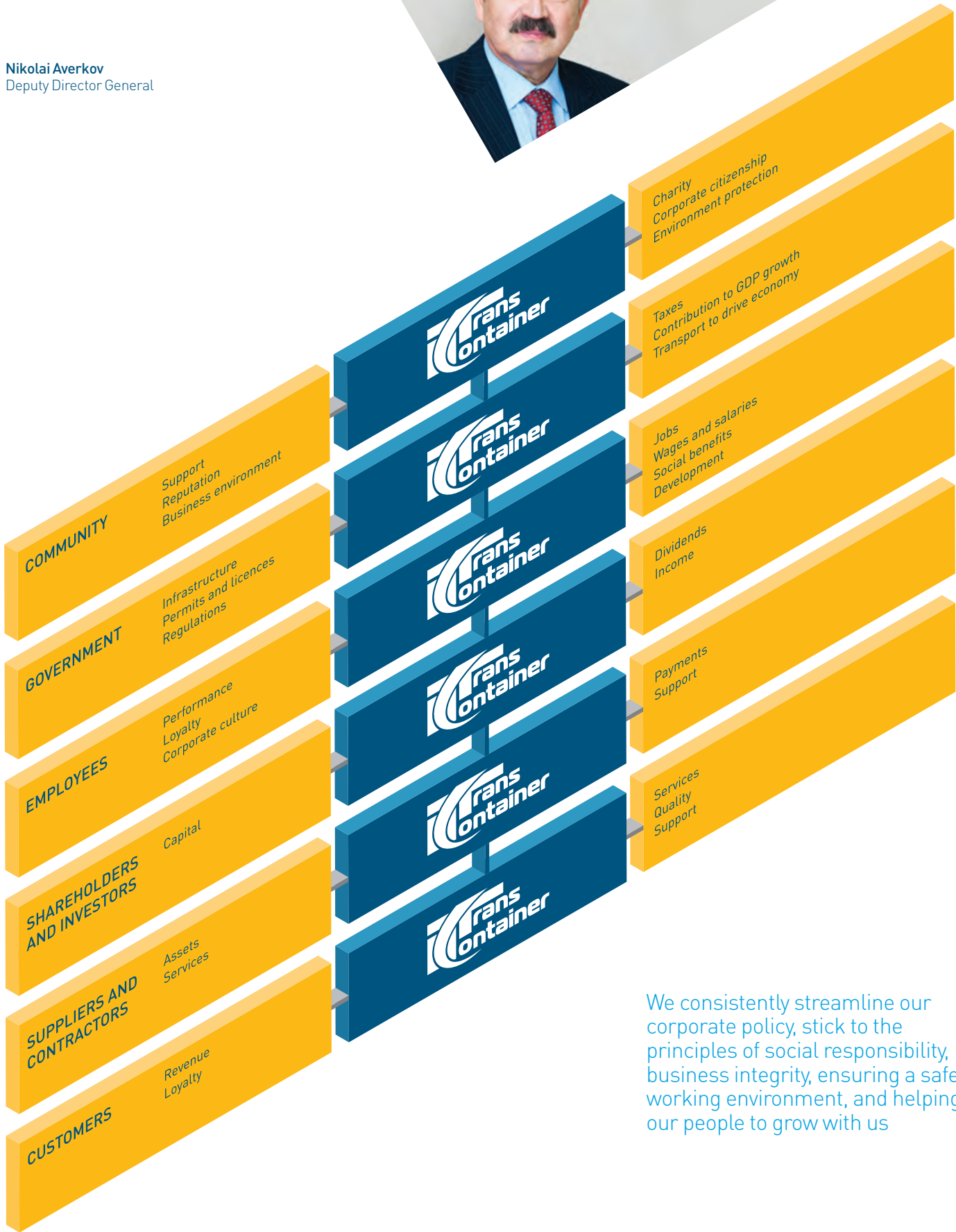
This Annual Report does not contain an exhaustive description of all risks that may have impact on the Company. Please see the examples below of some risks that may potentially have a significant impact on the Company’s operations.

STRATEGIC REPORT
RISK MANAGEMENT
(CONTINUED)

RISK	DESCRIPTION	SEVERITY LEVEL	RISK TREATMENT STRATEGY
Deterioration in market conditions	External factors, such as in the reducing consumer demand, slower GPD growth, and the economic downturn, have an adverse impact on the Company's operations and may result in reduced traffic volumes and lower prices for the Company's services, affecting, in their turn, the Company's profit and financial performance at large.	Critical	The Company continuously monitors and analyses the market environment, factoring in the changes affecting its operations.
Insufficient rail infrastructure capacity	In view of the Company's dependency on Russian Railways in terms of infrastructure, its insufficient capacity may bring about such negative implications as reduced traffic volumes and delayed cargo deliveries, affecting the Company's operational results in the first place.	Acceptable	The Company is on the constant lookout for new logistic arrangements, with a special focus on transportation planning.
Inefficient organisation of transportation (including an increase in empty runs)	A number of factors, such as obsolete flatcars, railcars' excess idle time, insufficient consideration of transportation factors and conditions, have serious implications for the Company and may negatively affect its financial performance and reputation.	Critical	The Company constantly monitors other operators' traffic volumes and fleet utilisation to offer competitive rates for the use of its equipment and ensure an efficient railcar and container traffic management process.
Occupational injuries	Safety is one of the Company's primary concerns. Violation of health and safety rules and regulations may result in injuries to employees and entail liability of the Company and its officers.	Critical	Compliance with the health and safety legislation is mandatory Company-wide. The Company arranges regular trainings and certification for its employees, while also running a three-level health and safety monitoring process in line with TransContainer's Regulation on Establishing Occupational Health and Safety Control Processes.
IT and infrastructure malfunctions	IT systems ensure that the Company's operations run smoothly and without interruptions. System malfunctions and failure to access internal resources may cause considerable damage to the Company's operations and have an adverse impact on its financial standing and reputation.	Acceptable	The Company carries out continuous IT systems monitoring and their timely upgrading, alongside with ensuring data backup and proper redundancy for its IT systems.
Interest rate risk	Increase in the cost of debt in the Company's portfolio, inability to borrow at the planned rates.	Acceptable	The Company borrows funds at fixed rates. It also performs a continuous market analysis and takes steps to ensure a diversified lender and investor base.
Insufficient funds to make due payments	Unforeseeable increase in costs, lack of financial reserves, delayed revenues and lack of access to funding are the triggers for this risk.	Insignificant	Preventive measures to avoid these risk triggers include continuous credit risk monitoring, providing services on a mostly prepaid basis, with deferred payment services provided only in strict compliance with the Company's approved internal regulations.
Adoption of regulations that negatively affect the Company's operations as well as delayed adoption of planned regulations or amendments to the existing regulations	In the absence of effective interaction with public authorities and in case of inadequate analysis of legislative changes the Company faces a high-degree probability of its operating and financial performance deteriorating and some of its operations being discontinued.	Acceptable	The Company works closely with public authorities to protect its interests with regard to draft regulations. TransContainer also participates in working groups, expert councils and other advisory bodies set up by governmental authorities and non-governmental organisations to monitor and participate in the process of legislative changes and state regulation of the transport industry.

STRATEGIC REPORT
SOCIAL REPORT

Nikolai Averkov
Deputy Director General



We consistently streamline our corporate policy, stick to the principles of social responsibility, business integrity, ensuring a safe working environment, and helping our people to grow with us

We seek to maintain a sustainable balance between the Company’s economic interests and the commitments which corporate responsibility entails in the areas of social welfare and protection of the environment.

OUR KEY VALUES ARE:

- fostering the confidence invested in us by our clients and partners;
- respecting the individual rights of each employee;
- facilitating the professional development of each company employee.

HR AND SOCIAL POLICY
EMPLOYEES: PERSONNEL
RELATIONS FRAMEWORK

The HR policy is part of the corporate management system geared towards implementing the Company’s strategy based on the following principles:

- highly skilled personnel is a key asset of the Company driving its success and competitive performance;
- recruitment and retention of talent and its efficient allocation based on qualifications and skills;
- environment for professional development and growth of prosperity.

The HR policy is designed to ensure personnel loyalty, retain the best people, reduce employee turnover, build stable teams and develop unified corporate culture.

Personnel relations are underpinned by respect, recognition of employees’ drive for high performance, rewards for employee contribution to overall development and success of the Company, and social benefits encouraging more efficient and productive performance.

RECRUITMENT

To cover the need for skilled personnel, the Company recruited a total of 499 employees in 2013, including 267 (53.5%) aged under 30, with 274 (55%) of them holding a college degree. As of 31 December 2013, the Company’s headcount stood at 4,623 employees.

CHANGES IN HEADCOUNT OVER THE LAST THREE YEARS				
	As of 31 December 2011	As of 31 December 2012	As of 31 December 2013	
Headcount	5,194	5,048	4,623	
Annual change, %	-3.3%	-2.8%	-9.6%	

The headcount optimisation efforts taken by the Company in 2013 let it close two of its repair branches. The optimisation was mainly focused on reducing the staff size to fit the workload by natural attrition. During the year, 936 employees left the Company, including 642 leaving for personal reasons, 189 retiring and 179 made redundant.

In 2013, the Company continued a large-scale employee appraisal programme implemented in accordance with its Employee Assessment Policy.

The appraisal became a powerful incentive for the employees to expand their knowledge and perform better and demonstrated that most employees were highly skilled. 22.9% of our staff were given the highest rating as “qualified for the current position with potential for professional growth”. Following the appraisal, a candidate pool was built to fill executive and key specialist positions in accordance with the Candidate Pool Regulations. 85% of employees promoted in 2013 were selected from the candidate pool.

INCENTIVES

The staff incentive programme is designed to retain employees in the Company, ensure positive attitude to their work and the Company and to foster employee loyalty.

The Company utilises both economic and non-economic incentives. One-time payments payable under the Company’s Loyalty Policy are an important driver of employee motivation.

The Company extensively uses non-economic incentives as well. The main types of non-economic incentives are as follows: induction to the corporate Wall of Fame and the Book of Honour, skills competitions among employees and staff recognition awards ceremonies.

SUPPLEMENTARY SOCIAL BENEFITS ARE
ANOTHER TYPE OF EMPLOYEE REWARD

Common social benefits provided to the Company employees are set out in the collective bargaining agreement (CBA) and include:

- Compulsory and voluntary group health insurance that entitles Company employees to free medical care;
- Life insurance for employees working in hazardous areas;
- Reimbursement of rail fares for work or vacation travel and reimbursement of air travel fare for distances exceeding 3,000 km in the amount equal to the sleeping car train fare;
- Summer vacations for employees’ children;
- Discounted recreation for employees and their families at certain resorts or partial reimbursement of travel packages bought;
- Partial refunds for pre-school fees;
- Refunds and benefits for recent graduates in line with the Company’s Recent Graduates Policy approved by the Board of Directors in October 2006.

ADDITIONAL SOCIAL PROGRAMMES ARE IN
PLACE TO ATTRACT AND RETAIN EMPLOYEES:

1) Housing programme

- Subsidies to employees to cover a part of their mortgage interest;
- Corporate support for home purchase/construction.

To date, 82 staff members have taken advantage of the programme to improve their housing conditions.

2) Health programme

The Company’s health programme is designed to improve employees’ health by creating conditions for physical activity and sports. To that end, the Company leases facilities for various sports and fitness activities. It also has a sports

committee headed by the First Deputy CEO of the Company to coordinate sporting events and a corporate football club. Company employees enjoy access to volleyball, basketball, futsal and tennis facilities.

3) Corporate pension plan

The plan is based on our agreement with Blagosostoyanie Pension Fund. Any Company employee may join this retirement savings scheme where the final amount saved depends on the size of contributions, duration of employment with the Company, and the average monthly salary over the last two years of employment. The pension shall not exceed the previous year’s average salary paid by the Company to its employees. In 2013, a new Private Pension Policy was adopted by the Company’s Board of Directors that has halved the length of pensionable service. As of 31 December 2013, 1,254 Company employees have joined the scheme (27.1%). Since the start of the Company’s operations, corporate pensions averaging RUB 6,722 were awarded to 644 employees.

PERSONNEL DEVELOPMENT

Human capital development is one of the top human resource priorities focused on improving knowledge and skills and building an incentive plan to match the mission and development strategy of the Company.

The Company implements staff training and development programmes for employees of all levels within a uniform training framework and methodology in accordance with the Company’s Personnel Management and Development Regulations.

Personnel training needs are assessed continuously using an integrated training needs assessment system. Next year’s personnel training and education plan is built starting from the second half of the current year pursuant to the 07.001—2009 Standard.

Training and education are provided by specialist companies offering the following programmes:

- master of business administration. 57 heads of the Company’s business units completed the MBA programmes. In 2013, three employees were enrolled in the MBA programme, and two of them successfully completed the course;
- transport logistics;
- international accounting standards;
- automated process management and management of contracts, tariffs, and financial flows pertaining to sales and other functions;
- contract law: relevant case law, legislative amendments affecting accounting, tax reporting and other issues.

The training and personnel development system is based on an individual approach which significantly improves the efficiency of internal training. To this end, a Training Centre at Kleschikha station (TransContainer’s West Siberian Branch) has been in operation since 2012. In March 2013, heads of business units of the Companies branches operating in the eastern region, including Kedentransservice employees, were successfully trained there. In October 2013, internal trainings based on a tailored training programme designed by the Company were organised for managers of the central region and held in the Rostov State University of Railway Engineering in Rostov-on-Don.

A total of 1,246 employees took part in the training and development programmes in 2013, with the Company spending RUB 11.4 mln for training purposes.

The Company also focuses on training for young professionals mainly through railway engineering universities and technical schools. 92 people are taking full-time Specialist and Bachelor Degree programmes sponsored by the Company.

Another important area is improving the quality of student training under the programme offered by the Logistics Department of the Moscow State University of Railway Transport. The Company and the University work together to implement a training programme based on the Company’s business experience. In 2013, 19 students were enrolled in the programme.

Three students sponsored by the Company are doing their Master’s Degree in International Railway Transport Management at the MGIMO University.

With a view to building a larger candidate pool and providing quality professional training for undergraduates, 107 students were invited on a work experience placement to the Company in 2013.

HEALTH AND SAFETY
OCCUPATIONAL INJURIES

Creating safe working conditions and reducing occupational injuries is one of TransContainer’s priorities and spans all of its operations. One occupational injury occurred in 2013: going down a staircase, the Company’s employee stumbled and fell down the stairs damaging his left ankle joint ligament (mild case). Days of disability amounted to eight.

PROVISION OF SAFETY CLOTHING AND OTHER
PERSONAL PROTECTIVE EQUIPMENT

The use of personal protective equipment is one of the most efficient measures to reduce the impact of harmful and hazardous workplace factors. The Company, therefore, pays special attention to providing its employees with modern and high-quality personal protective equipment.

In 2013, RUB 14.21 mln was spent on purchasing protective clothing, footwear and other items, accounting for 25.8% of all occupational safety expenditures. RUB 1.45 mln was spent on protecting cream and cleansers.

OCCUPATIONAL SAFETY TRAINING FOR
MANAGERS AND SPECIALIST

Occupational safety trainings for managers and specialists at all levels of the Company is one of the key elements of injury prevention.

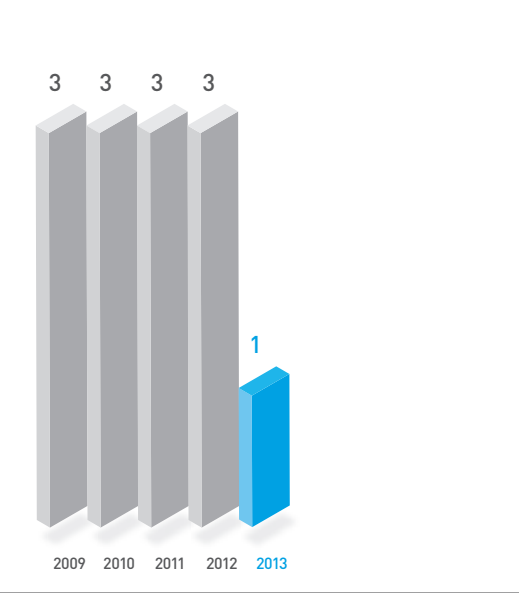
In 2013, 177 employees in branches (103% of the annual plan), including 118 managers and 55 specialists were trained in occupational safety.

RUB 1.9 mln was spent on occupational, electrical and industrial safety trainings.

WORKPLACE COMPLIANCE ASSESSMENT

Following the expiry of the prior workplace assessment period, 621 workplaces were assessed in TransContainer in 2013.

OCCUPATIONAL INJURY TRENDS



2013 SAFETY EXPENDITURE BY TRANSCONTAINER, RUB MLN

Injury reduction	13,756.90
Workplace improvements	19,953.82
Personal protective equipment	14,212.99
TOTAL	47,923.71

STRATEGIC REPORT

SOCIAL REPORT

(CONTINUED)

The assessment showed that 138 workplaces did not meet the occupational safety standards (in total, there are 4,082 workplaces in the Company).

Working conditions in 153 workplaces were improved (100% of the 2013 plan). The cost of improving the workplaces exposed to hazardous factors totalled RUB 2.03 mln.

CORPORATE CITIZENSHIP (COMMUNITY ACTIVITIES, CHARITY)

We embrace the principles of social responsibility, including job creation, sponsorship and charity activities, educational projects, and other initiatives.

We seek to maintain well-defined and above board relations with governmental authorities, precluding any possibility of unlawful influence on public policy on the Company's behalf. The Company does not participate in any political movements or organisations.

Striving to improve the quality of life in the regions where we have a presence, we carry out extensive charity work. The main objectives of our charity programmes are to improve living standards and help the underprivileged.

THE KEY PRINCIPLES OF THE CHARITY SUPPORT PROVIDED BY THE COMPANY ARE:

- continuity of charity projects;
- transparency;
- targeted support;

– readiness to cooperate with federal and local authorities, business community, and not-for-profit charity organisations;

– control over the use of funds for their intended purpose.

IN 2011, THE COMPANY'S BOARD OF DIRECTORS APPROVED THE FOLLOWING PRIORITIES OF THE COMPANY'S CHARITY PROJECTS:

- children's aid;
- promotion of sport and healthy lifestyles;
- preserving Russia's cultural heritage;
- support to industry-wide charity programmes;
- support to the Company's employees and their family members (spouses, parents, and children) in funding expensive medical treatment not covered by the medical insurance policy, the cost of which exceeds the average monthly income of the employee;
- support to victims of disasters (acts of god, armed military conflicts, etc.).

The Company's charitable spend in 2013 amounted to RUB 122 mln. All decisions regarding charitable contributions are made by the Board of Directors in compliance with the Company Charter and based on the recommendations of the Company's Charity Committee.

BUSINESS CONDUCT

Our Code of Business Conduct, in effect since 2009, reflects the values and principles by which TransContainer's employees are guided when dealing with clients, suppliers, partners, competitors, governmental authorities, civil society organisations, and the general public.

KEY CHARITABLE CONTRIBUTIONS IN 2013	
Activity	Amount, RUB mln
Assistance to the Transsoyuz Charity Foundation as part of the Book of Good Deeds programme	95.0
Helping Locomotive Hockey Club in Yaroslavl to support younger hockey players	10.0
Financial assistance with medical treatment and purchase of medication for sick children	7.0
Assistance to Company employees, their family members, and retired employees	6.0
Assistance to the Have a Heart Charity Foundation with the purchase of medication and medical care items for children	1.1
Assistance with the purchase of special equipment for hearing-impaired children in Kindergarten No. 1708 in Moscow	1.0
Assistance with the restoration of St. Pantaleon Church near the Summer Garden in St. Petersburg	0.9
Helping the Centre of National Glory in purchasing sports equipment for Russian orphanages as part of the charitable action titled Russian Fathers for Multi-Child Families	0.5
Sponsoring the Moscow Paramusical Festival	0.3
Assisting with the transportation of a wooden temple from the Novgorod Region to the Russkoe Ustie village in the Republic of Sakha (Yakutia)	0.15

BUSINESS RELATIONS FRAMEWORK

Our relations with our customers and partners adhere to the following basic principles:

- HONESTY AND INTEGRITY: By observing this principle, which is the foundation for building long-term relationships, we foster an exemplary reputation for the Company throughout the business community and promote cooperation with our customers and partners based on mutually favourable terms;
- RESPONSIBILITY FOR THE QUALITY OF THE SERVICE WE PROVIDE: We are committed to providing a high level of service and applying an individual approach to each customer;
- OBSERVANCE OF CONTRACTUAL OBLIGATIONS: Before we enter into an obligation, we assess our capacity and capabilities, given that once an obligation is undertaken, we feel bound to satisfy it fully and on time;
- RESPECT FOR THE INTERESTS OF CLIENTS AND PARTNERS: We seek to build a meaningful dialogue with our clients and partners based on the principles of business ethics and tolerance.

COMPETITOR RELATIONS FRAMEWORK

We adhere to the principle of fair competition and are open to dialogues with other market players. Where competition gives rise to dispute or disagreement, we always seek a mutually acceptable solution. Whenever a dispute cannot be settled amicably, it is resolved through the due process of law.

STRATEGIC REPORT

ENVIRONMENT PROTECTION

Environment protection in the regions where we operate is one of our top priorities. Since TransContainer's incorporation, there has never been a single incident that would have an adverse ecological impact

TransContainer cares about the natural environment in its regions of operation. Since our market entry, there have been no incidents which could be classified as having an adverse environmental impact.

The Company pays all statutory pollution charges related to its activities in a timely manner.

In 2013, TransContainer fully implemented its environmental action plan.

- Ensured timely payment of pollution charges.
- Set maximum permitted emissions, waste generation, and disposal limits and other required environmental limits for the Company's branches.
- Ensured the emissions of air pollutants are within the specified and approved limits.
- Concluded contracts for water use and disposal of water to the municipal sewerage. Company branches equipped their water outlets with wastewater testers to help control water consumption and wastewater discharge rates. Water saving plans are approved in each branch on an annual basis.
- The Company signed hazardous waste disposal contracts with specialist companies licensed to collect and recycle mercury lamps, household waste, scrap metal and oily rags.
- Solid waste is collected and stored in closed containers in compliance with Sanitary Rules and Regulations (SanPiN) 2.1.7.1322-03 Hygienic requirements for industrial and consumer waste collection and disposal.
- Temporary waste sites were equipped at the Silikatnaya, Lagernaya and Volzhsky stations.

- Container site drainage system equipped at the Vladikavkaz station with CAPEX costs of RUB 154,000.
- Security desk and inspection building at the Bazaikha station have been switched to electric heating, with water meters installed, site improved, and treatment facilities put in place at RUB 4.26 mln.
- Storm water drainage was put in place at the Yekaterinburg–Tovarny station with a CAPEX of RUB 3 mln.
- The Moskva–Tovarnaya–Paveletskaya (Moscow) and Noginsk stations had water-supply lines and sewerage system renovated at RUB 270,000.
- Treatment facilities and storm water drainage were built at the Kleschikha container terminal at RUB 18.18 mln.

ENERGY EFFICIENCY

The Company puts in place annual action plans to meet its energy saving targets in pursuance of the Russian Railways' Energy Efficiency Programme and Federal Law 261-FZ dated 23 November 2009. Based on the energy audit findings, the Company develops and implements its energy saving action plan.

SAVINGS ACHIEVED UNDER THE 2013 ACTION PLAN

In 2013, the Company continued replacing conventional lighting fixtures with energy-saving alternatives. The related purchase and installation costs totalled RUB 363,400. In December, a solar energy collector was installed at a control point at the Batareinaya Station to heat the security checkpoint worth of RUB 66,000. The Company's vehicles were equipped GPS and Glonass navigation systems worth of RUB 462 mln.

HISTORICAL ENVIRONMENTAL EXPENDITURE					
	2009	2010	2011	2012	2013
Amount, RUB mln	14.9	15.6	126.8	43.0	34.44

SAVINGS ACHIEVED UNDER THE 2013 ACTION PLAN

Energy resource	Savings in physical terms	Savings in money terms,
		RUB'000
Electricity, total, '000 kWh	465.8	1988.5
Diesel fuel, tonnes	141.8	3907.4
Petrol, tonnes	9.1	285.4
Natural gas, TCM	2.6	13.7

ENERGY RESOURCES CONSUMED IN 2013

Energy resource	Physical amount	Cost, RUB'000
Electricity, total, '000 kWh	16,365.4	57,148.0
Diesel fuel, tonnes	5,512.1	164,415.4
Petrol, tonnes	290.5	9,087.9
Natural gas, TCM	21.1	538.1



Igor Obrubov
Chief engineer

CORPORATE GOVERNANCE
BOARD OF DIRECTORS



ZHANAR RYMZHANOVA
CHAIRMAN OF THE BOARD
OF DIRECTORS

Date of birth:
1968
**Year appointment to the Board
of Directors:**
2008 – 2011, 2013

**Key skills and
experience:**
From 1998 to 2012, Ms. Rymzhanova held management positions at the European Bank for Reconstruction and Development (EBRD) where she was responsible for relations with strategic clients in the infrastructure and transport sectors, including global projects. Since 2008, Zhanar has represented the EBRD as a member of the Board of Directors of TransContainer. Appointed as Advisor to the President of Russian Railways in 2012, her focus was on logistics and integration within the Common Economic Space for Russia, Belarus and Kazakhstan.

Ms Rymzhanova majored in economics at the Academy of Public Administration under the President of the Republic of Kazakhstan in 1989. In 1997, she received her degree from Georgetown University. In 2012, Ms Rymzhanova completed an Executive MBA with HSA (Paris), London School of Economics, and New-York University.

Other positions currently held:
chairman of the Board of Directors at Russkaya Troyka, member of the Board of Directors at Kedentransservice, member of the Supervisory Board at GEFCO S.A.



PETR BASKAKOV
CEO

Date of birth:
1961
**Year appointment to the Board
of Directors:**
2006

**Key skills and
experience:**
CEO of TransContainer and a member of its Board of Directors since 2006, Petr holds over 25 years of management experience in the railway transportation industry and possesses expertise in strategic planning and strong business management skills. In 2009, Mr Baskakov was also a member TransContainer–Slovakia, a.s. Supervisory Board. From 2010 to 2012, he served on the Presidium of the Council of Rolling Stock Operators.

Mr Baskakov is a graduate of the Moscow Institute of Railway Engineers and holds a degree in railway haulage management and a Ph.D. in Engineering.

Other positions currently held:
Mr Baskakov is a member of the Supervisory Board of Oy ContainerTrans Scandinavia, Ltd and RZD Logistics; member of the Shareholders' Committee of Trans Eurasia Logistics GmbH; and Chairman of the board of the Freight Forwarders Association of Russia. He is also a board member with the TRANSSOYUZ Charity Foundation, the All-Russian Association of Rail Transport Employers, and the Russian Union of Industrialists and Entrepreneurs.

Committee membership:
The Strategy Committee.



ALEXEI DAVYDOV
BOARD MEMBER

Date of birth:
1971
**Year appointment to the Board
of Directors:**
2010

**Key skills and
experience:**
Mr Davydov has extensive experience and demonstrable skills in strategic planning, economics and finance, and corporate governance sharpened from 2004 in various leadership roles with Russian Railways, including Head of the Treasury and Head of the Subsidiaries and Affiliates Management Department. From 2008 to 2013, Alexei served on the Board of Directors at Vagonremmash, Remputmash Kaluga Plant, Roszheldorproject, RasonConTrans JV, Zheldorremmash, FPC, RZD Trading Company and Freight One. He also held the post of Deputy Chairman of the Board of Directors with Zarubezhstroytekhlogiya and Chairman at High-Speed Rail Lines.

Mr Davydov graduated from Saint Petersburg Engineering and Economics Institute with a degree in engineering and economics in 1993 and Saint Petersburg University with a degree in law in 1999.

Other positions currently held:
chairman of the Board of Directors at Roszheldorproject, VRK-1, RZD Trading Company, a member of the Board of Directors of RZDstroy, BetElTrans, ELTEZA, Transmashholding, TTK, member of the TRANSSOYUZ Foundation Council.

Committee membership:
Chairman of the Strategy Committee.



ALEXEI GROM
BOARD MEMBER

Date of birth:
1971
**Year appointment to the Board
of Directors:**
2012

**Key skills and
experience:**
With over 20 years in the transport sector at an international level, Mr Grom's has a wealth of experience in strategic planning and managing business processes relating to marine and railroad transportation and terminals. Presently, Alexei is the CEO of FESCO Rail, a member of VMTP's Management Board, and First Vice President. From 2007 to 2013, Mr Grom held senior executive roles at TransGarant and FESCO Transport Group while serving on the Board of Directors at PortExpress and TransGarant-Vostok.

Mr Grom is a 1993 graduate of the Moscow State University of Railway Engineering with a degree in railway engineering and holds an Executive MBA from the Stockholm School of Economics.

Other positions currently held:
Mr Grom is a member of the Board at Russkaya Troyka and Nurmnen Logistics PLC, member of the Supervisory Board at VMTP, and member of the Presidium of the Council of Rolling Stock Operators.

Committee membership:
Deputy Chairman of the Strategy Committee.



PAVEL IVANOV
BOARD MEMBER

Date of birth:
1964
**Year appointment to the Board
of Directors:**
2013

**Key skills and
experience:**
Mr Ivanov has an impressive track record in railroad transportation. From 2007 to 2008, Pavel headed the Kursk Branch of the Moscow Railway (branch of Russian Railways). From 2008 to 2009, Pavel held the post of Deputy Head of the Transportation Management Department at Russian Railways and, from 2009 to 2011, the First Deputy to the Head of Central Operations for Traffic Control (branch of Russian Railways).

Mr Ivanov graduated from the Moscow Institute of Railway Engineers with a degree in railway haulage management in 1986.

Other positions currently held:
Head of Central Operations for Traffic Control (branch of Russian Railways)

Committee membership:
Member of the Audit Committee.



ANNA BELOVA
INDEPENDENT DIRECTOR

Date of birth:
1961
**Year appointment to the Board
of Directors:**
2013

**Key skills and
experience:**
Independent Director
Ms Belova has an established track record in management and finance. From 2007 to 2011, as a member of the Management Board, Anna headed the Strategy and Corporate Development function at SUEK and served as a member of the Board of Directors at SUEK-Kuzbass. From 2009 to 2010, Ms Belova chaired the Board of Directors at GlavEnergoSbyt and was a member of the Board of Directors at ElgaUgol. In 2000, Ms Belova headed Russian Railways reform project, taking on the position of Deputy Minister of Railway Transport after only one year. In 2003, she was appointed as Russian Railways' Vice President of Reforms, Corporate Development and Informatisation.

Anna Belova graduated from the Moscow Engineering and Physics Institute with a degree in systems engineering, later undertaking a degree in economics with the Academy of Investment Executive Development. She also completed a post-graduate course with the Radio and Instrumentation Research Institute and a post-graduate programme with the State Transport University. Anna holds a Ph.D. in economics and is a professor of the Graduate School of Management of the Higher School of Economics.

Other positions currently held:
Independent Director, Deputy Chairman of the Board of Directors at Sheremetyevo International Airport, Chairman of the Board of Directors at Russian Venture Company, Deputy Chairman of the Board of Directors, Board member of the Centre for Entrepreneurship, member of the Supervisory Board of the Russian Agricultural Bank, member of the Board of Directors of the United Grain Company, Chairman of the Board of Directors of Yakutsk Fuel and Energy Company

Committee membership:
Deputy Chairman of the Audit Committee.



IRINA SHYTKINA
INDEPENDENT DIRECTOR

Date of birth:
1965
**Year appointment to the Board
of Directors:**
2010

**Key skills and
experience:**
Ms Shytkina holds a J.D. and is a Professor at the Business Law Faculty of the Moscow State University. She is an MBA lecturer, visiting professor of the Stockholm School of Economics, author and moderator of consulting and practical workshops, possessing in-depth knowledge in various business areas, including management and corporate governance. Along with her academic and teaching engagements, Ms Shytkina is a practising lawyer and a business professional with broad management experience. During her career, Ms Shytkina held senior management positions at major companies. In 1996–2009, she worked as Deputy CEO for Corporate Governance and since 2012, has become a Managing Partner with Shytkina and Partners legal consulting firm.

Ms Shytkina graduated from the Moscow State University in 1998 with a degree in law and subsequently completed postgraduate and doctoral programmes at the Moscow State University.

Other positions currently held:
Chairman of the Board of Directors at Elinar Group, Chairman of the Board of Directors at NarPromRazvitie, independent director at VRK-1 and High-Speed Rail Lines, member of the Board of Directors at VRK-2, RZD Health, TransTelecom, Managing Partner with Shytkina and Partners.

Committee membership:
Personnel and Remuneration Committee Chairman.



DAVID HEXTER
INDEPENDENT DIRECTOR

Date of birth:
1949
**Year appointment to the Board
of Directors:**
2008

**Key skills and
experience:**
Mr Hexter has a wealth of experience at an international level and possesses strong skills and expertise in areas such as business strategy, corporate finance, financial risks, investment, financial modelling, and corporate governance. From 2011 to 2013, David was a member of INTER RAO's Strategy Committee and an international advisor with XENON Capital Partners. From 2005 to 2010, Mr Hexter acted in an advisory capacity with Denholm Hall Investment Management. From 1992 to 2004, Mr Hexter worked with the European Bank for Reconstruction and Development and from 2002 to 2004 was a member of the Board of Directors at Small Business Bank. From 1970 to 1992, he held a number of positions with Citibank.

David graduated from Oxford University with a degree in philosophy, politics and economics in 1979. In 1974, he received his MBA from the Cranfield Management School and in 2007 graduated from the London University with a degree in philosophy. In 2008, he received a degree in legal and political theory from University College London.

Other positions currently held:
Board member of Kaspi Bank (Caspian Bank), TransTeleCom (Kazakhstan); Chairman of the Supervisory Board of Private Equity New Markets; member of the Supervisory Board of Bank Zachodni WKB.

Committee membership:
Chairman of the Audit Committee, member of the Strategy Committee.



PAVEL ILYICHEV
BOARD MEMBER

Date of birth:
1974
**Year appointment to the Board
of Directors:**
2011

**Key skills and
experience:**
Mr Ilyichev has been a member of TransContainer's Board of Directors since 2011, including his stint as Chairman of the Board until July 2013. Pavel has a wealth of experience in finance, economics, and corporate governance, including audit and financial statements analysis. From 2003 to 2009, Mr Ilyichev headed the Treasury and later on Corporate Finance at Eurosib and has been Deputy Head of Corporate Finance at Russian Railways since 2009. Throughout 2010 and 2013, Pavel Ilyichev was on the Board of Directors with Russkaya Troyka, also serving as Chairman. He was on the Board of RZD Logistics and TransCreditBank and a member of the Supervisory Board of TLC Bely Rast, Zheldorremmash and Vagonremmash.

Pavel graduated from St. Petersburg State Academy of Aerospace Instrumentation with a degree in research engineering in 1997. He also holds a degree in economics from the Higher School of Economics at St. Petersburg State University of Economics and Finance.

Other positions currently held:
Member of the Board of Directors of KIT Finance Investment Bank, SKB-bank, ZHASO, member of the Supervisory Board of GEFCO S.A.

Committee membership:
Member of the Audit Committee.



IRINA KOSTENETS
BOARD MEMBER

Date of birth:
1961
**Year appointment to the Board
of Directors:**
2013

**Key skills and
experience:**
A member of the Personnel and Remuneration Committee since 2010, Ms Kostenets joined TransContainer's Board of Directors in 2013. Irina possesses extensive experience in finance, personnel management and incentives, in the transport industry and beyond. Since 1998, Irina has held various positions such as the Head of the Economic Function and Deputy Head of Operations for Economic Matters at Krasnoyarsk Railways. From 2003 to 2005, Irina worked as Deputy Head of the Planning and Budgeting Department and from 2009 to 2012 headed the Department for Administrative and Personnel Matters at Russian Railways. Presently, Ms Kostenets heads the Economics Department at Russian Railways.

Irina graduated from the Irkutsk Institute of Railway Engineers in 1984 with a degree in railroad construction and railroad facilities and received a degree from the Russian Presidential Academy of National Economy in 1988, majoring in state management of railway transport economics and finance.

Other positions currently held:
Member of the Board of Directors with South Caucasus Railways, ZHASO, FPC.

Committee membership:
Deputy Chairman of the Personnel and Remuneration Committee, member of the Audit Committee.



YURI NOVOZHILOV
DEPUTY CHAIRMAN OF
THE BOARD OF DIRECTORS

Date of birth:
1974
**Year appointment to the Board
of Directors:**
2007 to 2009, and since 2012

**Key skills and
experience:**
Mr Novozhilov has extensive experience, expertise and skills in corporate governance and investment management holding leadership roles in large financial companies. At the moment, he works also as an executive director and Council member of the BLAGOSOSTOYANIE Private Pension Fund and executive director of TKB BNP Paribas Investment Partners Holding B.V. From 2006 to 2009, Yuri held the position of CEO with Trans-Invest and KIT Finance Holding Company, where he also served as Chairman of the Board. Yuri has a demonstrable track record in the railway industry and served as First Deputy Head of Corporate Finance with Russian Railways from 2004 to 2009.

Mr Novozhilov graduated from Saint Petersburg State University with a degree in theoretical economics in 1996.

Other positions currently held:
Chairman of the Board of Directors at KIT Finance, KIT Finance Investment Bank, Absolut Bank, BLAGOSOSTOYANIE Insurance Company, Military and Memorial Company, Deputy Chairman of the Board at RusRailLeasing, and Chairman of the Council of RusRailLeasing Foundation. He is also a member of the Board of Trustees for the children's charity, Spread Your Wings, a member of the Board of Directors at MOSTOTREST, Remputmash Kaluga Plant, Specialised Pension Administrator, Svyaznoy Bank, and TransFin-M.

Committee membership:
Personnel and Remuneration Committee member.

CORPORATE GOVERNANCE

CHAIRMAN’S STATEMENT



Zhanar Rymzhanova
Chairman of the Board of directors

At TransContainer, we view corporate governance as a key instrument of strategic value-based management for the benefit of shareholders that links core business processes together

Dear Shareholders,

The Directors’ Report I present is an integral part of the Company’s Annual Report covering the impact of corporate governance on key aspects of the Company’s operations and the role of the Board of Directors in the corporate governance system.

This Annual Report offers a summary of the Company’s performance in 2013, its market position, strategy and business model, and I hope it will be useful to our existing and potential investors and other stakeholders.

At TransContainer, we see the primary role of the Board of Directors as ensuring the adoption of effective strategic decisions geared towards the Company’s long-term sustainable growth for the benefit of all stakeholders. Members of the Board believe that the success of the Board’s efficiency rests upon an open and meaningful discussion to incorporate the best professional and wider contribution of each of the Board members to promptly deliver sensible well-balanced decisions serving the interests of the Company. Careful and detailed deliberation of the opinions of all the Board members, regular consultations with the Company management, and fair consideration of the position of minority shareholders are the key principles guiding the Board of Directors.

APPROACH TO CORPORATE GOVERNANCE

TransContainer was the first company of Russian Railways Group to have started consistently implementing the leading corporate governance principles, including tools to discuss and balance the interests of the Company’s largest shareholder and minority shareholders, the Company and all its shareholders, and shareholders and the management.

The Company’s corporate governance has become one of the key success factors behind the public offering of the Company’s shares on MICEX/RTS and the LSE in 2010.

For more details on corporate governance principles please refer to page 65.

The Board of Directors has always supported this approach, viewing it as a key instrument of strategic value-based management for the benefit of shareholders that links core business processes together. Today, we see that the approach has proven effective, with the Company’s commitment to the best practices in corporate governance gaining strong recognition among our investors.

A key component of our corporate governance system is effective communications with shareholders, investors, and other stakeholders. We also work to ensure the reliability and high performance of our risk management, internal controls, and internal audit while building an efficient and transparent practice of remunerating the Board members and the Company’s key executives.

Given the positive impact of effective corporate governance on all aspects of the Company’s operations, the Board of Directors focuses heavily on assessing and improving the corporate governance practices and Board performance. We are committed to continuous improvement, especially in the changing market environment that requires our quick response.

For more details on the assessment of the Company’s corporate governance system please refer to page 66.

BOARD OF DIRECTORS’ 2013 PERFORMANCE

The Board’s effective performance helps improve the Company’s investment appeal and the stability and overall efficiency of its operations since it is the Board that is empowered to decide on the most important aspects of the Company’s business.

The key functions of the Board of Directors include setting the overall direction of the Company’s long-term objectives, approving its growth strategy and annual budgets, and reviewing its key performance indicators. In 2013, the Board of Directors approved TransContainer’s Development Strategy until 2020, its updated 2013–2015 budget, targeted performance goals and key parameters of the investment programme for 2014, the 2014 budget, and the target values of its corporate key performance indicators set for 2014, and also decided on closing two of the Company’s branches (Likhobory and Shakhunya Container Repair Depots).

At the same time, the Board of Directors is responsible for the effective control over the activities of the sole executive body and the management of the Company. To this end, in 2013, the Board reviewed and approved the CEO’s reports on the Company’s performance in 2012–9M 2013, pre-approved the 2012 Annual Report, reviewed and took note of the Company’s projected performance in Q1 2013–FY 2013,

the reports on implementing the credit policy in 4Q 2012–3Q 2013, reports on implementing the Board’s resolutions in Q4 2012–Q3 2013 and resolutions of the Annual General Meeting of Shareholders, and the report on implementing recommendations of the Revision Commission following the audit of the Company’s 2012 operations. In addition, it gave its approval for the Company’s CEO serving as member of the Supervisory Board at GEFCO S.A., approved the fixed salary indexation provisions in the CEO’s employment contract, etc.

The Board of Directors also defines the principles and approaches to risk management and internal control processes of the Company. In 2013, the Board of Directors reviewed the 2012 diagnostics report on the corporate risk management system, approved the Corporate Risk Map (Register), the summary risk prevention action plan, risk ranking parameters and critical ceiling (level where Company remains functional) of possible losses in case of risk realisation for 2013 and 2014; it reviewed the report on the implementation of the critical risk action plan set for 4Q 2012–3Q 2013, the plan of action to retain key management staff of the Company; approved the Concept of the corporate risk management system and the Policy of the corporate risk management system of the Company as well as the plan of activities and the budget of the Company’s Internal Audit Service for 2013.

The Board of Directors is also in charge of determining the Company’s remuneration policy for the members of the Board of Directors, the CEO and key management personnel of the Company. To this end, in 2013, the Board of Directors issued recommendations aligned to the agenda of the Annual General Meeting of Shareholders on the amendments to Regulations on Remuneration and Compensation Payable to Members of the Board of Directors stipulating the grounds for non-payment of remuneration and on the payment of remuneration to the members of the Board of Directors, the Board’s Committees and the Revision Committee; it decided on awarding bonuses to the Company’s CEO for 4Q 2012–3Q 2013 and to the CEO and management for 2012 and one-off bonuses to the Company’s executives appointed by approval of the Board of Directors for prompt completion and excellent performance during the reconstruction and commissioning of the Company’s new facilities at the Kleschikha container terminal.

The Board of Directors oversees the Company’s corporate governance practices. In 2013, the Board reviewed the report issued by Board Solutions, assessing the performance of the Company’s Board of Directors and its committees for the 2011/2012 corporate year and the results of self-assessment by the Board of Directors and its committees for the 2012/2013 corporate year and draw respective conclusions. It also assessed the Board members for compliance with the independence criteria and approved several internal documents, including the amendments to the Corporate Governance Code of the Company as regards the eligibility requirements for independent directors, the Induction Programme for newly elected members of the Board of Directors, the Procedure for placement of orders for goods and services required for the Company’s core business, the Dividend Policy Regulations of the Company, etc.

For more details on the key decisions adopted by the Board of Directors in 2013 please refer to page 70.

As Chairman of the Board of Directors, I am in charge of making sure that enough time is given to each item on the agenda at the Boards’ meetings. Most of the Board’s time is devoted to the most important matters of the Company, including strategic issues of material nature. On the whole, the Board’s time was distributed as follows:

- Setting strategic directions for the Company;
- Overseeing the CEO’s activities;
- Ensuring efficient operation of the internal control and risk management systems;
- Ensuring efficient operation of the corporate governance system;
- Deciding on the remuneration of the Board members, the CEO and key company executives.

CORPORATE GOVERNANCE
CHAIRMAN’S STATEMENT
(CONTINUED)

The efficiency of the Boards’ performance is ensured by thorough preparation and highly organised culture of the Board’s meetings combined with the active input of the Board members. Given the scope of business and objectives of the Company, the Board meetings are held as frequently as required, but at least once a month. In-person meetings are the preferred format for the Board’s meetings. During the meetings, the Board focuses on the most essential issues. It reviews an average of 148 issues per year or 11/12 issues per meeting.

The committees support the Board in its function. The number of issues pre-reviewed by the committees is growing annually (in 2013, it rose 1.3 times as compared to 2011 and 2012).

High quality preparation and timely circulation of materials for the Board meetings are also important for ensuring smooth running of the meetings. The number of issues removed from the Board’s’ agenda due to insufficient quality of supporting materials is insignificant and is continuously decreasing.

For more details on the role and performance of the Board of Directors please refer to page 69.

Sincerely,

Zhanar Rymzhanova

ZHANAR RYMZHANOVA
Chairman of the Board of Directors

THE TIME REQUIRED FOR EXAMINATION THE BOARD OF DIRECTORS ISSUES



- Setting strategic directions for the Company 20%
- Overseeing the CEO’s activities 30%
- Ensuring efficient operation of the internal control and risk management systems 15%
- Ensuring efficient operation of the corporate governance system 15%
- Deciding on the remuneration of the Board members, the CEO and key company executives 10%
- Miscellaneous 10%

STATISTICS ON THE BOARD OF DIRECTORS MEETINGS IN 2011–2013



CORPORATE GOVERNANCE
DIRECTORS’ REPORT

PRINCIPLES OF CORPORATE GOVERNANCE

The Company’s corporate governance principles aim to facilitate trust in managing the Company while also providing a basis for the standards and rules that govern corporate relations. These include:

THE FAIR AND EQUITABLE TREATMENT OF SHAREHOLDERS

The Company is committed to maintaining a constructive dialogue with its shareholders based on respect for their rights and legal interests, and ensuring a high level of confidence between itself and its shareholders on matters of management.

TransContainer is dedicated to treating all of its shareholders, including minority shareholders, equally and fairly and refraining from preferential treatment of any group of shareholders to the potential detriment of others.

ACCOUNTABILITY

The CEO of the Company is accountable to the General Meeting of Shareholders and the Board of Directors, and submits regular reports on the CEO’s activities. This report is used to assess the Company’s performance and results. The Board of Directors is, in turn, accountable to the General Meeting of Shareholders.

TRANSPARENCY

The Company regularly, fully, and in a timely manner discloses reliable information on all material matters relating to the Company. This includes its financial and operational results, shareholding structure, lists of affiliated persons/entities, statements of material facts and any other information required by Russian and British securities market regulations.

The Company shows no preference for the interests of any recipients (or groups of recipients) over others.

While ensuring the rights of stakeholders to obtain information, the Company aims to protect its own interests by restricting access to insider and confidential information, including information constituting commercial or other legally protected secrets.

SOCIAL RESPONSIBILITY

The Company seeks to achieve long-term, sustainable profitability for its business, while establishing a balance between its economic interests and the social, economic and environmental commitments, which it has undertaken voluntarily.

CORPORATE GOVERNANCE RATINGS

The Company’s international rating was affirmed by the Corporate Governance Rating Service of Standard & Poor’s as GAMMA-6 in September 2011. The rating was subsequently withdrawn upon Standard & Poor’s decision to cease assigning corporate governance ratings using the GAMMA methodology.

In July 2013, TransContainer’s National Corporate Governance Rating was confirmed as 7+ (Developed Corporate Governance Practice). The Company adheres to Russian corporate governance regulations, follows the majority of recommendations from the Russian Corporate Governance Code and a selected number of best international practices, and bears a relatively low owners’ loss risk thanks to its high quality of corporate governance.

As Standard & Poor’s has ceased assigning corporate governance ratings, since 2012 the Company has sought to engage one of the Big Four to assess its corporate governance practices. These firms have been Deloitte & Touche CIS in 2012, and Ernst & Young (CIS) B.V., Moscow branch, in 2013.

In 2013, TransContainer’s corporate governance was assessed in terms of the following aspects: the Company’s asset structure and influence of shareholders, shareholders’ rights, the effectiveness of the Board of Directors, the Company’s executive bodies, information disclosure, audit, risk management, and internal controls.

The assessment showed that TransContainer has robust corporate governance processes and practices in place: the assessed components of its corporate governance are compliant with the requirements of the Federal Law On Joint-Stock Companies, the Company follows most recommendations of the Code of Corporate Conduct of the Federal Financial Markets Service and the requirements of the MICEX Stock Exchange Listing Rules and implements selected best corporate governance practices, including the requirements of the UK Corporate Governance Code, the corporate governance principles of the Organisation for Economic Co-operation and Development (OECD), International Corporate Governance Network (ICGN), and the draft Code of Corporate Governance of the Bank of Russia Financial Markets Service.

The assessment revealed the key strengths of the Company’s corporate governance and areas for its improvement.

The strengths of TransContainer’s corporate governance include: effective communication between the members of the Board of Directors and the Company’s Management, the annual procedure for assessing the Board’s and its Committees’ effectiveness, the structure of the Board’s Committees compliant with regulatory requirements, the powers and accountability of the Corporate Secretary compliant with regulatory requirements, timely payment of dividends and a formalised Dividend Policy in place, external audits by the Big Four auditors, TransContainer’s External

CORPORATE GOVERNANCE RATINGS EVOLUTION

	2009	2010	2011	2012	2013
GAMMA Rating (Standard & Poor’s)	6	6	6	–	–
National Corporate Governance Rating	6+	7	7+	7+	7+

CORPORATE GOVERNANCE

DIRECTORS' REPORT

(CONTINUED)

Auditor Rotation Policy, the corporate risk management system and the independent internal audit function, the Code of Business Conduct and the hotline for reporting business conduct issues, rigid business processes, high transparency, systematic assessment of corporate governance practices by independent consultants, etc.






The key areas for improvement include, inter alia, bringing the Company's corporate governance processes into compliance with the recommendations of the draft Corporate Governance Code (2014), revising the independence criteria for members of the Board of Directors, increasing the number of independent directors in the Board and its Committees, expanding the scope of information disclosed in the Company's annual report (to include the information on the Corporate Secretary and the assessment of the Company's internal controls), implementing anti-fraud and anti-corruption programmes and procedures, rearranging the Company's internal controls to comply with COSO IC 2013 requirements (to be implemented until December 2014), obtaining an independent external assessment of the Company's internal audit function.

The results of the assessment of TransContainer's corporate governance are available on the Company's website at: <http://www.trcont.ru/ru/investoram/dopolnitelnaja-informacija/reitingi/>

QUALITY ASSESSMENT OF TRANSCONTAINER'S CORPORATE GOVERNANCE AND INFORMATION DISCLOSURE BY THE EXPERT COMMUNITY

A number of corporate reporting assessment awards were announced in Russia in September–November 2013, with TransContainer once again on the list of the best Russian companies by the quality of its annual report, further reinforcing its position as the market leader.

Thus, the quality of the Company's corporate governance and information disclosure received high and independent acclaim from the absolute majority of market professionals, affirming its leadership in these areas both in the transportation industry, and the Russian market in general.

EVENT	AWARD
 Annual report awards, Krasnodar region	On 28 September 2013, TransContainer's was awarded the first prize for the Best Annual Report Information Disclosure and its annual report was named the Best Annual Report in the Transportation and Communication Industry at 10th International Investment Forum Sochi–2013 held in Sochi.
	On 12 November 2013, the Moscow Exchange announced its yearly Annual Report Awards, with TransContainer again named the winner in the Best Annual Report Competition held among the companies with capitalisation of RUB 10—100bn.
	On 14 November 2013, Expert RA Rating Agency announced the winners of its 10th Annual Report Award at its Annual Reports: Leaders' Experience and New Standards conference held every year. For the first time, TransContainer was awarded the first prize for the Best Corporate Governance Information Disclosure, a new contest category established by the Russian Institute of Directors.
	On 15 November 2013, Securities Market Magazine announced the results of its 16th Annual Report Competition at the yearly Federal Investment Forum. TransContainer won the third prize in the The Best Disclosure of Information in an Issuer's Annual Report category.
	In 27 November 2013, the award ceremony of 3rd yearly Novaya Versta Annual Contest of Annual Reports and Corporate Websites in Transportation held by Gudok newspaper and Pult Upravleniya Magazine among the transportation took place. TransContainer won the Best Information Disclosure in the Annual Report of the Freight Company and the Best Investor Information Disclosure on the Website awards and was honoured with a second place award in the key Best Complex Presentation of the Company competition category.

STATEMENT OF COMPLIANCE WITH THE COMPANY'S CORPORATE GOVERNANCE CODE AND THE UK CORPORATE GOVERNANCE CODE

The Company's Corporate Governance Code sets forth corporate governance standards and principles, taking into account legislative requirements as well as the requirements of the Company's bylaws, and reflecting the framework laid out in the Russian Code of Corporate Conduct.

To view the Company's Corporate Governance Code compliance report, please refer to p. 144. The Company adheres to the UK Corporate Governance Code, with the exception of the following:

COMPLIANCE WITH THE PROVISIONS OF THE CODE OF CORPORATE GOVERNANCE

No senior independent director elected.

The Chairman does not meet the independence criteria.

Neither an external consultancy nor advertising has been used in the appointment of the Chairman of the Company's Board of Directors or non-executive directors; no recommendations on searching and selecting the Board members have been made by the Personnel and Remuneration Committee to the Board.

The Personnel and Remuneration Committee should include at least two (2) independent directors.

CAUSES / EXPLANATIONS

The Company ensures the effective communication between its independent directors and the Chairman of the Board of Directors, the independent directors and the management of the Company, as evidenced in Ernst & Young (CIS) B.V.'s assessment report. The independent directors see no need for additional coordination of their work, nor for a special channel through which they may communicate with the Chairman of the Board of Directors and the Company's management. All assessment of the Chairman's performance is conducted by all BoD members alongside assessment by an independent expert every three years. The Chairman is open to communications with all shareholders and BoD members.

In 2013, Zhanar Rymzhanova was elected Chairman of the Board of Directors by its unanimous decision. From 2008 to 2012, she was actively involved in her capacity of the Company's BoD member as nominated by the European Bank for Reconstruction and Development. Ms Rymzhanova has an impeccable personal and professional reputation and extensive experience in senior leadership positions. She is a professional of undisputed honesty and integrity and is committed to protecting the interests of the Company. The Chairman of the Board of Directors does not simultaneously act as the CEO of the Company.

In accordance with Russian law, the right to nominate candidates to the Board of Directors is held by shareholders owning at least 2% of the Company's voting shares. At least four (4) shareholders within the Company's shareholding structure are entitled to search for and nominate candidates to the Board of Directors. The Company has never had an absence, or an insufficient number, of candidates to the Board. In 2013, the right to nominate candidates to the Board, including independent directors, was exercised by Russian Railways, NATIXIS S.A, TRANSFINGROUP, Asset Management (manager of pension assets of Blagosostoyanie Non-State Pension Fund), and the European Bank for Reconstruction and Development.

The number of the Company's independent directors is insufficient to meet this requirement, however, they are actively involved in the work of all Board's Committees.

CORPORATE GOVERNANCE
DIRECTORS' REPORT
(CONTINUED)

THE COMPANY'S MANAGEMENT
AND SUPERVISORY STRUCTURE



GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme executive body of the Company. The procedures for preparing, convening and conducting general meetings of shareholders are stipulated by TransContainer's Regulations on the General Meeting of Shareholders¹.

Notice of the Company's General Meeting of Shareholders is sent to shareholders and published on the Company's website together with the documentation relating to the agenda of the General Meeting of Shareholders at least thirty (30) days before the date of the shareholders' meeting.

The General Meeting of Shareholders is invited to adopt separate resolutions on each item on the agenda. The voting ballots allow the shareholders to express their opinion and vote for or against any resolution put forward to the General Meeting of Shareholders, or to abstain from voting.

At the General Meeting of Shareholders, the shareholders have the opportunity to meet members of the Company's executive and supervisory bodies to discuss matters of interest. The General Meeting of Shareholders held in June 2013 was attended by the Chairman of the Board of Directors, Chairmen of the Board Committees, the CEO, members of the Revision Commission, representatives of the external auditor, and the Head of the Internal Audit Service.

The functions of the Counting Committee at the General Meeting of Shareholders are carried out by the Company's Registrar. Since October 2010, STATUS Registrar Company has acted as Registrar for the Company.

Voting results are announced at the General Meeting of Shareholders and disclosed in accordance with the law.

THREE GENERAL MEETINGS OF SHAREHOLDERS WERE HELD IN 2013:

Extraordinary General Meeting of Shareholders, 14 May 2013.	The General Meeting prematurely terminated powers of members of the Board of Directors and elected new members.
Annual General Meeting of Shareholders, 26 June 2013.	<p>The General Meeting approved the Company's annual report and 2012 financial statements, as well as the amended Company' Charter, and the amended Regulations on Remuneration and Compensation Payable to members of the Board of Directors.</p> <p>The General Meeting adopted resolutions relating to the distribution of profit, payment of dividends, payment of remuneration to members of the Board of Directors, the Board Committees, and the Revision Commission.</p> <p>The General Meeting elected members of the Board of Directors and the Revision Commission and approved the Company's Auditor.</p> <p>The General Meeting adopted a resolution approving the interested party transactions, including potential future interested party transactions.</p>
Extraordinary General Meeting of Shareholders, 21 October 2013.	The General Meeting adopted a resolution approving the interested party transactions, including the liability insurance for the BoD members and the management team (D&O policy).

ROLE AND PERFORMANCE
OF THE BOARD OF DIRECTORS

The Board of Directors is the core element of our corporate governance system with a direct influence on how effectively the Company is managed and, ultimately, on how well it performs.

The Board of Directors is the management body of the Company and is responsible for the overall steering of its operations. The BoD determines the Company's strategy, oversees the activity of its executive bodies, the Company's internal control and risk management system, and its corporate governance practices. The powers of the BoD are delineated in the Charter and clearly segregated from those of the CEO, responsible for the Company's day-to-day operations.

The Board of Directors is an actively functioning management body with rules of procedure set out in the Company's Regulations on the Board of Directors². BoD meetings are convened on a regular basis in line with the annual work plan and meeting schedule as approved at the first BoD meeting of the year. Thirteen meetings of the Board of Directors were held in 2013, with almost all of them being held in person to facilitate balanced and efficient decision-making based on constructive dialogue and the free exchange of views.

The Company also has a well-developed system of committees, including the Audit Committee, the Personnel and Remuneration Committee, and the Strategy Committee. The committees hold preliminary discussions and prepare recommendations on the most important matters within the BoD's terms of reference. To view the reports on the activities of the BoD Committees, please refer to p. 74-88.

The Board consists of eleven members, as is comparable with European companies. This number is sufficient to meet the demands of business and ensure the required range of expertise and business continuity in the event of a change in the BoD's composition.

A balanced set of skills, experience, independence, and an in-depth knowledge of the Company helps the Board of Directors to exercise its powers effectively.

The Board of Directors includes independent directors, who contribute their expertise in best corporate governance practices; non-executive directors, who bring a broader external vision of the Company's activities; and an executive director, who has extensive knowledge of the Company's operations. In 2013, the Company's Board was composed of three independent directors, seven non-executive directors, and one executive director.

1/2.The Regulations are available on the Company's website at: <http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/>.

CORPORATE GOVERNANCE
DIRECTORS' REPORT
(CONTINUED)

The BoD members have the necessary knowledge, and expertise which is in line with their extensive business experience in such areas as financial, investment, and strategic management; financial and management accounting; risk management; corporate governance; and rail transport. As such, each Board member makes a significant contribution to the Company's overall performance. For detailed information on the professional expertise and experience of the Board members, please refer to p. 60-61.

The Board of Directors is composed of people of different ages, genders and ethnic backgrounds; diversity is viewed as a key driver in the BoD's effectiveness. In 2013, it was composed of four women and seven men of varying age groups and holding Russian, Kazakh and British citizenship.

The Chairman of the Board of Directors is responsible for organising the BoD's focus and ensuring that it is able to operate efficiently. The Chairman seeks to facilitate a constructive flow of interaction at the BoD meetings, supporting the open discussion of issues on the agenda and overseeing the implementation of the BoD's resolutions. The Chairman takes measures to ensure that members of the BoD are provided with the required information to adopt effective resolutions on items of the agenda.

The Chairman holds regular meetings with members of the Board of Directors, including independent directors, without the participation of the Company's management.

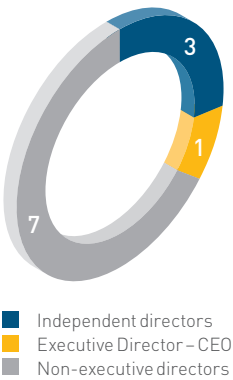
The BoD members exercise their rights and fulfil their responsibilities to the Company in a reasonable manner and in good faith, acting for the good of the Company and taking into account the interests of its shareholders, employees, clients, and other stakeholders. They contribute sufficient time to fulfil their duties. In 2013, the Board members were actively involved in the Company's principal developments (including the launch of terminals at the Kleshchikha station in Novosibisk and the Paveletskaya station in Moscow) and participated in regular meetings with the Company's management to discuss issues arising from the Company's operations. To attract highly competent professionals to TransContainer's Board of Directors, the Company has had annual liability insurance agreements in place since February 2009 to provide liability insurance for its BoD members and management team (D&O policy).

In order to improve the effectiveness of the BoD and its members, the activities of the BoD and its committees are reviewed on a regular basis, including by third-party consultants. Based on the results of these reviews, the Company identifies areas of improvement for the BoD and its committees. For more details on the BoD's performance assessment, please refer to p. 83.

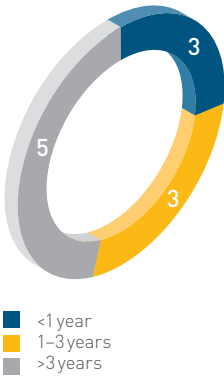
KEY RESOLUTIONS OF THE BOARD
OF DIRECTORS ADOPTED IN 2013:

1. The BoD approved TransContainer's Development Strategy through to 2020. The 2020 Strategy sets out the goal of retaining the Company's leading position in the fast-growing rail container transportation market, aligning its terminal-handling business with the anticipated changes in cargo mix and further decommissioning of medium-duty containers in Russia. It also sets forth the Company's intent to continue the active development of its logistics business (for further details, please refer to the 'Strategy' subsection on p. 20.

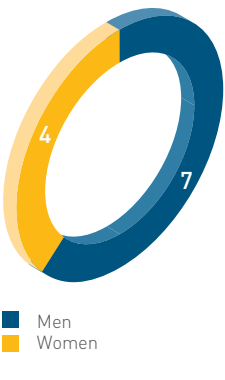
BOARD OF DIRECTORS STRUCTURE



TENURE OF BOARD DIRECTORS



BOARD GENDER SPLIT



2. The BoD approved TransContainer's adjusted Budget for 2013–2015.

Tensions in the Russian and global economy had a significant impact on the performance of the transport services market in late 2012 and the first half of 2013, with the freight traffic segment's low growth rates following a dip in industrial and agricultural production.

The Company's budget for 2013 was based on the economic growth rate as projected by the Russian government and analysts, a projection that turned out to be optimistic to say the least. The economic downturn that had begun in Q4 2012 made the GDP growth target of 3.7%, set by the Ministry of Economic Development and Trade of the Russian Federation and factored in the Company's budget, unreachable.

3. The BoD approved the Regulations on the procedure for the procurement of goods, works and services, as required by the Company's core operations.

The Regulations were developed in accordance with Federal Law No. 223-FZ dated 18 July 2011 (effective from 1 January 2013) to serve the interests of the Company by improving transparency of the procurement process and its accessibility to a wider range of potential suppliers.

4. The BoD approved the revised Dividend Policy Regulations, updated to reflect the amendments to the Federal Law On Joint-Stock Companies concerning the timing of and the procedure for dividend payments introduced by the Russian Government Order No. 2083-r dated 12 November 2012. The order sets out new rules for determining the amount of dividends payable by state-owned joint-stock companies and their subsidiaries (for further details, please refer to the Dividend policy and dividend history subsection on p. 76.

5. The BoD approved the Programme for Briefing New BoD Members of TransContainer's Board of Directors.

The Programme seeks to ensure that new BoD members are promptly and effectively acquainted with all aspects of the Company's operations. It also aims to enhance the Company's corporate governance in line with the key international corporate governance principles, including those stipulated by the UK Corporate Governance Code.

(For details, please see Subsection Induction Programme for newly elected members of the Board of Directors on p. 83.

6. The BoD approved the Company's amended Risk Management Policy and Framework.

The amended Risk Management Policy and Framework are based on widely-accepted risk management frameworks and standards (COSO ERM, 2004, ISO 31000:2009) and the Company's 2010–2013 track record in risk management (for further details, please refer to the Risk management section on p. 50-54.

CHANGES IN THE BOARD OF DIRECTORS THAT OCCURRED DURING 2013

During the period of January to May 2013, the Board of Directors consisted of the following members elected by resolution of the Annual General Meeting of Shareholders, dated 26 June 2012:

1. Vladimir Andrienko
2. Petr Baskakov
3. Yuri Gilts
4. Alexei Grom
5. Alexei Davydov
6. Pavel Ilyichev
7. Dmitry Mukhin
8. Yuri Novozhilov
9. Viacheslav Petrenko
10. David Hexter
11. Irina Shytkina

This Board of Directors held four meetings in person and one meeting in the form of a letter ballot during this period.

At the Extraordinary General Meeting of Shareholders held on 14 May 2013, the Board of Directors was elected as follows:

1. Petr Baskakov
2. Anna Belova
3. Alexei Grom
4. Alexei Davydov
5. Pavel Ilyichev
6. Irina Kostenets
7. Yuri Novozhilov
8. Stephen Peel
9. Zhanar Rymzhanova
10. David Hexter
11. Irina Shytkina

This Board of Directors held two meetings in person.

At the Annual General Meeting of Shareholders held on 26 June 2013, the following persons were elected to the Board of Directors:

1. Petr Baskakov
2. Anna Belova
3. Alexei Grom
4. Alexei Davydov
5. Pavel Ivanov
6. Pavel Ilyichev
7. Irina Kostenets
8. Yuri Novozhilov
9. Zhanar Rymzhanova
10. David Hexter
11. Irina Shytkina

From July to December 2013, the Board of Directors held five meetings in person and one meeting in the form of a letter ballot.

CORPORATE GOVERNANCE
DIRECTORS' REPORT
(CONTINUED)

PARTICIPATION OF MEMBERS IN THE BOD AND COMMITTEE MEETINGS IN 2013

Name	Board of Directors	Audit Committee	Strategy Committee	Personnel and Remuneration Committee
Zhanar Rymzhanova	8/8			0/1
Yuri Novozhilov	12/13			3/5
Anna Belova	8/8	5/5		
David Hexter	13/13	12/12	6/6	
Irina Shytkina	13/13			8/8
Petr Baskakov	13/13		8/8	
Alexey Grom	13/13		8/8	3/3
Alexey Davydov	12/13		8/8	
Pavel Ivanov	6/6	5/5		
Pavel Ilyichev	13/13	5/5		
Irina Kostenets	8/8	7/7		8/8
Yuri Giltis	5/5	4/5		
Dmitry Mukhin	5/5	5/5		
Vladimir Andrienko	5/5		2/2	
Viacheslav Petrenko	0/5			0/3
Stephen Peel	2/2	2/2		

CONFLICT OF INTEREST

Members of the Board of Directors avoid any action, which may lead to potential or actual conflict between their personal interests and the interests of the Company or its shareholders. In the event of any actual or potential conflict of interest, they disclose the conflict of interest to the Board of Directors and take the required action to ensure compliance with the procedures applicable to interested-party transactions involving a conflict of interest on the part of a BoD member.

In 2013, the BoD approved 101 interested-party transactions involving a conflict of interest on the part of the BoD member. The BoD members who had a conflicting interest in certain transactions were precluded from voting on resolutions relating to these transactions.

CHAIRMAN OF THE BOARD OF DIRECTORS

Zhanar Rymzhanova has served as Chairman of the Board of Directors since 17 July 2013.

The Chairman has the following duties:

- convening and presiding over meetings of the Board of Directors;
- representing the BoD at General Meetings of Shareholders and before third parties;
- presiding over annual and extraordinary.

General Meetings of Shareholders;

- arranging for BoD members to receive timely information on matters relating to BoD meeting agendas;
- providing the required leadership at meetings by facilitating the open and appropriate discussion of matters broached and giving due consideration to the opinions of all BoD members during decision-making. Also, the Chairman summarises the discussions and formulates the decisions to be taken;
- arranging for recording of minutes at Board meetings;
- controlling the implementation of resolutions of the Board of Directors and the General

Meeting of Shareholders;

- signing the employment contract with the CEO on behalf of the Company;
- ensuring the effectiveness of the BoD Committees’ work;
- taking personal responsibility to the General Meeting of Shareholders for organising the Board’s work.

In the absence of the Chairman, the Deputy Chairman shall act as in his stead. In 2013, Yuri Novozhilov was elected Deputy Chairman of the Company’s Board of Directors.

For further details on the track record and expertise of the Chairman and Deputy Chairman, please refer to p. 60–61.

INDEPENDENT DIRECTORS

In September 2013, the Board of Directors reviewed the independence criteria for directors and information provided by the directors and concluded that the BoD members Anna Belova, David Hexter and Irina Shytkina qualified as independent directors.

The decision was based on the criteria set out in the Russian law, TransContainer’s Corporate Governance Code, the Corporate Conduct Code of the Russian Federal Securities Committee, and the UK Corporate Governance Code.

David Hexter holds the post of Chairman of the Audit Committee and is a member of the Strategy Committee. Irina Shytkina serves as Chairman of the Personnel and Remuneration Committee. Anna Belova serves as Deputy Chairman of the Audit Committee. For further details on the track record and expertise of the Company’s independent directors, please refer to p. 61.

Independent directors demonstrate a high level of professionalism in decision-making, voting independently on agenda issues, and voicing independent opinions at meetings. The input made by the independent directors promotes balance between various stakeholder groups and improves the quality of managerial decisions. The Company greatly appreciates their contribution to the BoD’s discussions and decision-making. This is of particular note in areas related to the Company’s overall strategic development, monitoring the Company’s performance in line with its strategy, evaluating the performance of the Company’s executive bodies and efficiency of its risk management and internal control system, and assessing whether the Company’s operations serve the interests of all its shareholders.

Independent directors maintain a constant line of communication with each other through meetings and phone calls.

EXECUTIVE DIRECTOR – CEO

The CEO is the Company’s sole executive body elected by the Board of Directors and accountable to the General Meeting of Shareholders and the Board of Directors.

The employer’s rights and responsibilities to the CEO on behalf of the Company are exercised by the Board of Directors.

The CEO has full authority on behalf of the Company, but observes restrictions as set forth in the current laws of the Russian Federation, the Charter, and the BoD resolutions.

Petr Baskakov has been TransContainer’s CEO since 2006.

For further details on the track record and expertise of the CEO of the Company please refer to p. 60.

CORPORATE SECRETARY

The Company’s Corporate Secretary reports to the Chairman of the Board of Directors.

The Corporate Secretary’s key responsibilities are to ensure that the Company’s bodies and officers comply with legal provisions as well as the Company’s Charter and bylaws relating to shareholder rights. In addition, the Corporate Secretary also ensures compliance with procedures relating to the preparation and holding of General Meetings of Shareholders, the Board of Directors, and its Committees as well as with procedures for the disclosure of information about the Company. The Corporate Secretary also commits to improving the Company’s corporate governance practices.

The Corporate Secretary’s key functions are:

- providing organisational and informational support to the Board of Directors and its Committees;
- preparing and holding General Meetings of Shareholders;
- interacting with members of the BoD and advising BoD on matters of corporate governance;
- acting as a liaison between the Company and its shareholders;
- arranging storage of all Company documentation relating to corporate governance;
- providing for the required disclosure of information about the Company.

The Corporate Secretary’s duties and responsibilities are outlined in the Company’s Regulations for the Corporate Secretary . From January to December 2013, Yulia Gelfer, Acting Director for Corporate Governance, served as the Company’s Corporate Secretary³.



Yulia Gelfer
Corporate Secretary

Year of birth:
1979 г.

Year of appointment corporate Secretary:
2012 г.

Education:
Moscow State Academy of Law. Graduated with honours in 2001.

Work experience:
2004–2006: Advisor, Deputy Department Head at the Federal Property Management Agency.

2006–2011: Head of the Department for Regulatory Improvements and Government Relations, Corporate Secretary with the Agency for Housing Mortgage Lending.

2011–2012: Deputy Director for Corporate Governance at TransContainer.

2012–present: Acting Director for Corporate Governance at TransContainer.

In 2013, Yulia Gelfer was one of the top 25 corporate secretaries nominated for the 8th National Director of the Year Award.

3. The Regulations are available on the Company’s website at: <http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/>.

CORPORATE GOVERNANCE
STRATEGY COMMITTEE
REPORT



Alexei Davydov
Chairman of the Strategy Committee

In 2013, the Strategy Committee turned its attention to developing the Company’s Development Strategy through to 2020, setting the budget for 2014, and overseeing their implementation by the CEO and management of the Company

STRATEGY COMMITTEE REPORT
THE ROLE OF THE STRATEGY COMMITTEE

The primary objective of the Strategy Committee is to ensure the effective operation of the Company’s Board of Directors with a view to improving company-wide efficiency in the long term.

The key task of the Strategy Committee is to preview and provide recommendations on the following matters reserved for the Board of Directors:

- determining the Company’s priority areas of business;
- developing company strategy and proposals on how to implement and supervise the strategy;
- approving the Company’s budget and budget performance reports;
- ting a dividend policy for the Company;
- liaising with subsidiaries and affiliates;
- approving the Company’s equity interests in other organisations.

The members of the Strategy Committee possess the knowledge and experience to exercise their functions with respect to strategic planning, management of business processes, railway transportation, economics, finance, and corporate governance. For further details on the professional background of the Strategy Committee members, please refer to p.60-61.

STRATEGY COMMITTEE

Committee members from January to May 2013

Alexei Davydov, Chairman
Vladimir Andrienko, Deputy Chairman, Independent director
Petr Baskakov
Alexei Grom

Kristina Galkina – Secretary

The Committee held two meetings in person.

Committee members from May to December 2013

Alexei Davydov, Chairman
Alexei Grom, Deputy Chairman
Petr Baskakov
David Hexter, Independent director

The Committee held six meetings in person.

STRATEGY COMMITTEE ACTIVITIES IN 2013

The Strategy Committee reviewed a number of essential issues within its competence, including:

The issues of determining priority business are as of the Company:	– information on the Integrated Transport & Logistics Company – 2012 progress report on the 2015 programme of innovation development of the Company.
The issues of developing the budget and monitoring budget performance reports:	– the Company’s performance reports for 2012, Q1 2013, 1H 2013 and 9M 2013 – reports on reducing expenses for the procurement of goods, works, and services for the Company in 2012, Q1 2013, 1H 2013 and 9M 2013 – forecasted operational results for Q1–Q3 2013 – adjustments to the Company Budget for 2013 – target indicators and key parameters of the Company’s investment programme for 2014 – the draft Company Budget for 2014 – target key performance indicators for the CEO in 2014
The issues of adopting the dividend policy of the Company:	– the revised draft of the Dividend Policy Regulations of the Company.
The issues of liaising with the Company’s subsidiaries and affiliates:	– a draft addendum to Joint Venture Cooperation Agreement No. 80-AO of 17 March 2011 between the Company and Kazakhstan Temir Zholy – operating results of Kedentransservice for 2012 and 1H 2013.
The issues of the Company’s stake in other organisations:	– a stake in the Lokomotiv Hockey Club (Non Profit Partnership, Yaroslavl).
Miscellaneous:	– deliverables for the Company’s Strategy Committee in the 2012/2013 corporate year – a work plan for the Company’s Strategy Committee for the period preceding the Annual General Meeting of Shareholders (Q3 2013–Q2 2014) – the draft budget for the Company’s Strategy Committee in the 2013/2014 corporate year.

TRANSCONTAINER’S DEVELOPMENT STRATEGY THROUGH 2020

The Company’s Development Strategy through 2020 (the “Strategy”) was drafted in 2012–2013 in conjunction with A.T. Kearney and Deloitte consulting firms.

The draft Strategy went through several rounds of review at the meetings of the Strategy Committee and the Board of Directors and was also discussed at the meetings of Russian Railways’ working group for strategic development of subsidiaries and affiliates.

The factors behind the Strategy update are:

- the global financial crisis and the unstable global economic recovery after the crisis has slowed down the growth of the container transportation market;
- the basic macroeconomic assumptions applied in financial modelling to forecast growth rates for GDP, inflation, tariffs of natural monopolies, etc., experienced a considerable change;
- the Company elaborated its terminal development strategy to be incorporated in its core strategy;
- the Company revised and enhanced its financial model to ensure better accuracy of forecasting;
- the Company’s internal and external environment changed, with new markets and opportunities emerging, especially in the Asia-Pacific Region.

CORPORATE GOVERNANCE

STRATEGY COMMITTEE

REPORT (CONTINUED)

The Company’s growth forecast in the Strategy stems from three market development scenarios: the conservative scenario, baseline scenario, and accelerated growth scenario.

The market forecast under the baseline scenario is based on the detailed analysis (by station) of the freight turnover between Russia’s regions as well as the analysis of export/import and transit traffic in these regions. The analysis covered nine cargo types; the cargo growth forecast is based on the official plans for manufacturing capacity development in the regions.

The market forecast under the conservative scenario is based on the negative GDP growth scenario of the Ministry of Economic Development of Russia, and the market forecast under the accelerated growth scenario is based on another scenario of the Ministry – accelerated macroeconomic growth scenario (September 2012).

The Strategy defines the baseline market growth scenario as the most probable, and the Company’s projected key performance indicators under the baseline scenario are assumed as indicative targets. For more detailed information on TransContainer’s Development Strategy through 2020 please refer to p. 20.

DIVIDEND POLICY AND DIVIDEND HISTORY
Pursuant to the Dividend Policy Regulations of TransContainer⁴, the target for the Company’s net profit payable as dividends is 25%, calculated in accordance with Russian accounting standards (excluding any positive results from the revaluation of financial investments). However, the actual share of the Company’s net profit payable as dividends may be above or below 25% depending on the Company’s financial and business plans and the recommendations from the Board of Directors.

The Company’s dividend policy is underpinned by the following principles:

- If there is net profit, the Company uses part of the profit to pay dividends on an annual basis, while using the majority of the retained profit to implement its investment program and repay financial liabilities maturing in the next financial period;
- The Company balances its own interests with those of its shareholders;
- The Company seeks to increase its capitalisation and promote its investment case;
- The Company respects shareholder rights in accordance with Russian law and best corporate governance practices;
- The Company uses transparent procedures to determine the amount of dividends and their payment.

Sincerely,

ALEXEI DAVYDOV
Chairman of the Strategy Committee

DIVIDENDS ACCRUED AND PAID BY THE COMPANY BETWEEN 2009 AND 2013					
Dividends	2009 (for 2008)	2010 (for 2009)	2011 (for 2010)	2012 (for 2011)	2013 (for 2012)
Total amount of dividends, RUB mln	268,0	2,2	40,434	1 218,3	1 204,3
Dividend per share, RUB	19,29	0,16	2,91	87,68	86,67
Dividends as percentage of net profit under RAS	10%	10 %	10 %	35,0%	25,0%
Announcement date	23.06.2009	23.06.2010	28.06.2011	26.06.2012	26.06.2013
Actual payment date	20.08.2009	10.08.2010	18.08.2011	25.07.2012	07.08.2013

4. The Regulations are available on the Company’s website at: <http://www.trcont.ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/>. The Company also publishes resolutions of the General Meeting of Shareholders to pay dividends, information on the amount, time, and form of dividend payments, and information on the announcement and payment of dividends, on its website in the form of statements of material facts.

CORPORATE GOVERNANCE

AUDIT COMMITTEE REPORT



David Hexter
Chairman of the Audit Committee

In 2013, the Audit Committee focused specifically on overseeing the efficiency and reliability of the Company’s risk management and internal control system. In 2014, its efforts will be geared towards improving the Company’s anti-fraud and anti-corruption processes

AUDIT COMMITTEE REPORT
ROLE OF THE AUDIT COMMITTEE
The primary objective of the Audit Committee is to ensure the efficient operation of the Company’s Board of Directors by controlling the Company’s financial and business operations.

The key task of the Audit Committee is to preview and issue recommendations on the following matters reserved for the Board of Directors:

- controlling the accuracy and completeness of the Company’s financial statements;
- evaluating the effectiveness of internal controls;
- evaluating the effectiveness of the risk management system;
- Company relations with the External Auditor;
- Company relations with the Revision Commission;
- Curbing any unethical practices found with the Company’s employees and third parties.

Only independent directors of the Company may serve as Chairman/Deputy Chairman of the Audit Committee. The members of the Audit Committee possess the knowledge and experience to exercise their functions with respect to finance, economics, railway transportation, and corporate governance. For further details on the professional background of the Audit Committee members, please refer to p. 60-61.

Audit Committee meetings are regularly attended by the Company’s Auditor, the Head of the Internal Audit Service, and the Company’s Chief Accountant. In 2013, the CEO and representatives of the Revision Commission also participated in the Audit Committee’s meetings on certain matters at the Committee’s request.

Additionally, the Audit Committee meets with the Company’s Auditor and the Head of the Internal Audit Service at least once each quarter in a confidential setting and without the management team.

THE AUDIT COMMITTEE		
Committee members from January to May 2013	Committee members from May to July 2013	Committee members from July to December 2013
David Hexter, Chairman, independent director	David Hexter, Chairman, independent director	David Hexter, Chairman, independent director
Dmitry Mukhin, Deputy Chairman	Stephen Peel Deputy Chairman	Anna Belova, Deputy Chairman, Independent director
Yuri Gilts	Irina Kostenets	Irina Kostenets
		Pavel Ivanov
		Pavel Ilyichev
Yulia Gelfer – Secretary		
The Committee held five meetings in person.	The Committee held two meetings in person.	The Committee held five meetings in person.

CORPORATE GOVERNANCE
AUDIT COMMITTEE REPORT
(CONTINUED)

AUDIT COMMITTEE ACTIVITIES

THE AUDIT COMMITTEE REVIEWED THE FOLLOWING ESSENTIAL ISSUES WITHIN ITS COMPETENCE:

The issues of controlling the accuracy and completeness of the Company’s financial statements:	<div><div>– 2012 RAS financial statements</div><div>– 2012 IFRS financial statements</div><div>– 2012 Annual Report</div><div>– interim consolidated IFRS financial statements of the Group for 1H 2013</div><div>– 2014 accounting policy.</div></div>
The issues of evaluating the effectiveness of the internal control system:	<div><div>– the Internal Audit Service’s report on the results of its activities in Q4 2012 and Q1–Q3 2013</div><div>– the performance report on the Internal Audit Service’s work plan for 2012</div><div>– the procedure for relationships between the Internal Audit Service of the Company and the Internal Audit Service of Kedentransservice</div><div>– the Internal Audit Service’s draft work plan for 2014</div><div>– the draft budget for the Internal Audit Service in 2014</div><div>– the Company’s Internal Audit Service performance.</div></div>
The issues of evaluating the effectiveness of the risk management system:	<div><div>– the performance report on the 2012 action plan to improve the corporate risk management system</div><div>– Ernst & Young diagnostics report on the corporate risk management system</div><div>– the 2013 action plan for improving the corporate risk management system</div><div>– the performance report on the critical and acceptable risk action plan for Q4 2012 and Q1–Q3 2013</div><div>– risks materialised in 2012</div><div>– management of defined critical risks</div><div>– the Company’s draft Corporate Risk Management Framework</div><div>– the Company’s draft Corporate Risk Management Policy</div><div>– the 2014 draft corporate risk map (risk register)</div><div>– a preventive action plan for the identified “acceptable” and “critical” risks for the Company in 2014</div><div>– critical ceiling of possible losses in case of risk realisation in 2014 (the Company’s risk bearing capacity)</div><div>– risk ranking parameters for 2014.</div></div>
The issues of cooperating with the Company’s External Auditor:	<div><div>– the Auditor’s opinion on the Company’s 2012 annual financial statements</div><div>– the progress of the audit of 2012 IFRS financial statements;</div><div>– the findings of the audit of 2012 IFRS financial statements</div><div>– Auditor fees in 2013</div><div>– candidate for the Company’s Auditor in 2013</div><div>– the Auditor’s letter to the management based on the findings from the 2012 financial statements audit</div><div>– the report on actions taken to rectify the issues identified during the audit of the Company’s 2012 financial statements</div><div>– the Auditor’s opinion based on the audit of the IFRS interim consolidated financial statements of the Group for 1H 2013.</div></div>
The issues of cooperating with the Revision Commission:	<div><div>– the management report and Internal Audit Service’s progress report on rectifying issues identified by the Revision Commission following the audit of the Company’s operations in 2011</div><div>– the Revision Commission’s report on the findings of the audit of the Company’s operations in 2012</div><div>– the action plan to rectify issues identified by the Revision Commission during the audit of the Company’s operations in 2012.</div></div>
The issues of curbing any unethical practices by the Company’s employees and third parties:	<div><div>– events of non-compliance with the Company’s Code of Conduct in 2012</div><div>– hotline grievances (complaints) in 2012</div><div>– the draft corporate anti-fraud programme</div><div>– activities to ensure that the Company implements anti-fraud and anti-corruption measures.</div></div>
Miscellaneous:	<div><div>– draft Regulations on the Procurement of Goods, Works, and Services for the Company’s core operations</div><div>– the report on the procurement of goods, works, and services for the Company’s operations in 2012</div><div>– interested-party transactions during 2012</div><div>– the effectiveness of an automated management system based on Oracle CRM, OTM, BI, SNO</div><div>– the Company’s Audit Committee performance in the 2012/2013 corporate year</div><div>– the work plan of the BoD Audit Committee for the period preceding the Annual General Meeting of Shareholders (Q3 2013–Q2 2014)</div><div>– the draft budget of the BoD Audit Committee from July 2013 to June 2014.</div></div>

STATUTORY (FINANCIAL) STATEMENTS

The key objectives of the Audit Committee in the area of statutory (financial) statements are

- controlling the accuracy, reliability and completeness of the Company’s statutory (financial) statements;
- analysing the material aspects of the Company’s accounting policy;
- taking part in the consideration of material estimates and assumptions with respect to the Company’s statutory (financial) statements.

In 2013, the Audit Committee reviewed the Group’s interim and annual IFRS consolidated financial statements, the Company’s RAS annual statutory (financial) statements, the Auditor’s opinion, the accounting policy and the annual report of the Company.

The Auditor’s representatives attend each Audit Committee meeting relating to statutory (financial) statements. During these meetings, they inform the Audit Committee of their findings and provide recommendations on how to improve the accounting process and financial reporting.

Having reviewed the accounting (financial) statements of the Company, unqualified Auditor’s opinions, and statements of the Company’s management, the Audit Committee believes that the IFRS financial statements of the Group and the Company’s statutory (financial) statements present the financial position of the Company and its financial performance fairly, completely and accurately.

The Audit Committee also believes that this annual report provides accurate, balanced and accessible information about the Company as required by the shareholders and investors.

RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Company maintains a robust world-class risk management and internal control system that furthers the strategic and operational goals of the Company and ensures the ongoing sustainability of the Company’s business.

The Company’s risk management and internal control system gives an impartial, fair and clear account of the current situation and the Company’s outlook, as well as the integrity and transparency of the Company’s reports and the reasonable and acceptable nature of the risks assumed by the Company.

Having reviewed the reports of the Internal Audit Service, reports related to risk management issues, External Auditor’s reports, management statements and other documentation issued upon the Audit Committee’s request, the Audit Committee is satisfied with the risk management and internal control system of the Company and finds it on the whole efficient.

The goals, objectives, requirements and principles underpinning the risk management and internal control system of the Company have been encompassed by the Corporate Risk Management Framework and Internal Control Regulations⁵.

For further information on the risk management system, please refer to p. 50-54.

INTERNAL AUDIT

The internal audit serves to improve the reliability and effectiveness of the internal control and risk management system and corporate governance practices, to provide the Company’s management with accurate and complete information relating to the Company’s operations and to identify and prevent abuse and violations.

The internal audit is a process effected by the Internal Audit Service which is accountable to the BoD Audit Committee, and submits quarterly and annually reports on its activities. The Internal Audit Service’s annual work plan and budget are approved by the Board of Directors and based on the Audit Committee’s recommendations.

The key functions of the Internal Audit Service are:

- auditing the Company’s operational and financial activities;
- participating in the optimisation of the Company’s organisational and management structure and business processes to ensure the Company’s alignment with the approved strategic targets;
- preparing proposals to eliminate deficiencies as identified in the Company’s operations and proposals to take disciplinary and other punitive and compensatory action permitted by applicable laws and the Company’s bylaws, and submitting them to the CEO for consideration;
- taking part in identifying and preventing financial, operational and other risks inherent in the Company’s activities and evaluating the likelihood of risks materialising and the losses likely to result from that; evaluating the adequacy and efficiency of the risk management and internal control system, building a risk management programme to address the identified risks, and presenting all relevant proposals to the Audit Committee and the CEO;
- within its scope of competency, interacting with the Company’s External Auditor.

PRINCIPLES OF OPERATION:

Risk management principles

- systemic approach;
- continuity of the risk management process;
- depth of the risk management process;
- integrity of the risk management process;
- balanced approach to managing risks;
- risk management strategy;
- checks and balances;
- separation of decision-making levels ;
- integration with the internal control system.

Internal control principles

- continuity;
- fairness;
- responsibility;
- distribution of competencies ;
- balanced nature;
- timely communication of identified material variations;
- balance between the controlled and controlling systems;
- integration with the risk management system.

5. The Framework and Regulations are available at the Company’s web-site at: <http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/>.

CORPORATE GOVERNANCE

AUDIT COMMITTEE REPORT

(CONTINUED)

EXTERNAL AUDIT

The Audit Committee's key objectives here are to ensure that the Company's external auditors act independently, without bias, and with no conflict of interest. This includes when evaluating the Company's potential auditors, developing proposals on (re-) appointment, fees, and terms of service for the Company's auditors, and supervising the external audit and quality assurance of the audit and auditor's report.

In order to ensure the independent and unbiased audit of financial statements, the Company has approved a policy of rotating the external auditor and its engagement to provide non-audit services⁶ (hereafter, the Auditor Rotation Policy).

The external auditor of TransContainer's financial statements under the RAS and IFRS is approved by the General Meeting of Shareholders based on recommendations from the Company's Board of Directors. This is preceded by a competitive selection process conducted by the Audit Committee among the Big Four at least once every five years. The Company considers it appropriate to select a single auditor for the Company's financial statements under both the RAS and IFRS.

In April 2011, the Audit Committee held a competitive selection of TransContainer's external auditor. Upon completing the review of the recommended audit firms, the Audit Committee announced PricewaterhouseCoopers Audit as the winner of the selection process.

To prepare recommendations on the reappointment of the external auditor, the Audit Committee reviewed the external auditor's reports and statements from management,

assessed the quality of the Company's external audit and the auditor's compliance with the independence requirements, and proposed PricewaterhouseCoopers Audit to be recommended by the Board of Directors for re-election at the annual General Meeting of Shareholders as the Company's external auditor. In June 2013, the Company's Annual General Meeting of Shareholders reappointed PricewaterhouseCoopers Audit as the Company's auditor (hereafter, the auditor).

In July 2013, the Board of Directors set the fee of RUB 16,300,000 excluding VAT and overhead expenses, payable to the auditor for their review of the interim condensed consolidated financial statements under IFRS for 1H 2013, their audit of TransContainer's 2013 financial statements under the RAS, IFRS consolidated financial statements and special financial information prepared pursuant to Russian Railways' and TransContainer Group's instructions and accounting policy for the purpose of consolidation in FESCO Transportation Group's financials.

In accordance with the Auditor Rotation Policy, in order to ensure the independence of the External Auditor, the fee payable to the Auditor for their non-audit services may not exceed 10% of the fee for auditing the Company's financial statements. Prior to commencing, the Audit Committee considers the audit firm's capacity to render non-audit services of any type and scope, and the fee payable for such services by the Company. In 2013, PricewaterhouseCoopers Audit did not provide any non-audit services to the Company.

PricewaterhouseCoopers Audit, as the Company's Auditor, was paid the following fees in 2013:

PRICEWATERHOUSECOOPERS AUDIT, AS THE COMPANY'S AUDITOR, WAS PAID THE FOLLOWING FEES IN 2013:	
Type of service	Fee (VAT included), RUB
Audit of the RAS financials for FY2012	8 380 360,00
Review of the interim condensed consolidated financial statements under the IFRS for 1H 2012	5 228 344,00
Audit of the FY2012 consolidated financial statements under the IFRS	4 363 640,00
Review of the interim condensed consolidated financial statements under the IFRS for 1H 2013	5 878 760,00
TOTAL	23 851 104,00

REVISION COMMISSION

The Revision Commission is a permanent internal control body that monitors the Company's financial and business activities, including those of the Company's branches and representative offices, to ensure compliance with the existing laws of the Russian Federation and the Company's Charter and bylaws.

The Revision Commission acts in the interests of the Company's shareholders and reports to the General Meeting of Shareholders. In its activities, the Revision Commission is not dependent on any officers in the Company's executive bodies. Members of the Revision Commission are neither the Company's officers nor employees.

On 26 June 2013, the following members were elected to the Revision Commission at the Annual General Meeting of Shareholders:

- Oleg Ivanov as Chair of the Revision Commission;
- Sergey Davydov;
- Maria Kalvarskaya;
- Fedor Kuzin;
- Natalya Lem.

Revision Commission members are entitled to remuneration as set forth in the Company's Regulations on Remuneration and Compensation Payable to Members of the Revision Commission⁷. The annual remuneration paid to the Revision Commission in 2012 totalled RUB 717,750.00.

Sincerely,

DAVID HEXTER
Chairman of the Audit Committee

6. The Policy is available on the Company's website at: <http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/>.

7. The Regulations are available on the Company's website at: <http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/>.

CORPORATE GOVERNANCE

PERSONNEL AND REMUNERATION COMMITTEE REPORT



Irina Shitkina
Chairman of the Personnel and Remuneration Committee

In 2013, the Personnel and Remuneration Committee worked actively to ensure the maximum efficiency of the Company's remuneration system. The Committee constantly monitors the system of top management incentives and their impact on the financial result

PERSONNEL AND REMUNERATION COMMITTEE REPORT

THE ROLE OF THE NOMINATION COMMITTEE AND REMUNERATION

The key objective of the Personnel and Remuneration Committee is to ensure the effective work of the Company's Board of Directors by establishing an efficient and transparent practice for remuneration payable to the Company's BoD members, CEO and other top managers.

The main task of the Personnel and Remuneration Committee is to preview and issue recommendations on the following matters reserved to the Board of Directors:

- defining priorities in HR policy;
- defining priorities in remunerations for members of the Company's executive bodies and management;
- assessing the BoD members' compliance with the independence criteria;
- developing the Company's policies and standards for recruitment of candidates to the Company's executive bodies with a view to engaging skilled professionals for the Company's management;
- streamlining the activities of the Company's Board of Directors and its committees;
- improving corporate governance.

The Personnel and Remuneration Committee is chaired by an independent director. All Personnel and Remuneration Committee members possess the relevant expertise and experience in personnel management, incentive programmes, corporate governance, economics, and finance. For more details on the professional experience of the Personnel and Remuneration Committee members, please refer to p. 61.

Throughout 2013, the Personnel and Remuneration Committee members worked closely with the Company's material shareholder, non-executive and independent directors and management.

THE HUMAN RESOURCES AND REMUNERATION		
Committee members from January to May 2013	Committee members from May to July 2013	Committee members from July to December 2013
Irina Shytkina – Chairman, independent director	Irina Shytkina – Chairman, independent director	Irina Shytkina – Chairman, independent director
Irina Kostenets, – Deputy Chairman	Irina Kostenets. – Deputy Chairman	Irina Kostenets. – Deputy Chairman
Alexey Grom	Yuri Novozhilov	Yuri Novozhilov
Viacheslav Petrenko	Zhanar Rymzhanova	
	Yulia Gelfer, Corporate Secretary	
The Committee held three meetings in person.	The Committee held one meetings in person.	The Committee held four meetings in person.

CORPORATE GOVERNANCE
PERSONNEL AND
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(CONTINUED)

PERSONNEL AND REMUNERATION COMMITTEE ACTIVITIES IN 2013

THE PERSONNEL AND REMUNERATION COMMITTEE REVIEWED THE FOLLOWING MATTERS WITHIN ITS COMPETENCE:

The matters relating to the Company's HR policy priorities:	– the Company's draft Human Resources Policy
The matters relating to remuneration payable to members of the Company's executive, supervisory and management bodies:	– bonus payments to the Company's CEO for Q4 2012, Q1–Q3 2013; – performance bonuses to TransContainer's CEO and management for the full year of 2012; – information on remuneration payments to the Company's BoD and BoD committee members, Revision Commission members; – one-off bonuses to employees holding administrative office in the Company, whose appointment is subject to the BoD's approval; – monitoring the effectiveness of the CEO's and management's remuneration system in the Company; – results of the long-term incentive programme for the Company's management; – optimisation of the long-term incentive programme for the Company's management; – draft amendments to the Regulations on the Long-Term Incentive Programme for the Company's Management, Regulations on the Motivation of the Company's Management, and Regulations on One-Off Loyalty Bonuses to the Company's Staff; – information on assigning the Company's CEO power of approval over the Regulations on One-Off Loyalty Bonuses to the Company's Staff; – draft supplementary agreement to the employment contract with the Company's CEO; – key performance indicator targets for the Company's CEO in 2014; – procedure for defining KPI targets for the Company's CEO.
The matters relating to the performance of the Company's BoD and its committees:	– a report assessing the performance of the Company's BoD and its committees in the 2011/2012 corporate year issued by Board Solutions firm; – an action plan for streamlining TransContainer's BoD activities; – results of self-assessment by TransContainer's BoD and BoD committee members of their performance in the 2012/2013 corporate year.
The matters of corporate governance improvement:	– a report assessing the Company's corporate governance practices issued by Deloitte & Touche CIS – a list of key measures to improve the Company's corporate governance compiled according to Deloitte & Touche CIS's report assessing the Company's corporate governance practices – a draft of the Programme for Briefing New BoD Members of the Company – an action plan to mitigate the risk of resignations by the Company's key senior executives.
The matters relating to the BoD composition:	– draft amendments to the Company's Corporate Governance Code relating to the independence of the Company's BoD members – the BoD members' compliance with the independence criteria – the selection of independent director candidates to the BoD.
The matters relating to the private pension priorities:	– draft revised Regulations on the Company's Private Pensions – assessment of the efficiency of the Company's private pensions system
Other matters:	– results of the Personnel and Remuneration Committee's activities during the 2012/2013 corporate year – the Personnel and Remuneration Committee work plan for the period up to the Company's Annual General Meeting of Shareholders – the Personnel and Remuneration Committee's draft budget.

ASSESSMENT OF THE PERFORMANCE OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

To improve the effectiveness of the BoD and the performance of its members, the Company has been assessing the BoD and its committees' performance annually since 2009. The Company's regular performance assessment of the BoD and BoD committees is overseen by the Personnel and Remuneration Committee.

Forms of assessing the BoD and its committees:

1. Self-assessment of the BoD and its committees. This is conducted by way of questioning the BoD and its committee members and discussing the self-assessment results during a BoD meeting held in person in order to identify areas for improving the efficiency of the BoD and its committees.

The self-assessment procedure of the BoD consists of several stages:

- 1) The Corporate Secretary and secretaries of the BoD committees prepare and submit questionnaires to the BoD and BoD committee members;
- 2) Each BoD and BoD committee member completes the questionnaire and forwards it to the Corporate Secretary or committee secretaries for data aggregation. The questionnaire is anonymous;
- 3) The Personnel and Remuneration Committee carries out a preliminary analysis of the BoD's and its committees' performance and puts forward recommendations for the BoD;
- 4) The BoD reviews the results of the BoD's and its committees' performance.

2. The BoD and its committees are assessed by an independent expert. The Company conducts this assessment once in three years, using the services of a third-party consultant to ensure independent and unbiased findings as required by the UK Corporate Governance Code⁸.

In November 2013, the BoD reviewed the results of self-assessment by the BoD and its committees of their performance in the 2012/2013 corporate year. According to assessment results, the performance of the BoD and its committees in the 2012–2013 corporate year was found satisfactory.

PROGRAMME FOR BRIEFING NEW BOD MEMBERS.

To ensure the effective performance of the Company's BoD, in November 2013, as advised by the Personnel and Remuneration Committee, the BoD approved the Programme for Briefing New BoD Members (hereafter, the Programme).

The Programme's objective is to brief new BoD members as efficiently and effectively as possible on the Company's operational and financial activities, as well as its corporate governance practices.

The programme consists of the following elements:

- 1) A meeting with the Company's management. Introductions of new BoD members with the Company's management are held in the form of a one-day introductory training (hereafter, the Training); The Training comprises presentations from Deputy CEOs and directors on matters relating to company strategy, the container transport market, the geography of the business, key operating and financial indicators, debt management policy, the Company's issued securities, risk management, corporate governance, and corporate and social responsibility;
- 2) A meeting with the Company's CEO. The meeting with the CEO is held for the purpose of acquaintance, sharing experiences, obtaining essential information on the Company's operations, current problems, and plans for the future;
- 3) A meeting with the Chairman of the BoD. This meeting is held for the purpose of acquaintance, sharing experience, discussing the BoD's function in the Company, and the role of the new member in the BoD and its committees;
- 4) Briefing new BoD members on the Company documents;
- 5) Visits to the Company's facilities. The list of the Company's facilities includes the Company's head office and one of its terminals in Moscow. If approved by the CEO, other facilities may also be visited.

Implementation of the Programme is supervised by the Personnel and Remuneration Committee.

REMUNERATION OF THE BOD AND BOD COMMITTEE MEMBERS.

Remuneration of the BoD and BoD committee members is paid in accordance with the Regulations on Remuneration and Compensation Payable to Members of the Board of Directors⁹ and to the Regulations on Remuneration and Compensation Payable to Committee Members of the Board of Directors¹⁰.

The remuneration payable to the BoD members consists of two parts: remuneration for participating in the BoD meetings and annual remuneration.

The remuneration payable to the BoD committee members consists of two parts: remuneration for participating in the BoD committee meetings and annual remuneration¹¹.

Members of the Board of Directors do not own shares of the Company.

The Company's CEO, Petr Baskakov, purchased 1,700 shares in TransContainer in 2010. The number of ordinary shares held by Mr. Baskakov remained unchanged in 2013, comprising 0.012% of the Company's authorised capital.

8. The assessment of the performance of the BoD and its committees in the 2011/2012 corporate year was performed by Board Solutions with the engagement of the UK-based Institute of Directors (IoD).

9. The Regulations are available on the Company's website at: <http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/>.

10. The Regulations are available on the Company's website at: <http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/>

11. Only the BoD members are entitled to be BoD committee members.

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SYSTEM OF REMUNERATION OF DIRECTORS AND COMMITTEES OF THE BOARD DIRECTORS

	For participating in the BoD meetings	For participating in the BoD committee meetings	Annual remuneration		Compensation	
			For serving on the BoD			
			Fixed pay	Variable pay		
Policy and objectives	A competitive incentive package to attract and retain skilled professionals in the BoD. Encouraging participation in the BoD or BoD committee meetings in person.		A package which incentivises members of the BoD to meet the Company’s strategy, financial and operational objectives.		A competitive incentive package which attracts and retains skilled professionals. Encouraging participation in committee meetings in person.	Reimbursement of costs related to participating in BoD and BoD committee meetings.
Description	The BoD member is paid: RUB 30,000 when participating in the meeting in person RUB 15,000 where a written opinion statement is provided or where participating in the meeting by letter ballot.	The BoD committee member is paid RUB 20,000 where participating in the meeting in person and RUB 12,000 where a written opinion statement is provided.	<p>The fixed annual remuneration of each BoD member is calculated as follows:</p> <p>$S_{fix} = 1,800,000 * M$, where</p> <p>S_{fix} is fixed annual remuneration of the BoD member RUB 1,800,000 is the base for calculating total annual remuneration M is the multiplier reflecting participation in the BoD meetings in person M is calculated according to the following formula:</p> <p>M is the number of meetings attended by the BoD member divided by the total number of BoD meetings held during the reporting period. The maximum value of the multiplier is one.</p>	<p>The variable annual remuneration is based on the following targets for the relevant reporting period:</p> <p>EBITDA Net profit The Company’s share price performance.</p> <p>The variable annual remuneration of each BoD member is calculated as follows:</p> <p>$S = [0.45 * Mebitda + 0.45 * Mnp + 0.1 * Mspp] * Bfix * M$, where Mebitda is the multiplier that reflects the delivery of the EBITDA target as per the Company’s approved budget for the respective period. Mnp is the multiplier that reflects the delivery of the net profit target as per the Company’s approved budget for the respective period. Mspp is the multiplier showing the Company’s share price performance.</p> <p>The Company’s share price performance is the difference between the relative change in the price of the Company’s GDR on the LSE and the relative change in FTSE Russia IOB Index for the Period.</p> <p>Bfix is the base for calculating the fixed annual remuneration and is equal to RUB 1,800,000. M is the multiplier reflecting participation in the BoD meetings in person M is calculated according to the following formula:</p> <p>M is the number of meetings attended by the BoD member divided by the total number of BoD meetings held during the reporting period.</p> <p>The maximum EBITDA and net profit multipliers applicable if 150% or more per cent of the target is achieved is 2. When targets delivered fail to reach 100%, remuneration is not paid. The variable annual remuneration is not paid to any Executive Directors.</p>	<p>If approved by the Annual General Meeting of Shareholders, BoD committee members may be paid annual remuneration calculated as follows:</p> <p>$AR = 2 * [20,000 * m + 12,000 * n]$, where AR is the annual remuneration amount; m is the number of the meetings during the reporting period where the committee member participated in person; n is the number of meetings during the reporting period where the committee member provided a written opinion statement.</p>	<p>Payments in line with the actual costs incurred and supported by the source accounting documents, including travel costs to attend the BoD meeting, VIP lounge services in airports and railway stations, hotel accommodation costs, communication, telephone and Internet costs and other expenses associated with the BoD member’s participation in the BoD and BoD committee meetings.</p>
Additional remuneration for acting as Chairman (Deputy Chairman) of the BoD or BoD committee	Additional 50% (25%) of remuneration	Additional 25% (25%) of remuneration	Additional 50% (25%) of remuneration		Additional 25% (25%) remuneration	–

SYSTEM OF REMUNERATION OF DIRECTORS AND COMMITTEES OF THE BOARD DIRECTORS

	For participating in the BoD meetings	For participating in the BoD committee meetings	Annual remuneration		Compensation	
			For serving on the BoD			
			Fixed pay	Variable pay		
Maximum possible payments	For participating in one meeting in person (by letter ballot or providing a written opinion statement): Chairman – RUB 45,000 (22,500).	For participating in one committee meeting (providing a written opinion statement): Chairman and Deputy Chairman – RUB 25,000 (15,000).	Chairman of the BoD – RUB 2,700,000; Deputy Chairman of the BoD – RUB 2,250,000; BoD member – RUB 1,800,000.	If 150% and more of the target is reached: Chairman of the BoD – RUB 5,130,000; Deputy Chairman of the BoD – RUB 4,275,000; BoD member – RUB 3,420,000.	Depends on the number of committee meetings held.	–
Payment schedule	Paid within one month of a BoD (committee) meeting.		Paid within one month of the Annual General Meeting of Shareholders.		Paid within one month of submitting documents evidencing costs incurred.	
Remuneration amounts paid in 2013	RUB 2,935,913.00	RUB 1,774,562.00	RUB 19,592,307.69	RUB 23,797,211.54	RUB 3,842,000.00	RUB 3,624,151.65

REMUNERATION OF THE COMPANY'S CEO AND MANAGEMENT

Remuneration of the Company's CEO and management is paid pursuant to the Regulations on the Motivation of the Company's Management and Regulations on the Long-Term Incentive Programme for the Company's management.

The Regulations set forth the amounts and procedures for remuneration payments to the CEO, First Deputies to the CEO, Deputies to the CEO, executive directors in functional areas, the Chief Accountant and Chief Engineer (hereafter, the «Management» or «Manager»).

The Management's motivation programmes aim to improve the effectiveness of the Company's governance, as well as delivery of the Company's strategic objectives and retention of skilled staff based on the following principles:

- procedural transparency when defining the total remuneration amount and structure;
- a simple formula for calculating the total remuneration;
- competitive amounts and structures for remuneration;
- balanced interests between the Company shareholders and Management.

The total remuneration (incentive package) of the Management consists of fixed pay (base or fixed salary) as established in the employment contract, and variable pay including bonuses and long-term incentives (equity-based compensation programme), as well as other payments stipulated by the labour legislation of the Russian Federation, collective bargaining agreement or local regulations. The Management's remuneration is defined by taking into account the remuneration prevailing in the labour market for positions comparable to those of the Company's Management.

CORPORATE GOVERNANCE
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SYSTEM OF REMUNERATION OF THE DIRECTORS AND MANAGEMENT OF THE COMPANY

Remuneration component	Fixed remuneration component		Variable remuneration component		
	Base or fixed salary	Quarterly bonus	Annual bonus	One-off bonus	Long-term incentive program
Policy and objectives	A fixed remuneration component establishes a competitive base incentive package to attract and retain skilled Managers.	Aims to encourage the Management to meet financial, economic, and operating targets.	Aims to encourage the Management to deliver on corporate and individual key performance indicators (KPIs).	Aims to encourage the delivery of strategic objectives as defined by the BoD, as well as individual projects and/or non-systematic critical activities.	Ensuring alignment of the Management’s motivation with the shareholders’ interests, attracting and retaining skilled staff, improving the quality and stability of Company governance, ensuring compliance of remuneration paid to the Company’s Employees with international practice and standards.
Description	<p>The fixed remuneration component is defined based on the Manager’s expertise, experience and role in the Company, as well as comparable remuneration in the labour market.</p> <p>The Management remuneration is benchmarked against the market by the Personnel and Remuneration Committee based on the monitoring of management remuneration in entities comparable to the Company in terms of revenue and/or market capitalization and the Company’s sector of operation.</p> <p>A Manager’s remuneration is specified in the employment contract as a base or fixed salary.</p> <p>The base or fixed salary amount is based on the amount of actual time worked.</p> <p>In accordance with the procedure stipulated by local regulations of the Company and based on the Federal State Statistics Service data, the base or fixed salary is indexed semi-annually.</p>	<p>Bonuses are based on Company performance and the individual performance of each Manager during the reporting quarter.</p> <p>Quarterly bonus amounts are a product of the fixed remuneration component and the sum of multipliers assessing the Manager’s performance: , where is the sum of the multipliers assessing the Manager’s delivery of the following budgeted financial and economic targets (general indicators): net revenue, profit on sales is the multiplier assessing the Manager’s delivery of the following budgeted specific target associated with the Company’s operating activities (special indicator): loaded containers transported by the rolling stock of the Company;</p> <p>S quart is the fixed remuneration component amount (base or fixed salary).</p> <p>The Regulations also stipulate grounds for non-payment or reductions of the quarterly bonus.</p>	<p>The annual bonus is paid based upon the delivery of KPIs.</p> <p>Annual bonus amounts for each Manager are the product of the fixed remuneration component and the sum of multipliers assessing the Manager’s performance according to the following formula:</p> <p>$B = (Mcorp + Mind) \times Sann$, where B is the Manager’s annual bonus, RUB;</p> <p>Mcorp is the multiple of the Manager’s delivery of the corporate KPIs;</p> <p>Mind is the multiple of the Manager’s delivery of the individual KPIs;</p> <p>Sann is the fixed remuneration component amount (base or fixed salary).</p> <p>In a case where the actual net profit exceeds the target in the reporting period, the Company’s Management may be paid an additional annual bonus in line with the following terms:</p> <p>if up to 105% of the net profit target is achieved no additional bonus is paid;</p> <p>if more than 105% of the net profit target is achieved an additional bonus of 15% of the amount in excess of the target is paid.</p> <p>The additional annual bonus paid is in proportion to the share of the annual bonus of the Manager in question to the total annual bonus paid to the Management.</p> <p>The Regulations also stipulate grounds for non-payment or reductions of the annual bonus.</p>	<p>The amount of a one-off bonus is linked to the significance, complexity and execution of the strategic deliverable.</p> <p>The calculation and approval procedure for one-off bonuses is established:</p> <p>for the CEO by the Company’s Board of Directors, and</p> <p>for the Management by the Company’s Board of Directors as advised by the Company’s CEO.</p>	<p>The programme participants are entitled to purchase shares at the IPO price (RUB 2,464.23) plus 50% of the programme service costs.</p> <p>The programme allows for either the purchase of the entire share package available to the programme participant at the option strike price or for the receipt of the shares as a set-off of counterclaims to the Operator based on the difference between the option strike price and the current market price.</p>

REMUNERATION OF THE DIRECTORS AND MANAGEMENT OF THE COMPANY (CONTINUED)

Remuneration component	Fixed remuneration component		Variable remuneration component		
	Base or fixed salary	Quarterly bonus	Annual bonus	One-off bonus	Long-term incentive program
Payment schedule	Payable monthly.	Remuneration is paid: to the CEO upon review of the CEO’s report on the Company’s financial and operating activities in the reporting quarter, to the Management upon provision of reporting for the relevant quarter.	Remuneration is paid after the BoD’s review of the CEO’s report on the Company’s financial and operating activities in the reporting year.	Remuneration is paid after consideration of the one-off bonus payment by the BoD.	Options are granted in four equal instalments since June 2012, the right to purchase the fourth instalment will commence in June 2015, and the programme will expire in June 2016.
Maximum possible payments	Stipulated in the employment contract with the Manager.	For the CEO , 4.5 quarterly fixed remuneration components; For the Management, 1.85 quarterly fixed remuneration components.	Annual bonus for the amount of 100% of the fixed annual remuneration component. The maximum percentage of the net profit target delivery used to calculate an additional annual bonus is 150%.	The one-off bonus amount cannot exceed three times the fixed remuneration component of the Manager in question.	Within one instalment, the programme participant is entitled to purchase 1/4 (one fourth) of the total number of shares the participant is entitled to by the programme.
Actual payments ¹²	RUB 145,510,848.86	RUB 26,464,184.74	RUB 140,481,432.86	RUB 2,596,989.00	Within the first instalment, 18 persons exercised their right to purchase shares, the vast majority of these participants exercising the option by setting-off counterclaims. The option strike price amounted to between RUB 2,550 and RUB 2,594 per share. Within the first instalment, the participants purchased 12,453 shares, with the operator holding 24,099 shares. Within the second instalment, two participants exercised their right to purchase shares by setting-off counterclaims and one person purchased shares for cash. The option strike price amounted to RUB 2,720.52 per share. Within the second instalment, the participants purchased 3,385 shares, with the operator holding 3,311 shares.

12. Actual payments mean the accrued and due salary amount before tax and other deductions.

CORPORATE GOVERNANCE
PERSONNEL AND
REMUNERATION
COMMITTEE REPORT
(CONTINUED)

CHANGES IN THE CEO AND MANAGEMENT
REMUNERATION POLICY

As instructed by the BoD, the Personnel and Remuneration Committee analysed the procedure for defining the quarterly bonus payable to the CEO and Management followed in 2013, suggesting the following steps to improve it:

- 1) to include the following additional indicators to the system of multipliers used in quarterly bonus calculation: net profit margin and labour productivity measuring effectiveness in key focus areas of the Company's financial and operating activities in order to better incentivise the Management's efforts to enhance the efficiency of the Company's operations in an unfavourable market environment;
- 2) to redistribute the system of weights so that profit and margin indicators have the highest weight in the incentive system. The system of weights assigned to each indicator to be changed in such a way that the base quarterly bonus payable if 100% of the indicator targets are met is not substantially altered, as compared with the current version of the Regulations;
- 3) to stipulate the maximum aggregate multiplier applicable in the quarterly bonus calculation as 3.5 for the CEO and 1.5 for the Management, helping to mitigate the risks of low-quality planning and excessive payroll budget.

In addition to this, the Personnel and Remuneration Committee gave considerable attention to optimising the Company's long-term staff motivation programme.

KPMG was engaged as an external consultant on the matter.

- Based on partial execution of first and second instalments of the programme, the Personnel and Remuneration Committee suggested amending the programme as follows:
- 1) increasing the equity reserve fund by transferring the remaining shares from the Operator after obligations have been discharged within the instalment in question;
 - 2) extending the programme timeline by using shares transferred to the equity reserve fund for further instalments;
 - 3) refining the share purchase price;
 - 4) establishing conditions for new instalments;
 - 5) terminating the programme should no outstanding shares be available after the mandatory repurchase.

In March 2014, on the advice of the Personnel and Remuneration Committee, the Board of Directors approved the above amendments to the Regulations on the Motivation of the Company's Management and Regulations on the Long-Term Incentive Programme for the Company's Management.

KPI SYSTEM

In 2011, the Company introduced a comprehensive KPI-based performance assessment system to measure the Management's delivery of the Company's both short and mid-term budgetary targets and its long-term strategic objectives set by the Board of Directors. The KPI system distinguishes between a group of corporate indicators (these are also the CEO's KPIs) and a group of individual indicators to measure the Management's performance in their key functional areas.

The list of corporate and individual KPIs and their weights (weights of both groups and of each KPI) are set:

- for the CEO – by a resolution of the Board of Directors;
- for the Company's Management (excluding the CEO) – by order of the CEO on the basis of the Company's strategic development and budgetary priorities.

The success in achieving target KPIs linked to the Company's budget performance is measured using the Company's actual budget data as at the respective reporting date.

The CEO's KPI report is reviewed by the Personnel and Remuneration Committee and the Board of Directors to decide whether the annual performance-based bonus is to be paid to the CEO. The Management's KPI reports are reviewed by the CEO.

Sincerely,

IRINA SHYTKINA
Chairman of the Personnel and Remuneration Committee

KPIs, THEIR WEIGHTS, TARGET AND ACTUAL VALUES IN 2013				
KPI	KPI weight	Target KPI in 2013	Actual KPI in 2013	KPI delivery multiplier
Net profit, RUB m	0,45	3 804	4 528	1
EBITDA, RUB m	0,45	8 259	8 814	1
The Company's share price performance	0,1	0	- 0,12	0,65

CORPORATE GOVERNANCE
SHARE CAPITAL AND
INVESTOR RELATIONS



Andrey Zhemchugov
Director of Capital Markets and Investor Relations

Since 12 November 2010, TransContainer's shares have been listed on the MICEX Stock Exchange, which is part of Moscow Exchange. The Company's Depositary Receipts are traded on the Main Market of the London Stock Exchange (LSE)

This data captures the information available to the Company based on the shareholder register maintained by the Company's Registrar and information publicly disclosed by the shareholders.

ORDINARY REGISTERED SHARES

The Company's authorised capital totals RUB 13,894,778,000 and consists of 13,894,778 ordinary registered shares with a par value of RUB 1,000 each.

GLOBAL DEPOSITARY RECEIPTS (GDRS)

Global Depositary Receipts have been issued for TransContainer's shares, where 10 GDRs constitute one (1) share. The depositary bank is The Bank of New York Mellon.

As of 31 December 2013, depositary receipts had been issued for 20.4% of the Company's authorised capital.

STOCK EXCHANGES

As of 31 December 2013, the Company's shares were traded on MICEX Stock Exchange's Quotation List B. On 25 December 2013, the Company applied for a transfer of TransContainer's shares to Quotation List A, 2nd-Level (List A2). As instructed by MICEX Stock Exchange on 28 January 2014, TransContainer's ordinary shares were transferred from Quotation List B to Quotation List A2 on 30 January 2014.

The Company's shares are included in the MICEX Transport sector index (ticker: MICEX TRN) calculated by Moscow Exchange since 11 November 2013.

The Global Depositary Receipts are traded on the Main Market of the London Stock Exchange.

SHARE AND GDR PRICE PERFORMANCE

For the Company's securities, 2013 was a challenging year. Whereas in 2012 TransContainer's shares and depositary receipts ranked among the best performers in the Russian market showing a growth of 82.7% and 58.0%, respectively, 2013 witnessed a disappointing performance. The Company's shares went down by 19.9% on the Moscow Exchange vs a 0.7% decline of the MICEX index and by 36.8% on the London Stock Exchange vs an 11.9% decline of FTSE RIOB. In 2013, the total return to the holders of ordinary shares and global depositary receipts, therefore, dropped by 35.6% and 16.3%, respectively.

SHAREHOLDING STRUCTURE¹



- Russian Railways 50.0%
- FESCO Transportation Group* 24.1%
- European Bank for Reconstruction and Development (EBRD) 9.3%
- TRANSFINGROUP Asset Management as manager of pension assets of Blagosostoyanie Non-State Pension Fund 9.1%
- Other individuals and legal entities 7.5%

* Encumbered shareholding with a claim held by VTB Austria.

1. As per TransContainer's shareholder register as of 31 December 2013.

INFORMATION ON EACH CATEGORY (CLASS) OF SHARES	
Class and category of shares	Ordinary registered shares
Form of issuance	Uncertificated
Number of shares	13,894,778
Par value of one (1) share (RUB)	1,000
Information on state registration of the issue	1-01-55194-E of 11 May 2006

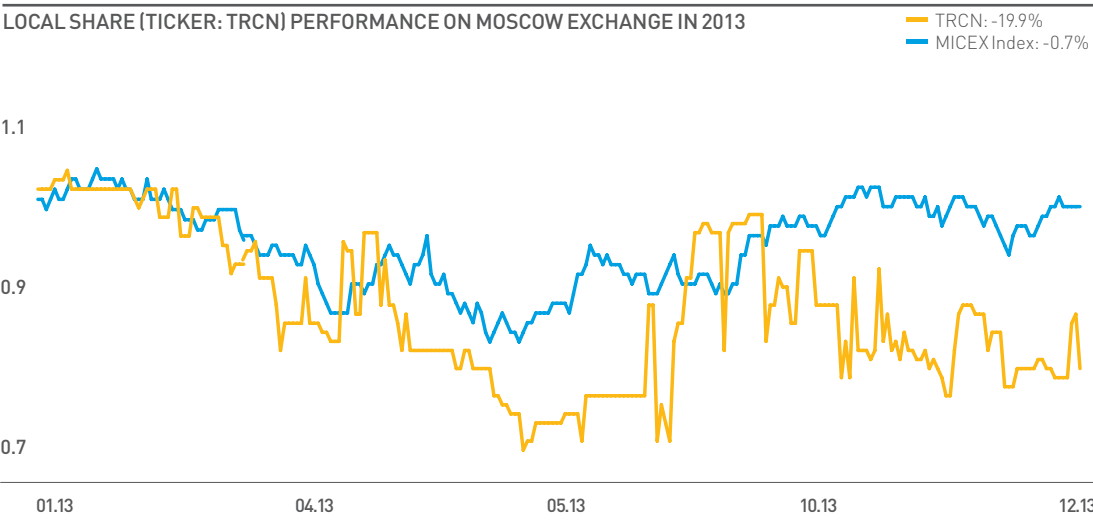
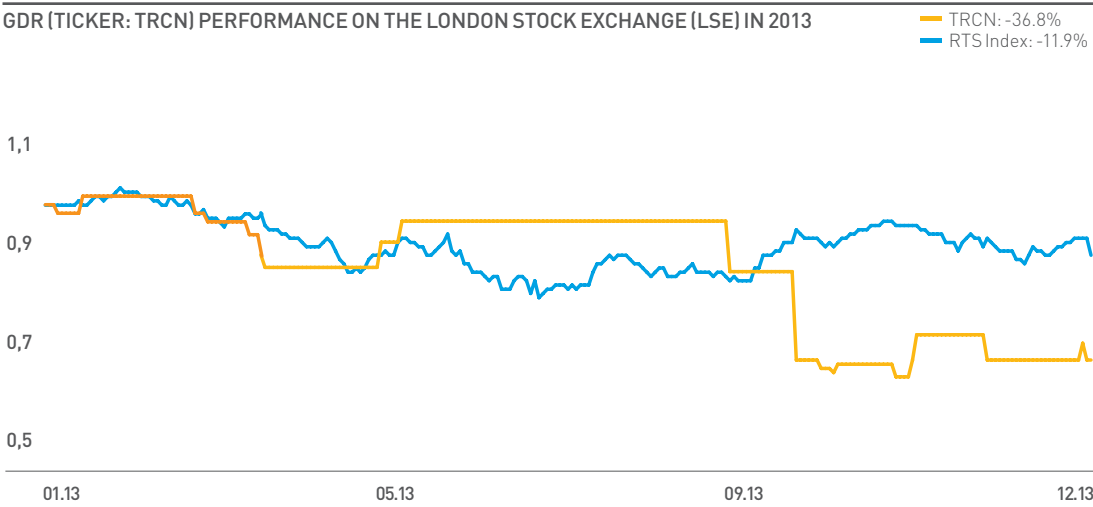
CORPORATE GOVERNANCE
SHARE CAPITAL AND
INVESTOR RELATIONS
(CONTINUED)

The reasons behind this downward trend are of complex nature and, in the Company’s opinion, resulted from the cumulative impact of a number of adverse external factors, including a correction after a rapid 2012 growth, sales by market players speculating on Russian Railways’ expected sale of its stake in the Company and general revision of the freight market outlook by investors amid the Russian economy slowdown.

These factors were significantly exacerbated by the reduction of free float that continued into 2013 as a result of consolidation of interests by some major shareholders. This resulted in a considerable reduction in share liquidity: in 2013, average daily trading volume reduced more than tenfold on the London Stock Exchange and more than sevenfold on the Moscow Exchange versus 2012. Lower liquidity significantly undermined the investment case of these securities for major institutional investors and entailed fluctuations in their prices and high volatility.

Having said that, despite the 2013 results, the Company’s securities continue to outpace market indices and price performance of peer transport companies in the medium term. From the offering date to 30 December 2013, the prices of ordinary shares of the Company enjoyed a 25.9% increase on Moscow Exchange compared to a 2.4% decrease in the MICEX index over the same period and its GDRs saw a 16.1% rise in contrast to a 16.3% drop in FTSE RIOB. The total return to shareholders since the offering is 10.8% per annum on ordinary shares and 5.9% per annum on GDRs.

This means that the Company’s shares have become a solid opportunity for investors with a mid-term investment horizon: the total return to shareholders from the offering to 31 December 2013 amounted to 10.8% per annum².



RELATIONS WITH SHAREHOLDERS,
INVESTORS AND OTHER STAKEHOLDERS

Full and timely disclosure of relevant information to our shareholders, investors, and the entire investor universe is one of our key priorities. We are committed to making critical information accessible simultaneously to all our shareholders, investors and analysts both in Russia and abroad.

The Company observes the provisions of the Federal Law On Joint-Stock Companies, the requirements of the Federal Service for Financial Markets, applicable regulations of the UK Financial Conduct Authority, and all the relevant stock exchange rules in Russia and the UK.

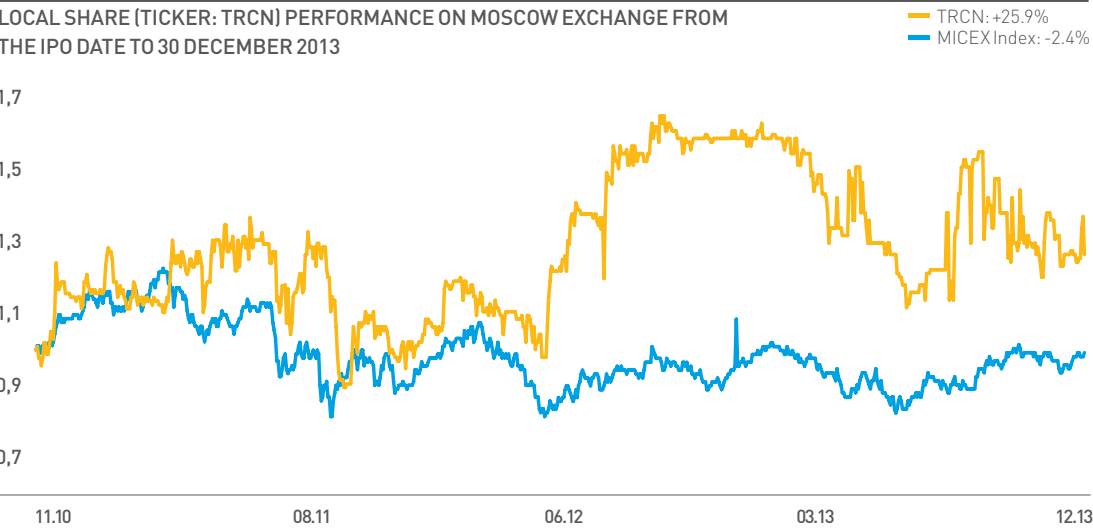
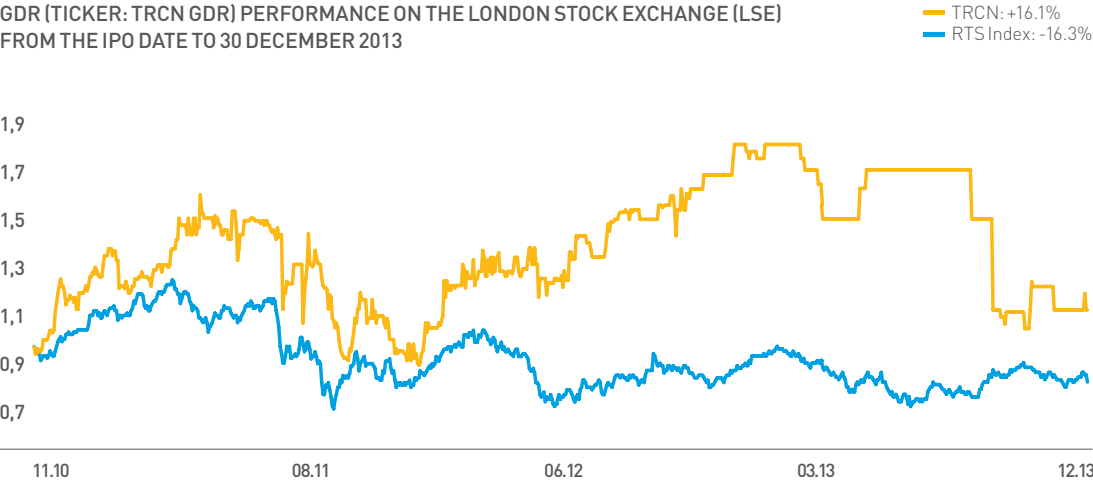
Since 2011, the Company has published its key operational metrics as well as RAS and IFRS financial statements on a quarterly basis. The financial disclosures are followed by conference calls with research analysts and investors held on a regular basis. Besides, the Company holds special conference calls or webcasts to provide the market with the required information and comments in case of material events affecting the Company or its investment case.

The Company uses electronic disclosure systems in Russia (www.e-disclosure.ru) and the UK (www.hemscott.com/nsm.do). In addition, corporate information is increasingly distributed through our website (www.trcont.ru), including investor presentations and news releases on operating and financial results or important corporate events. The Company provides regular updates on its business. Our corporate website offers prompt updates for investors and additional information to reach out to all stakeholders.

Along with transparency, the Company is focused on maintaining an ongoing dialogue with institutional investors and financial analysts to obtain feedback from the investment community. In 2013, the Management took part in seven investor conferences in Russia, the UK, the USA and Eastern Europe, and held a series of one-on-one meetings with institutional investors in Russia and Continental Europe.

In 2013, the Company’s shares were covered by 11 international and Russian investment banks and independent analysts.

The Company is also closely involved in fostering further development of the Russian stock market. In 2013, the Company took part in the activities of the Moscow Exchange Issuers’ Committee and OECD Corporate Governance Roundtable addressing a draft of the new corporate governance code.



LSE	MOSCOW EXCHANGE
Price at prior year end (28.12.2012)	Price at prior year end (28.12.2012)
14.25	3,950.00
Year’s low (23.10.2013)	Year’s low (25.06.2013)
8.40	2,850.10
Year’s high (15.01.2013)	Year’s high (17.01.2013)
14.50	4,100.00
Price at year end (31.12.2013)	Price at year end (30.12.2013)
9.00	3,210.10

² Based on the closing price of TRCN on Moscow Exchange, calculated in RUB.

FINANCIAL STATEMENTS

CONSOLIDATED IFRS FINANCIAL STATEMENTS FOR 2013

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of OJSC TransContainer (the "Company") and its subsidiaries (the "Group") as at 31 December 2013 and the results of its operations, cash flows and changes in equity for the year then ended, in compliance with International Financial Reporting Standards ("IFRS").

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

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

Management is also responsible for:

- Designing, implementing and maintaining an effective 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 local legislation and accounting standards in the respective jurisdictions in which the companies of the Group operate;
- Taking necessary steps to safeguard the Group's assets;
- Preventing and detecting fraud and other irregularities.

The consolidated financial statements of the Group for the year ended 31 December 2013 were approved on 28 March 2014 by:



P. V. Baskakov
General Director



K. S. Kalmykov
Chief Accountant

FINANCIAL STATEMENTS

CONSOLIDATED IFRS FINANCIAL

STATEMENTS FOR 2013

INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS AND BOARD OF DIRECTORS OF OPEN JOINT STOCK COMPANY TRANSCONTAINER

We have audited the accompanying consolidated financial statements of Open Joint Stock Company TransContainer and its subsidiaries (the "Group"), which comprise the consolidated statement of financial position as at 31 December 2013 and the consolidated statements of profit or loss and other comprehensive income, changes in equity and cash flows for 2013, and notes comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITOR'S RESPONSIBILITY

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

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

We believe that the audit evidence we have obtained is sufficient and appropriate to express an opinion on the fair presentation of these consolidated financial statements.

OPINION

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2013, and its financial performance and its cash flows for 2013 in accordance with International Financial Reporting Standards.

31 March 2014

Moscow, Russian Federation



ZAO PricewaterhouseCoopers Audit

A.A. Okishev, Director (licence no. 002439),
ZAO PricewaterhouseCoopers Audit

FINANCIAL STATEMENTS
OJSC TRANSCONTAINER
CONSOLIDATED STATEMENT
OF FINANCIAL POSITION
(AMOUNTS IN MILLIONS
OF RUSSIAN ROUBLES)



Konstantin Kalmykov
Chief accountant

	Notes	2013	2012 (restated)
ASSETS			
Non-current assets			
Property, plant and equipment	8	36,326	34,233
Investment property		74	–
Advances for acquisition of non-current assets	8	243	358
Trade receivables	11	365	452
Intangible assets other than goodwill	9	150	592
Goodwill	10	–	216
Investments in associates and joint ventures	10	2,330	54
Other non-current assets		76	97
Total non-current assets		39,564	36,002
Current assets			
Inventory		358	334
Trade and other receivables	11	1,621	1,262
Prepayments and other current assets	12	3,435	4,434
Prepaid income tax		114	132
Short-term investments	13	1	1,339
Cash and cash equivalents	14	1,883	1,318
Total current assets		7,412	8 819
TOTAL ASSETS		46,976	44,821
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	13,895	13,895
Treasury shares	15	(484)	(490)
Reserve fund	15	697	478
Translation reserve		10	49
Equity-settled employee benefits reserve	19	221	188
Other reserves, including investment property's revaluation reserve	15	(2,165)	(2,221)
Retained earnings		19,305	14,725
Total equity attributable to equity holders of the parent		31,479	26,624
Non-controlling interest	10	–	937
Total equity		31,479	27,561
Non-current liabilities			
Long-term debt	16	6,194	2,731
Finance lease obligations, net of current maturities	17	485	668
Employee benefit liabilityu	18	1,096	1,266
Deferred tax liability	27	1,445	1,700
Total non-current liabilities		9,220	6,365

	Notes	2013	2012 (restated)
Current liabilities			
Trade and other payables	20	3,216	3,773
Short-term debt and current portion of long-term debt	16	1,693	5,695
Income tax payable		77	167
Taxes other than income tax payable	21	372	367
Provisions		19	10
Finance lease obligations, current maturities	17	66	94
Accrued and other current liabilities	22	834	789
Total current liabilities		6,277	10,895
TOTAL EQUITY AND LIABILITIES		46,976	44,821

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

28 March 2014

FINANCIAL STATEMENTS
OJSC TRANSCONTAINER
CONSOLIDATED STATEMENT
OF CASH FLOWS
(AMOUNTS IN MILLIONS
OF RUSSIAN ROUBLES)

	Notes	2013	2012 (restated)
Cash flows from operating activities:			
Profit before income tax		7,349	6,801
Adjustments for:			
Depreciation and amortisation	25	1,943	2,740
Change in provision for impairment of receivables	25	194	(11)
(Gain)/loss on disposal of property, plant and equipment		(166)	27
Loss on impairment of property, plant and equipment	8	123	1
Share of result of associates and joint ventures	10	(2)	19
Gain on disposal of controlling interest in subsidiary		(757)	–
Gain from disposal of associate	10	–	(72)
Interest expense, net		559	673
Equity-settled employee benefits reserve	19	41	87
Foreign exchange (gain)/loss, net		(65)	1
Gain from early termination of finance lease		(32)	–
Change in provisions		20	5
Other income and expenses		7	(3)
Operating profit before working capital changes, income tax paid and changes in other assets and liabilities		9,214	10,268
Working capital changes:			
Decrease in inventory		259	22
(Increase)/decrease in trade and other receivables		(1,097)	188
Decrease/(increase) in prepayments and other assets		847	(525)
Increase/(decrease) in trade and other payables		24	(697)
(Decrease)/increase in taxes other than income tax		(6)	65
Increase in accrued expenses and other current liabilities		67	202
(Decrease)/increase in employee benefit liabilities	18	(51)	19
Net cash from operating activities before income tax		9,257	9,542
Interest paid		(665)	(834)
Income tax paid		(1,367)	(1,466)
Net cash provided by operating activities		7,225	7,242
Cash flows from investing activities:			
Purchases of property, plant and equipment		(6,632)	(5,691)
Proceeds from disposal of property, plant and equipment		17	6
Acquisition of subsidiary, net of cash acquired		–	(103)
Proceeds from disposal of controlling interest in subsidiary, net of cash disposed	7	412	–
Sale of short-term investments		4,937	1,541
Sale of long-term investments		1	16
Purchases of short-term investments		(3,688)	(1,939)
Purchases of long-term investments		–	(3)
Purchases of intangible assets		(87)	(82)
Interest received		265	194
Net cash used in investing activities		(4,775)	(6,061)

	Notes	2013	2012 (restated)
Cash flows from financing activities:			
Proceeds from long-term bonds	16	4,988	–
Repayments of finance lease obligations		(166)	(491)
Dividends	15	(1,187)	(1,228)
Principal payments on long-term borrowings		(29)	(2)
Principal payments on short-term borrowings		(1,830)	–
Principal payments on short-term bonds		(3,750)	(346)
Net cash used in financing activities		(1,974)	(2,067)
Net increase / (decrease) in cash and cash equivalents		476	(886)
Cash and cash equivalents at beginning of the year		1,318	2,257
Foreign exchange effect on cash and cash equivalents		89	(53)
Net cash and cash equivalents at end of the year		1,883	1,318

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

28 March 2014

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

FINANCIAL STATEMENTS
OJSC TRANSCONTAINER
CONSOLIDATED STATEMENT OF PROFIT
OR LOSS & OTHER COMPREHENSIVE
INCOME (AMOUNTS IN MILLIONS
OF RUSSIAN ROUBLES)

	Notes	2013	2012 (restated)
Revenue	23	39,164	36,365
Other operating income	24	747	417
Operating expenses	25	(32,859)	(29,359)
Gain on disposal of controlling interest in subsidiary	7	757	–
Gain from disposal of associate	10	–	72
Gain from early termination of finance lease	17	32	–
Interest expense	26	(782)	(885)
Interest income		223	212
Foreign exchange gain/(loss), net		65	(1)
Share of result of associates and joint ventures	10	2	(19)
Profit before income tax		7,349	6,802
Income tax expense	27	(1,375)	(1,570)
Profit for the year		5,974	5,232
Attributable to:			
Equity holders of the parent		5,865	5,183
Non-controlling interest	10	109	49
Other comprehensive income			
Items that will not be reclassified to profit or loss:			
Remeasurements of post-employment benefit plans		119	(104)
Remeasurements of investment property		70	–
Income tax effect		(20)	5
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		9	(208)
Other comprehensive income for the year		178	(307)
Total comprehensive income for the year		6 152	4 925
Attributable to:			
Equity holders of the parent		5,995	4,940
Non-controlling interest		157	(15)
Earnings per share, basic and diluted (Russian Roubles)		422	374
Weighted average number of shares outstanding	15	13,896,193	13,863,408

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

28 March 2014

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

FINANCIAL STATEMENTS
OJSC TRANSCONTAINER
CONSOLIDATED STATEMENT
OF CHANGES IN EQUITY
(AMOUNTS IN MILLIONS
OF RUSSIAN ROUBLES)

	Notes	Share capital	Treasury shares	Reserve fund	Translation reserve	Equity-settled employee benefit reserve	Other reserves including investments property's revaluation reserve	Retained earnings	Total	Non-controlling interest	Total equity
Balance at 1 January 2012 (as previously reported)		13,895	(514)	304	193	148	(2,221)	11,161	22,966	962	23,928
Effect of changes in accounting policies		–	–	–	–	–	–	(141)	(141)	–	(141)
Balance at 1 January 2012 (restated)		13,895	(514)	304	193	148	(2,221)	11,020	22,825	962	23,787
Profit for the year (restated)		–	–	–	–	–	–	5,183	5,183	49	5,232
Other comprehensive income for the year		–	–	–	(144)	–	–	(99)	(243)	(64)	(307)
Total comprehensive income for the year		–	–	–	(144)	–	–	5,084	4,940	(15)	4,925
Equity-settled employee benefits reserve		–	–	–	–	87	–	–	87	–	87
Exercised options under option plan		–	24	–	–	–	(47)	–13	(10)	–	(10)
Dividends		–	–	–	–	–	–	(1,218)	(1,218)	(10)	(1,228)
Transfer to reserve fund		–	–	174	–	–	–	(174)	–	–	–
Balance at 31 December 2012 (restated)		13,895	(490)	478	49	188	(2,221)	14,725	26,624	937	27,561
Balance at 31 December 2012 (as previously reported)		13,895	(490)	478	49	188	(2 221)	14,884	26,783	937	27,720
Effects of changes in accounting policies	4	–	–	–	–	–	–	(159)	(159)	–	(159)
Balance at 31 December 2012 (restated)		13,895	(490)	478	49	188	(2,221)	14,725	26,624	937	27,561
Profit for the year		–	–	–	–	–	–	5 865	5 865	109	5,974
Other comprehensive income for the year		–	–	–	(39)	–	56	113	130	48	178
Total comprehensive income for the year		–	–	–	(39)	–	56	5,978	5,995	157	6,152
Equity-settled employee benefits reserve	19	–	–	–	–	41	–	–	41	–	41
Disposal of controlling interest in subsidiary	7	–	–	–	–	–	–	–	–	(1,044)	(1,044)
Exercised options under option plan	19	–	6	–	–	(8)	–	8	6	–	6
Dividends	15	–	–	–	–	–	–	(1,187)	(1,187)	(50)	(1,237)
Transfer to reserve fund		–	–	219	–	–	–	(219)	–	–	–
Balance at 31 December 2013		13,895	(484)	697	10	221	(2,165)	19,305	31,479	–	31,479

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

28 March 2014

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

FINANCIAL STATEMENTS

OJSC TRANSCONTAINER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2013

(AMOUNTS IN MILLIONS OF RUSSIAN ROUBLES UNLESS OTHERWISE STATED BELOW)

1. NATURE OF THE BUSINESS

OJSC TransContainer (the “Company” or “TransContainer”) was incorporated as an open joint stock company in Moscow, Russian Federation on 4 March 2006.

The Company was formed as a result of a spin-off by OJSC “Russian Railways” (“RZD”), which is 100% owned by the Russian Federation, of some of its activities and certain assets and liabilities related to container transportation into a separate legal entity. In connection with this spin-off RZD contributed to the share capital of the Company containers, flatcars, buildings and constructions in the amount of RUR 13,057m, VAT receivable related to these assets of RUR 104m, and cash of RUR 991m, in exchange for the ordinary shares of the Company.

Furthermore, certain employees previously employed by RZD were hired by the Company. The Company assumed related employee benefit liabilities from RZD. Pursuant to this spin-off, RZD maintained the functions of the carrier, whilst the Company assumed the functions of a freight forwarding agent.

The Company’s principal activities include arrangement of rail-based container shipping and other logistics services including terminal services, freight forwarding and intermodal delivery using rolling stock and containers. The Company operates 46 container terminals along the Russian railway network. As at 31 December 2013, the Company operated 17 branches in Russia. The Company’s registered address is 19 Oruzheiny pereulok, Moscow, 125047, Russian Federation.

The Company has ownership in the following entities:

Name of Entity	Type	Country	Activity	interest held %		voting rights %	
				2013	2012	2013	2012
Oy ContainerTrans Scandinavia Ltd (Note 10)	Joint venture	Finland	Container shipments	50	50	50	50
JSC TransContainer–Slovakia	Subsidiary	Slovakia	Container shipments	100	100	100	100
Chinese–Russian Rail–Container International Freight Forwarding (Beijing) Co, Ltd. (Note 10)	Joint venture	China	Container shipments	49	49	49	49
TransContainer Europe GmbH	Subsidiary	Austria	Container shipments	100	100	100	100
TransContainer Asia Pacific Ltd.	Subsidiary	Korea	Container shipments	100	100	100	100
Trans–Eurasia Logistics GmbH (Note 10)	Associate	Germany	Container shipments	20	20	20	20
LLC TransContainer Finance (renamed LLC Prostor Invest Group) (Note 19)	Subsidiary	Russia	Share option programme operator	100	100	100	100
JSC Kedentransservice ((Notes 7,10)	Joint venture	Kazakhstan	Container shipments	50	67	50	67
Helme’s Operation UK Limited (Notes 7,10)	Joint venture	Great Britain	Investment activity	50	100	50	100
Logistic Investment SARL	Subsidiary	Luxemburg	Investment activity	100	100	100	100
Logistic System Management B.V. (Notes 7,10)	Joint venture	Netherlands	Investment activity	50	100	50	100

The consolidated financial statements of OJSC TransContainer and its subsidiaries (the “Group”) as at 31 December 2013 and for the year then ended were authorised for issue by the General Director of the Company on 28 March 2014.

2. BASIS OF PRESENTATION OF FINANCIAL STATEMENTS

STATEMENT OF COMPLIANCE – These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”).

BASIS OF PREPARATION – These consolidated financial statements are prepared on the basis of standalone financial statements of the Company and its subsidiaries. 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 Group’s consolidated financial statements have been prepared using the historical cost convention, except for the effects of assets acquired and liabilities assumed at the formation of the Company, which were recorded at the estimated fair value at the date of transfer and initial recognition of financial instruments based on fair value, revaluation of investment properties and available-for-sale financial assets.

The accompanying consolidated financial statements differ from the financial statements issued for statutory purposes in that they reflect certain adjustments, not recorded in the statutory books, which are appropriate to present the financial position, results of operations and cash flows of the Group in accordance with IFRS.

The consolidated financial statements are presented in millions of Russian Roubles (hereinafter “RUR m”), except where specifically noted otherwise.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these consolidated financial statements are set out below.

The accounting policies have been applied consistently by all consolidated operating entities.

CONSOLIDATED FINANCIAL STATEMENTS. The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company (its subsidiaries) prepared through 31 December each year. Subsidiaries are those investees, including structured entities, that the Group controls because the Group (i) has power to direct relevant activities of the investees that significantly affect their returns, (ii) has exposure, or rights, to variable returns from its involvement with the investees, and (iii) has the ability to use its power over the investees to affect the amount of investor’s returns. The existence and effect of substantive rights, including substantive potential voting rights, are considered when assessing whether the Group has power over another entity. For a right to be substantive, the holder must have practical ability to exercise that right when decisions about the direction of the relevant activities of the investee need to be made. The Group may have power over an investee even when it holds less than majority of voting power in an investee. In such a case, the Group assesses the size of its voting rights relative to the size and dispersion of holdings of the other vote holders to determine if it has de-facto power over the investee. Protective rights of other investors, such as those that relate to fundamental changes of investee’s activities or apply only in exceptional circumstances, do not prevent the Group from controlling an investee. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date on which control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries (other than those acquired from parties under common control). Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured at their fair values at the acquisition date, irrespective of the extent of any non-controlling interest.

The Group measures non-controlling interest on a transaction by transaction basis, either at: (a) fair value, or (b) the non-controlling interest’s proportionate share of the acquiree’s net assets. Which principle to apply for measuring non-controlling interest is defined by the Group individually for each particular business combination.

Goodwill is measured by deducting the acquiree’s net assets from the aggregate of the consideration transferred for the acquiree, the amount of non-controlling interest in the acquiree and the fair value of the interest in the acquiree held immediately before the acquisition date. Any negative amount (“negative goodwill”) is recognised in profit or loss, after management reassesses whether it identified all the assets acquired and all liabilities and contingent liabilities assumed and reviews the appropriateness of their measurement.

The consideration transferred for the acquiree is measured at the fair value of the assets given up, equity instruments issued and liabilities incurred or assumed, including the fair value of assets or liabilities from contingent consideration arrangements, but excluding acquisition related costs such as advisory, legal, valuation and similar professional services. Transaction costs related to the acquisition and incurred for issuing equity instruments are deducted from equity; transaction costs incurred for issuing debt as part of the business combination are deducted from the carrying amount of the debt; and all other transaction costs associated with the acquisition are expensed.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated; unrealised losses are also eliminated unless the cost cannot be recovered.

Non-controlling interest is that part of the net results and of the equity of a subsidiary attributable to interests which are not owned, directly or indirectly, by the Company. Non-controlling interest forms a separate component of the Group’s equity.

FINANCIAL STATEMENTS

OJSC TRANSCONTAINER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

(AMOUNTS IN MILLIONS OF RUSSIAN ROUBLES UNLESS OTHERWISE STATED BELOW)

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INVESTMENTS IN ASSOCIATES AND JOINT VENTURES. Joint venture is a joint activity which implies that the parties, that have joint control over the activity, have the rights to the net assets of the activity. Joint control occurs in the case when decisions relating to the relevant activities require the unanimous consent of the parties sharing joint control in accordance with the contract.

Associates are entities over which the Group has significant influence (directly or indirectly), but not control, generally accompanying a shareholding of between 20 and 50 percent of the voting rights.

Investments in associates and joint ventures are accounted for by the equity method of accounting and are initially recognised at cost. Dividends received from associates (joint ventures) reduce the carrying value of the investment in associates (joint ventures). Other post-acquisition changes in the Group’s share of an associate’s (joint ventures’) net assets are recognised as follows: (i) the Group’s share of profits or losses of associates (joint ventures) is recorded in the consolidated profit or loss for the period as the share of financial result of associates (joint ventures), (ii) the Group’s share of other comprehensive income is recognised in other comprehensive income and presented separately, (iii) all other changes in the Group’s share of the carrying value of net assets of associates (joint ventures) are recognised in consolidated profit or loss within the share of financial result of associates (joint ventures).

When the Group’s share of losses in an associate (joint venture) equals or exceeds its interest in the associate (joint venture), including unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate (joint ventures).

Unrealised gains on transactions between the Group and its associates (joint ventures) are eliminated to the extent of the Group’s interest in the associates (joint ventures); unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

DISPOSALS OF SUBSIDIARIES, ASSOCIATES OR JOINT VENTURES. 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 recognised in profit or loss. 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 recognised 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 recognised in other comprehensive income are recycled to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

FOREIGN CURRENCY TRANSACTIONS AND TRANSLATION. Functional currency is the currency of the primary economic environment in which the entity operates. The Russian Rouble is the functional currency of the Company and is also the currency in which these consolidated financial statements are presented. Transactions in currencies other than the functional currency are initially recorded at the rates of exchange prevailing on the dates of the transactions. Monetary assets and liabilities denominated in such currencies at the balance sheet date are translated into the functional currency at the year-end exchange rate. Exchange differences arising from such translation are included in profit or loss. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated to Russian Rouble at foreign exchange rates ruling at the dates the fair value was determined.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- When the functional currency of an entity of the Group is not the presentation currency of the Company, the results and financial position of the entity are translated into the presentation currency using the following procedures:
- all assets and liabilities are translated at the closing rate at the date of each presented statement of financial position;
 - income and expenses for each statement of profit or loss and other comprehensive income are translated at average exchange rates for the period if fluctuation of exchange rates during the period was insignificant. Otherwise exchange rates at the dates of the transactions are used for translation to the presentation currency;
 - component of equity and reserves are translated at historical rates;
 - all resulting exchange differences are recognised as other comprehensive income;
 - in the statement of cash flows cash balances at the beginning and at the end of each presented period are translated at exchange rates effective at the corresponding dates. All cash flows are translated at average exchange rates for the presented periods.

When control over a foreign operation is lost, the exchange differences recognised previously in other comprehensive income are reclassified to profit or loss for the year as part of the gain or loss on disposal.

PROPERTY, PLANT AND EQUIPMENT. Property, plant and equipment are recorded at purchase or construction cost, less accumulated depreciation and accumulated impairment in value. The costs of day to day servicing of property, plant and equipment, including repairs and maintenance expenditure, is expensed as incurred.

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

CONSTRUCTION IN PROGRESS
Construction in progress includes, principally, capital expenditure incurred in relation to the construction of new container terminals and the reconstruction of existing terminals. Construction in progress is carried at cost, less any recognised 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 capitalised 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.

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

DEPRECIATION
Depreciation is charged to the consolidated profit or loss so as to write off the cost of assets (other than land and construction in progress) less their estimated residual values, using the straight-line method over the estimated useful lives of each part of an item of property, plant and equipment. Owned land plots are not depreciated.

The estimated useful economic lives for property, plant and equipment are as follows:

	Number of years
Buildings	20–82
Constructions	5–50
Containers	10–20
Flatcars	28–38
Cranes and loaders	5–23
Vehicles	3–15
Other equipment	2–25

The assets’ useful lives and amortisation methods are reviewed and adjusted as appropriate, at each financial year-end.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

LEASED ASSETS

Capitalised leased assets and operating leasehold improvements are depreciated over the shorter of the estimated useful life of the asset and the lease term.

GAIN OR LOSS ON DISPOSAL

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

INVESTMENT PROPERTY. Investment property is initially measured at cost, including costs directly attributable to the transaction, and subsequently remeasured at fair value, which reflects market conditions at the end of the reporting period.

Earned rental income is recorded in the consolidated profit or loss within other operating income. Income and expenses resulting from changes in the fair value of investment property are recorded in the consolidated statement of profit or loss and other comprehensive income and presented as income or expenses resulting from the revaluation of investment property.

If an item of owner-occupied property becomes an investment property because its use has changed, any difference resulting between the carrying amount and the fair value of this item at the date of transfer is treated in the same way as a revaluation of property, plant and equipment. Any resulting increase in the carrying amount of the property is recognised in profit or loss for the year to the extent that it reverses a previous impairment loss, with any remaining increase credited directly to other comprehensive income. Any resulting decrease in the carrying amount of the property is initially charged against any revaluation surplus previously recognised in other comprehensive income, with any remaining decrease charged to profit or loss for the year as impairment.

Subsequent expenditure is capitalised only when it is probable that future economic benefits associated with the item will flow to the Group, and the cost can be measured reliably. All other repairs and maintenance costs are expensed when incurred. If an investment property becomes owner-occupied, it is reclassified to property, plant and equipment and its carrying value at the date of reclassification is regarded as the initial cost, which is subsequently amortised.

GOODWILL. Goodwill is carried at cost less accumulated impairment losses, if any. The Group tests goodwill for impairment at least once a year and whenever there are indications that goodwill may be impaired. Goodwill is allocated to cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the business combination. Such units or groups of units represent the lowest level at which the Group monitors goodwill and are not larger than an operating segment.

Gains or losses on the disposal of an operation within a cash generating unit to which goodwill has been allocated include the carrying amount of goodwill associated with the operation disposed of, generally measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit which is retained.

INTANGIBLE ASSETS. Intangible assets that are acquired by the Group represent mainly purchased software and are stated at cost less accumulated amortisation and impairment losses.

Furthermore, five lease contracts were acquired as a result of the JSC Kedentransservice acquisition in 2011. The lease rights were identified as intangible assets that were recognised in the consolidated financial statements at fair value.

Amortisation is charged to the consolidated profit or loss on a straight-line basis over the estimated useful lives of intangible assets. Intangible assets are amortised from the date they are available for use. The estimated useful lives for existing assets range from 3 to 7 years. The estimated useful live for lease contracts is 15 years.

Useful lives and amortisation methods for intangible assets are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for as changes in accounting estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF NON-CURRENT ASSETS. At each balance sheet 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.

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 recognised immediately in the consolidated profit or loss.

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

CLASSIFICATION OF FINANCIAL ASSETS. Financial assets are classified into the following specified categories: financial assets at fair value through profit or loss, held-to-maturity investments, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. As at the reporting date the Group had financial assets classified as loans and receivables only.

LOANS AND RECEIVABLES

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

IMPAIRMENT OF FINANCIAL ASSETS CARRIED AT AMORTISED COST. Impairment losses are recognised in consolidated profit or loss when incurred as a result of one or more events that occurred after the initial recognition of the financial asset and which have an impact on the amount or timing of the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. If the Group determines that no objective evidence exists that impairment was incurred for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics, and collectively assesses them for impairment. The primary factors that the Group considers in determining whether a financial asset is impaired are its overdue status and realisability of related collateral, if any.

- The following other principal criteria are also used to determine whether there is objective evidence that an impairment loss has occurred:
- any portion or instalment is overdue and the late payment cannot be attributed to a delay caused by the settlement systems;
 - the counterparty experiences a significant financial difficulty as evidenced by its financial information that the Group obtains;
 - the counterparty considers bankruptcy or a financial reorganisation;
 - there is adverse change in the payment status of the counterparty as a result of changes in the national or local economic conditions that impact the counterparty; or
 - the value of collateral, if any, significantly decreases as a result of deteriorating market conditions.

If the terms of an impaired financial asset held at amortised cost are renegotiated or otherwise modified because of financial difficulties of the counterparty, impairment is measured using the original effective interest rate before the modification of terms.

Impairment losses are always recognised through an allowance account to write down the asset’s carrying amount to the present value of expected cash flows (which exclude future credit losses that have not been incurred) discounted at the original effective interest rate of the asset.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor’s credit rating), the previously recognised impairment loss is reversed by adjusting the allowance account through profit or loss for the year.

Uncollectible assets are written off against the related impairment loss provision after all the necessary procedures to recover the asset have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off are credited to impairment loss account within the consolidated profit or loss for the year.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FINANCIAL INSTRUMENTS - KEY MEASUREMENT TERMS. Depending on their classification financial instruments are carried at fair value or amortised cost as described below.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of fair value is price in an active market. An active market is one in which transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

Valuation techniques such as discounted cash flow models or models based on recent arm’s length transactions or consideration of financial data of the investees are used to measure fair value of certain financial instruments for which external market pricing information is not available. The Group uses such valuation techniques of fair value which are the most acceptable in the circumstances and as much as possible use the observable basic data.

- Fair value measurements are analysed by level in the fair value hierarchy as follows:
- Level one are measurements at quoted prices (unadjusted) in active markets for identical assets or liabilities;
 - Level two measurements are valuations techniques with all material inputs observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices);
 - Level three measurements are valuations not based on solely observable market data (that is, the measurement requires significant unobservable inputs).

For disclosure of information on fair value the Group classified assets and liabilities on the basis of an appropriate level of hierarchy of fair value as it is stated above.

Amortised cost is the amount at which the financial instrument was recognised at initial recognition less any principal repayments, plus accrued interest, and for financial assets less any write-down for incurred impairment losses. Accrued interest includes amortisation of transaction costs deferred at initial recognition and of any premium or discount to maturity amount using the effective interest method. Accrued interest income and accrued interest expense, including both accrued coupon and amortised discount or premium (including fees deferred at origination, if any), are not presented separately and are included in the carrying values of related items in the statement of financial position.

Effective interest method is a method of allocating interest income or interest expense over the relevant period, so as to achieve a constant periodic rate of interest (effective interest rate) on the carrying amount. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts (excluding future credit losses) through the expected life of the financial instrument or a shorter period, if appropriate, to the net carrying amount of the financial instrument. The effective interest rate discounts cash flows of variable interest instruments to the next interest repricing date, except for the premium or discount which reflects the credit spread over the floating rate specified in the instrument, or other variables that are not reset to market rates. Such premiums or discounts are amortised over the whole expected life of the instrument. The present value calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate.

CLASSIFICATION OF FINANCIAL LIABILITIES. Financial liabilities have the following measurement categories: (a) held for trading which also includes financial derivatives and (b) other financial liabilities. Liabilities held for trading are carried at fair value with changes in value recognised in profit or loss for the year (as finance income or finance costs) in the period in which they arise. Other financial liabilities are carried at amortised cost. As at the reporting date the Group had financial liabilities classified as other financial liabilities only.

INITIAL RECOGNITION OF FINANCIAL INSTRUMENTS. All financial instruments of the Group are initially recorded at fair value. Fair value at initial recognition is best evidenced by the transaction price. A gain or loss on initial recognition is only recorded if there is a difference between fair value and transaction price which can be evidenced by other observable current market transactions in the same instrument or by a valuation technique whose inputs include only data from observable markets.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

DERECOGNITION OF FINANCIAL ASSETS. The Group derecognises financial assets when (a) the assets are redeemed or the rights to cash flows from the assets otherwise expire or (b) the Group has transferred the rights to the cash flows from the financial assets or entered into a qualifying pass-through arrangement while (i) also transferring substantially all risks and rewards of ownership of the assets or (ii) neither transferring nor retaining substantially all risks and rewards of ownership but not retaining control.

Control is retained if the counterparty does not have the practical ability to sell the asset in its entirety to an unrelated third party without needing to impose additional restrictions on the sale.

INVENTORIES. Inventories are stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses.

The cost of inventories is based on the weighted average cost principle and includes expenditure incurred in acquiring the inventories and bringing them to their existing location and condition.

CASH AND CASH EQUIVALENTS. Cash and cash equivalents comprise cash on hand, balances with banks and short-term interest-bearing deposits with original maturities of not more than three months (not more than 91 days).

EMPLOYEE BENEFITS. Remuneration to employees in respect of services rendered during the reporting period is recognised as an expense in that reporting period.

DEFINED BENEFIT PLANS
The Group operates defined benefit pension plans. The obligation and cost of benefits under the plans are determined separately for each plan using the projected unit credit method. This method considers each year of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation. The cost of providing pensions is charged to the consolidated profit or loss, so as to attribute the total pension cost over the service lives of employees in accordance with the benefit formula of the plan. This obligation is measured at the present value of estimated future cash flows using a discount rate that is similar to the interest on government bonds where the currency and terms of these bonds are consistent with the currency and estimated terms of the defined benefit obligation. Remeasurements of the net defined benefit liabilityare recognised in other comprehensive incomein full as they arise.

In addition, the Group provides certain retirement benefits, other post-employment and other long-term benefits to its employees. These benefits are not funded.

The obligation and cost of benefits for the other long-term benefits are determined using the projected unit credit method. Remeasurements of the net defined benefit liability are recognised as income or expense in full as they arise.

Upon introduction of a new plan or improvement of an existing plan, past service costs are recognised in full as they arise.

DEFINED CONTRIBUTION PLANS
In addition to the defined benefit plans described above, the Group also sponsors a defined contribution plan for certain of its employees. The Group’s contributions relating to the defined contribution plan are charged to the consolidated profit or loss in the year to which they relate.

STATE PLAN
In addition, the Group is legally obliged to make contributions to the Pension Fund of the Russian Federation (a multi-employer defined contribution plan). The Group’s only obligation is to pay.

the contributions as they fall due. As such, the Group has no legal obligation to pay and does not guarantee any future benefits to its Russian employees. The Group’s contributions to the Pension Fund of the Russian Federation, designated as a defined contribution plan, are charged to the consolidated profit or loss in the year to which they relate. Contributions for each employee to the Russian Federation State Pension Fund vary from 10% to 22%, depending on the annual gross remuneration of employee.

VALUE ADDED TAX. Output value added tax (“VAT”) related to revenues is payable to tax authorities upon delivery of the goods or services to customers, as well as upon collection of prepayments from customers. Input VAT is generally recoverable against output VAT upon receipt of the VAT invoice. The tax authorities permit the settlement of VAT on a net basis (except for input VAT related to export services provided related input VAT which is reclaimable upon confirmation of export). VAT related to sales and purchases is recognised in the consolidated statement of financial position on a gross basis and disclosed separately as an asset and liability. Where provision has been made for impairment of receivables, impairment loss is recorded for the gross amount of the debtor, including VAT.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS PAYABLE AND OTHER FINANCIAL LIABILITIES. Accounts payable and other financial liabilities are initially recognised at cost, which is the fair value of the consideration received, taking into account transaction costs. After initial recognition, financial liabilities are carried at amortised cost, using the effective interest method, with interest expense recognised on an effective yield basis. As normally the expected term of accounts payable is short, the value is stated at the nominal amount without discounting, which corresponds with fair value.

PROVISIONS. Provisions are recognised 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 recognised as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each balance sheet date 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.

REVENUE RECOGNITION. Revenue is recognised at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of sales related taxes. Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Revenues from sales of inventories are recognised when the significant risks and rewards of ownership of the goods have passed to the buyer.

RAIL-BASED CONTAINER SHIPPING SERVICES

Rail-based transportation services provided by the Group primarily include arranging the transportation of its own and third-party containers by rail by means of provision of flatcars and/or containers or leasing of flatcars and containers to third parties. For the purposes of recognising revenue, the Group charges its customers for provision of its own rolling stock while rail infrastructure charges are born by the customers directly or passed through to a provider of rail infrastrucutre services. Revenues from these services are recognised in the accounting period in which the services are rendered, net of invoiced rail infrastructure charges. Revenues from operating lease of rolling stock are recognised on a straight-line basis over the term of operating lease agreements.

INTEGRATED FREIGHT FORWARDING AND LOGISTICS SERVICES

Integrated freight forwarding and logistics services are service packages including rail container transportation, terminal handling, truck deliveries, freight forwarding and logistic services. There are two types of integrated freight forwarding and logistic services: through-rate services and compound rate services. If the Company is responsible for the rendering of services throughout the entire logistic chain and such services are rendered under a single contract at a single price, they are treated as through-rate services. If services rendered by the Company at a single price represent only a part of the logistic chain while remaining services are provided on a stand-alone basis separately, the intial services are treated as "compound services". Revenue from integrated freight forwarding and logistics services is a combination of revenues relating to various services, which, when provided under separate contracts, are shown in the corresponding revenue line items. Revenues from integrated freight forwarding and logistics services are recognised on a gross basis in the accounting period in which the services are rendered.

TERMINAL SERVICES AND AGENCY FEES

Terminal services primarily include arrangements whereby the Group acts as a principal providing container handling services, such as loading and unloading operations, container storage and other terminal operations.

The Group acts as an agent on behalf of RZD in providing mandatory railroad services for all railway users at the Group's terminals, designated as the "sites of common use" by the legislation. In this capacity the Group provides some of its terminal services as a legal intermediary (agent) between clients and RZD and collects a commission. Commission fees collected from RZD for intermediary activities and revenue from other terminal operations are recognised in the accounting period in which the services are provided.

BONDED WAREHOUSING SERVICES

Bonded warehousing services are services related to storage of customers' containers in separate warehouses located at container terminals while pending customs clearance or payment of other applicable duties. Revenue from these services is recognised on the basis of the number of days during which the services are rendered.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

TRUCK DELIVERIES

Truck delivery services include transporting containers between the container terminals and client-designated sites using the Group's own truck fleet as well as third parties' trucks. The Group considers itself the principal in these arrangements, and therefore recognises revenue from truck deliveries in the accounting period in which the services are rendered.

OTHER FREIGHT FORWARDING SERVICES

The Group provides other freight forwarding services, such as:

- (i) preparation and ensuring of correctness of shipping documentation required for the delivery process to be effected;
- (ii) customs clearance brokerage by providing clients with customs documentation and services for Russian customs clearance;
- (iii) cargo tracking services by providing clients with information about cargo location;
- (iv) route optimisation and planning; and
- (v) cargo security services, including provision of insurance, special labels for hazardous cargo, special terms for transportation of hazardous cargo, and ensuring proper documentation for the transported cargo.

Revenue from other freight forwarding services is recognised in the accounting period in which the services are rendered.

DIVIDEND AND INTEREST INCOME

- (i) Dividends from investments are recognised in consolidated profit or loss when the shareholder's right to receive payment has been established;
- (ii) Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable.

LEASES. The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date of whether the fulfilment 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 of the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

FINANCE LEASES

Assets under finance leases are recognised 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 consolidated 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 recognised as expenses in the periods in which they are incurred.

OPERATING LEASES

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

BORROWING COSTS. For the periods beginning 1 January 2009, 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 capitalised and amortised over the useful life of the asset. Other borrowing costs are recognised as an expense in the period in which they are incurred. For periods prior to 1 January 2009 all borrowing costs were expensed in the period in which they were incurred.

INCOME TAX. Income taxes have been provided for in the consolidated financial statements in accordance with legislation enacted or substantively enacted by the end of the reporting period. The income tax charge comprises current tax and deferred tax and is recognised in consolidated profit or loss for the year, except if it is recognised in other comprehensive income or directly in equity because it relates to transactions that are also recognised, in the same or a different period, in other comprehensive income or directly in equity.

Current tax is the amount expected to be paid to, or recovered from, the taxation authorities in respect of taxable profits or losses for the current and prior periods. Taxable profits or losses are based on estimates if financial statements are authorised prior to filing relevant tax returns. Taxes other than on income are recorded within operating expenses.

Deferred income tax is provided using the balance sheet liability method for tax loss carry forwards and temporary differences arising between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. In accordance with the initial recognition exemption, deferred taxes are not recorded for temporary differences on initial recognition of an asset or a liability in a transaction other than a business combination if the transaction, when initially recorded, affects neither accounting nor taxable profit. Deferred tax liabilities are not recorded for temporary differences on

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

initial recognition of goodwill. Deferred tax balances are measured at tax rates enacted or substantively enacted at the end of the reporting period, which are expected to apply to the period when the temporary differences will reverse or the tax loss carry forwards will be utilised. Deferred tax assets and liabilities are netted only within the individual companies of the Group. Deferred tax assets for deductible temporary differences and tax loss carry forwards are recorded only to the extent that it is probable that future taxable profit will be available against which the deductions can be utilised.

The Group controls the reversal of temporary differences relating to taxes chargeable on dividends from subsidiaries or on gains upon their disposal. The Group does not recognise deferred tax liabilities on such temporary differences except to the extent that Management expects the temporary differences to reverse in the foreseeable future.

UNCERTAIN TAX POSITIONS. The Group’s uncertain tax positions are reassessed by management at the end of each reporting period. Liabilities are recorded for income tax positions that are determined by management as more likely than not to result in additional taxes being levied if the positions were to be challenged by the tax authorities. The assessment is based on the interpretation of tax laws that have been enacted or substantively enacted by the end of the reporting period, and any known court or other rulings on such issues. Liabilities for penalties, interest and taxes other than on income are recognised based on management’s best estimate of the expenditure required to settle the obligations at the end of the reporting period.

SHARE CAPITAL AND OTHER RESERVES. Ordinary shares are classified as equity. External costs directly attributable to the issue of new shares, other than on a business combination, are shown as a deduction from the proceeds in equity. The difference between the fair value of consideration received and the par value of shares issued is recognised as other reserves. Similarly, any differences arising on transactions with shareholders which are treated as equity transactions are adjusted directly against other reserves.

TREASURY SHARES. Where any Group company purchases the Company’s equity instruments, the consideration paid, including any directly attributable incremental costs, and net of income taxes, is deducted from equity attributable to the Company’s owners until the equity instruments are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received, net of any directly attributable incremental transaction costs and the related income tax effects, are included in equity attributable to the Company’s owners.

EARNINGS PER SHARE. Earnings per share are calculated by dividing the income for the period attributable to equity holders of the parent by the weighted average number of ordinary shares outstanding during the period, except treasury shares. The Group does not have any potentially dilutive equity instruments.

SHARE-BASED PAYMENT TRANSACTIONS. The share option plan allows Group employees to acquire shares of the Company. The fair value of share-based payment awards is measured at the grant date based on the Black-Scholes-Merton model, which takes into account the terms and conditions upon which the instruments were granted. The fair value of the options is then expensed between the grant date and the vesting date written into the share option contract.

DIVIDENDS. Dividends are recognised as a liability and deducted from equity at the balance sheet date only if they are declared and approved before or on the balance sheet date by the shareholders at a general meeting. Dividends are disclosed when they are declared after the balance sheet date but before the consolidated financial statements are authorised for issue.

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.

PROVISIONS FOR LIABILITIES AND CHARGES. Provisions for liabilities and charges are non-financial liabilities of uncertain timing or amount. They are accrued when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

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

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

IFRSS AND IFRIC INTERPRETATIONS ADOPTED IN THE CURRENT YEAR

In the current year, the Group adopted all new and revised standards and interpretations issued by the International Accounting Standards Board (“IASB”) and International Financial Reporting Interpretation Committee (“IFRIC”) of the IASB that are mandatory for adoption in the annual periods beginning on or after 1 January 2013 and applicable for the Group’s activity. The effect from their adoption has not resulted in any significant changes to measurement and presentation of disclosures in the financial statements of the Group, except the following:

- IAS 19 “EMPLOYEE BENEFITS” (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013) – From 1 January 2013 the Group has applied the amendments to IAS 19 retrospectively in accordance with the transition provisions of the standard. Amended IAS 19 makes significant changes to the recognition and measurement of defined benefit pension expenses and to disclosures of all employee benefits. The material impacts of IAS 19 (revised) on the Group’s consolidated financial statements are as follows:
- “Actuarial gains and losses” are included to “remeasurements” and now are recognised immediately in other comprehensive income and thus, will no longer be recognised in profit or loss;
 - Past-services costs are recognised immediately though profit and loss when they occur;
 - The annual expense for the funded benefit plan now include net interest expense or income, calculated by applying the discount rate to the net defined benefit asset or liability. This replaces the interest costs and expected return on plan assets.

IFRS 11 “JOINT ARRANGEMENTS” (issued in June 2011 and effective for annual periods beginning on or after 1 January 2013) – replaces IAS 31 “Interests in Joint Ventures” and SIC-13 “Jointly Controlled Entities—Non-Monetary Contributions by Ventures”. Changes in the definitions have reduced the number of types of joint arrangements to two: joint operations and joint ventures. The previous policy choice of proportionate consolidation for jointly controlled entities has been eliminated. Equity accounting is mandatory for participants in joint ventures. As a result in the consolidated financial statements for 2013 the Company’s interest in joint ventures is accounted for using equity method and the comparative data was adjusted by the Group as at 1 January 2012, 31 December 2012, and for the year ended 31 December 2012.

The effect of the change in accounting policy due to adoption of IFRS 11 on the consolidated statement of financial position was immaterial and presented within total impact on the consolidated financial statement, presented below.

IAS 28 “INVESTMENTS IN ASSOCIATES AND JOINT VENTURES” – the amendment of IAS 28 resulted from the Board’s project on joint ventures. When discussing that project, the Board decided to incorporate the accounting for joint ventures using the equity method into IAS 28 because this method is applicable to both joint ventures and associates. With this exception, other guidance remained unchanged.

The third consolidated statement of financial position presented at the beginning of the preceding period is not provided as it was not materially impacted by a retrospective restatement.

Impact on the consolidated statement of financial position as at 1 January 2012:

	Amount as originally presented	Restatement	Restated amount
ASSETS			
Property, plant and equipment	29,216	(2)	29,214
Investments in associates and joint ventures	55	46	101
Total non-current assets	33,180	44	33,224
Trade and other receivables	1,152	(14)	1,138
Cash and cash equivalents	2,300	(43)	2,257
Total current assets	8,566	(57)	8,509
Total assets	41,746	(13)	41,733
EQUITY AND LIABILITIES			
Retained earnings	11,161	(141)	11,020
Total equity attributable to equity holders of the parent	22,966	(141)	22,825
Total equity	23,928	(141)	23,787
Employee benefit liability	990	153	1,143
Deferred tax liabilities	1,742	(10)	1,732
Total non-current liabilities	11,049	143	11,192
Trade and other payables	4,593	(15)	4,578
Total current liabilities	6,769	(15)	6,754
Total assets and liabilities	41,746	(13)	41,733

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4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Impact on the consolidated statement of financial position as at 31 December 2012:

	Amount as originally presented	Restatement	Restated amount
ASSETS			
Property, plant and equipment	34,234	[1]	34,233
Investments in associates and joint ventures	11	43	54
Deferred tax assets	1	[1]	–
Total non-current assets	35,961	41	36,002
Trade and other receivables	1,284	[22]	1,262
Prepayments and other current assets	4,435	[1]	4,434
Cash and cash equivalents	1,365	[47]	1,318
Total current assets	8,889	[70]	8,819
Total assets	44,850	[29]	44,821
EQUITY AND LIABILITIES			
Retained earnings	14,884	[159]	14,725
Total equity attributable to equity holders of the parent	26,783	[159]	26,624
Total equity	27,720	[159]	27,561
Employee benefit liability	1,093	173	1,266
Deferred tax liabilities	1,713	[13]	1,700
Total non-current liabilities	6,205	160	6,365
Trade and other payables	3,788	[15]	3,773
Income tax payable	169	[2]	167
Accrued and other current liabilities	802	[13]	789
Total current liabilities	10,925	[30]	10,895
Total equity and liabilities	44,850	[29]	44,821

Impact on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2012:

	Amount as originally presented	Restatement	Restated amount
Revenue	36,396	[31]	36,365
Integrated freight forwarding and logistics services	19,277	30	19,307
Rail-based container shipping services	10,014	[52]	9,962
Other freight forwarding services	833	[9]	824
Operating expenses	[29,472]	113	[29,359]
Cost of integrated freight forwarding and logistics services	[10,752]	[39]	[10,791]
Freight and transportation services	[4,920]	47	[4,873]
Payroll and related charges	[5,106]	97	[5,009]
Rent	[540]	2	[538]
Other expenses	[963]	6	[957]
Foreign exchange gain/(loss), net	[2]	1	[1]
Profit before income tax	6,719	83	6,802
Income tax expense	[1,568]	[2]	[1,570]
Profit for the year	5,151	81	5,232
Attributable to: Equity holders of the parent	5,102	81	5,183
Items that will not be reclassified subsequently to profit or loss:			
Remeasurements of post-employment benefit plans	–	[99]	[99]
Total comprehensive income for the year	4,943	[18]	4,925
Attributable to: Equity holders of the parent	4,958	[18]	4,940

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

Impact on the consolidated statement of cash flows for the year ended 31 December 2012:

	Amount as originally presented	Restatement	Restated amount
Cash flows from operating activities	7,246	[4]	7,242
Net increase in cash and cash equivalents	[882]	[4]	[886]

IAS 1 “PRESENTATION OF FINANCIAL STATEMENTS” (amendments issued in June 2011, effective for annual periods beginning on or after 1 July 2012) – changes the disclosure of items presented in other comprehensive income. The amendments require entities to separate items presented in other comprehensive income into two groups, based on whether or not they may be reclassified to profit or loss in the future. The suggested title used by IAS 1 has changed to “statement of profit or loss and other comprehensive income”. The amended standard resulted in changed presentation of consolidated financial statements for the year ended 31 December 2012 when the Group adopted IAS 1 amended.

IFRS 10 “CONSOLIDATED FINANCIAL STATEMENTS” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) – replaces all of the guidance on control and consolidation in IAS 27 “Consolidated and separate financial statements” and SIC-12 “Consolidation – special purpose entities”. IFRS 10 changes the definition of control so that the same criteria are applied to all entities to determine control. The Standard did not have any material impact on the Group’s consolidated financial statements.

IFRS 12 “DISCLOSURE OF INTEREST IN OTHER ENTITIES” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) – applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. It replaces the disclosure requirements currently found in IAS 28 “Investments in associates”. IFRS 12 requires entities to disclose information that helps financial statement readers to evaluate the nature, risks and financial effects associated with the entity’s interests in subsidiaries, associates, joint arrangements and unconsolidated structured entities. To meet these objectives, the new standard requires disclosures in a number of areas, including significant judgments and assumptions made in determining whether an entity controls, jointly controls, or significantly influences its interests in other entities, extended disclosures on share of non-controlling interests in group activities and cash flows, summarised financial information of subsidiaries with material non-controlling interests, and detailed disclosures of interests in unconsolidated structured entities. The Standard resulted in additional disclosures in these consolidated financial statements (Notes 7, 10).

IFRS 13 “FAIR VALUE MEASUREMENT” (issued in May 2011 and effective for annual periods beginning on or after 1 January 2013) - aims to improve consistency and reduce complexity by providing a revised definition of fair value, and a single source of fair value measurement and disclosure requirements for use across IFRSs. This standard had no impact on the recognition of the fair value of investments in JSC Kedentransservice and investment property in the Group’s consolidated financial statements, but resulted in additional disclosures (Note 10, 31).

“DISCLOSURES - OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES” – AMENDMENTS TO IFRS 7 (issued in December 2011 and effective for annual periods beginning on or after 1 January 2013) - requires disclosures that enable users of an entity’s [consolidated] financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off. These amendments resulted in additional disclosures in these consolidated financial statements (Note 31).

IMPROVEMENTS TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (issued in May 2012 and effective for annual periods beginning 1 January 2013). The improvements consist of changes to five standards. IFRS 1 was amended to (i) clarify that an entity that resumes preparing its IFRS financial statements may either repeatedly apply IFRS 1 or apply all IFRSs retrospectively as if it had never stopped applying them, and (ii) to add an exemption from applying IAS 23 “Borrowing costs”, retrospectively by first-time adopters. IAS 1 was amended to clarify that explanatory notes are not required to support the third balance sheet presented at the beginning of the preceding period when it is provided because it was materially impacted by a retrospective restatement, changes in accounting policies or reclassifications for presentation purposes, while explanatory notes will be required when an entity voluntarily decides to provide additional comparative statements IAS 16 was amended to clarify that spare parts, stand-by and servicing equipment is classified as property, plant and equipment rather than inventory if it complies with definition of property, plant and equipment. The requirement to account for spare parts and servicing equipment as property, plant and equipment only if they were used in connection with an item of property, plant and equipment was removed because this requirement was too restrictive when compared with the definition of property, plant and equipment. IAS 32 was amended to clarify that certain tax consequences of distributions to owners should be accounted for in the income statement as was always required by IAS 12. IAS 34 was amended to bring its requirements in line with IFRS 8. IAS 34 now requires disclosure of a measure of total assets and liabilities for an operating segment only if such information is regularly provided to chief operating decision maker and there has been a material change in those measures since the last annual consolidated financial statements. The amended standards did not have any material impact on the Group’s consolidated financial statements.

“TRANSITION GUIDANCE AMENDMENTS TO IFRS 10, IFRS 11 AND IFRS 12” (issued in June 2012 and effective for annual periods beginning 1 January 2013). The amendments clarify the transition guidance in IFRS 10 “Consolidated Financial Statements”. Entities adopting IFRS 10 should assess control at the first day of the annual period in which IFRS 10 is adopted, and if the consolidation conclusion under IFRS 10 differs from IAS 27 and SIC 12, the immediately preceding comparative period (that is, year 2012) is restated, unless impracticable. The amendments also provide additional transition relief in IFRS 10, IFRS 11 “Joint Arrangements” and IFRS 12 “Disclosure of Interests in Other Entities”, by limiting the requirement to provide adjusted comparative information only for the immediately preceding comparative period. Further, the amendments remove the requirement to present comparative information for disclosures related to unconsolidated structured entities for periods before IFRS 12 is first applied. The amended standards did not have any material impact on the Group’s consolidated financial statements other than disclosed above and application of the relief from disclosure of certain comparative information in the notes to the financial statements.

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4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS AND IFRIC INTERPRETATIONS NOT YET EFFECTIVE

New standards and improvements those are mandatory for annual periods beginning on or after 1 January 2014 or later periods that are applicable for the Group’s activity and approved for adoption in the Russian Federation and which the Group has not early adopted, are as follows:

AMENDMENTS TO IAS 32 “FINANCIAL INSTRUMENTS: PRESENTATION” “ (issued in December 2011 and effective for annual periods beginning on or after 1 January 2014). The amendment added application guidance to IAS 32 to address inconsistencies identified in applying some of the offsetting criteria. This includes clarifying the meaning of ‘currently has a legally enforceable right of set-off’ and that some gross settlement systems may be considered equivalent to net settlement.

AMENDMENTS TO IFRS 10, IFRS 12 AND IAS 27 – INVESTMENT ENTITIES (issued on 31 October 2012 and effective for annual periods beginning 1 January 2014). The amendment introduced a definition of an investment entity as an entity that (i) obtains funds from investors for the purpose of providing them with investment management services, (ii) commits to its investors that its business purpose is to invest funds solely for capital appreciation or investment income and (iii) measures and evaluates its investments on a fair value basis. An investment entity will be required to account for its subsidiaries at fair value through profit or loss, and to consolidate only those subsidiaries that provide services that are related to the entity’s investment activities. IFRS 12 was amended to introduce new disclosures, including any significant judgements made in determining whether an entity is an investment entity and information about financial or other support to an unconsolidated subsidiary, whether intended or already provided to the subsidiary. The Group does not expect the amendment to have any impact on its financial statements.

- IFRS 9 “FINANCIAL INSTRUMENTS: CLASSIFICATION AND MEASUREMENT”**. Key features of the standard issued in November 2009 and amended in October 2010, December 2011 and November 2013 are:
- Financial assets are required to be classified into two measurement categories: those to be measured subsequently at fair value, and those to be measured subsequently at amortised cost. The decision is to be made at initial recognition. The classification depends on the entity’s business model for managing its financial instruments and the contractual cash flow characteristics of the instrument.
 - An instrument is subsequently measured at amortised cost only if it is a debt instrument and both (i) the objective of the entity’s business model is to hold the asset to collect the contractual cash flows, and (ii) the asset’s contractual cash flows represent payments of principal and interest only (that is, it has only “basic loan features”). All other debt instruments are to be measured at fair value through profit or loss.
 - All equity instruments are to be measured subsequently at fair value. Equity instruments that are held for trading will be measured at fair value through profit or loss. For all other equity investments, an irrevocable election can be made at initial recognition, to recognise unrealised and realised fair value gains and losses through other comprehensive income rather than profit or loss. There is to be no recycling of fair value gains and losses to profit or loss. This election may be made on an instrument-by-instrument basis. Dividends are to be presented in profit or loss, as long as they represent a return on investment.
 - Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The key change is that an entity will be required to present the effects of changes in own credit risk of financial liabilities designated at fair value through profit or loss in other comprehensive income.
 - Hedge accounting requirements were amended to align accounting more closely with risk management. The standard provides entities with an accounting policy choice between applying the hedge accounting requirements of IFRS 9 and continuing to apply IAS 39 to all hedges because the standard currently does not address accounting for macro hedging.

The amendments made to IFRS 9 in November 2013 removed its mandatory effective date, thus making application of the standard voluntary. The Group does not intend to adopt the existing version of IFRS 9.

IAS 36 “IMPAIRMENT OF ASSETS” (issued in May 2013 and effective for annual periods beginning 1 January 2014) – The amendments remove the requirement to disclose the recoverable amount when a CGU contains goodwill or indefinite lived intangible assets but there has been no impairment. The Group is currently assessing the impact of the amendments on its financial statements.

New standards and improvements those are mandatory for annual periods beginning on or after 1 January 2014 or later periods that are applicable for the Group’s activity and not currently approved for applying in the Russian Federation and which the Group has not early adopted, are as follows:

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

AMENDED IAS 19 “EMPLOYEE BENEFITS” (issued in November 2013, effective for periods beginning on 1 July 2014). The amendment allows entities to recognise employee contributions as a reduction in the service cost in the period in which the related employee service is rendered, instead of attributing the contributions to the periods of service, if the amount of the employee contributions is independent of the number of years of service. The Group is currently assessing the impact of these amendments on its consolidated financial statements.

ANNUAL IMPROVEMENTS TO IFRSS (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014, unless otherwise stated below). The improvements consist of changes to seven standards. IFRS 2 was amended to clarify the definition of a ‘vesting condition’ and to define separately ‘performance condition’ and ‘service condition’; The amendment is effective for share-based payment transactions for which the grant date is on or after 1 July 2014. IFRS 3 was amended to clarify that (1) an obligation to pay contingent consideration which meets the definition of a financial instrument is classified as a financial liability or as equity, on the basis of the definitions in IAS 32, and (2) all non-equity contingent consideration, both financial and non-financial, is measured at fair value at each reporting date, with changes in fair value recognised in profit and loss. Amendments to IFRS 3 are effective for business combinations where the acquisition date is on or after 1 July 2014. IFRS 8 was amended to require (1) disclosure of the judgments made by management in aggregating operating segments, including a description of the segments which have been aggregated and the economic indicators which have been assessed in determining that the aggregated segments share similar economic characteristics, and (2) a reconciliation of segment assets to the entity’s assets when segment assets are reported. The basis for conclusions on IFRS 13 was amended to clarify that deletion of certain paragraphs in IAS 39 upon publishing of IFRS 13 was not made with an intention to remove the ability to measure short-term receivables and payables at invoice amount where the impact of discounting is immaterial. IAS 16 and IAS 38 were amended to clarify how the gross carrying amount and the accumulated depreciation are treated where an entity uses the revaluation model. IAS 24 was amended to include, as a related party, an entity that provides key management personnel services to the reporting entity or to the parent of the reporting entity (‘the management entity’), and to require to disclose the amounts charged to the reporting entity by the management entity for services provided. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

ANNUAL IMPROVEMENTS TO IFRSS 2013 (issued in December 2013 and effective for annual periods beginning on or after 1 July 2014). The improvements consist of changes to four standards. The basis for conclusions on IFRS 1 is amended to clarify that, where a new version of a standard is not yet mandatory but is available for early adoption; a first-time adopter can use either the old or the new version, provided the same standard is applied in all periods presented. IFRS 3 was amended to clarify that it does not apply to the accounting for the formation of any joint arrangement under IFRS 11. The amendment also clarifies that the scope exemption only applies in the financial statements of the joint arrangement itself. The amendment of IFRS 13 clarifies that the portfolio exception in IFRS 13, which allows an entity to measure the fair value of a group of financial assets and financial liabilities on a net basis, applies to all contracts (including contracts to buy or sell non-financial items) that are within the scope of IAS 39 or IFRS 9. IAS 40 was amended to clarify that IAS 40 and IFRS 3 are not mutually exclusive. The guidance in IAS 40 assists preparers to distinguish between investment property and owner-occupied property. Preparers also need to refer to the guidance in IFRS 3 to determine whether the acquisition of an investment property is a business combination. The Group is currently assessing the impact of the amendments on its consolidated financial statements.

5. KEY SOURCES OF ESTIMATION UNCERTAINTY

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 reporting year, are discussed below.

PROVISION FOR IMPAIRMENT OF RECEIVABLES. Management of the Group maintains a provision for impairment of short-term receivables in the form of an allowance account equal to estimated losses resulting from the inability of customers and other debtors to make required payments. When evaluating the adequacy of this allowance account, management bases its estimates on the ageing of accounts receivable balances and historical write-off experience, customer creditworthiness and changes in customer payment terms. If the financial condition of customers were to deteriorate, actual write-offs might be higher than expected. As at 31 December 2013 and 31 December 2012, the provision for impairment of receivables was recognised in the amount of RUR 259m and RUR 184m, respectively (Note 11).

DEPRECIABLE LIVES OF PROPERTY, PLANT AND EQUIPMENT. The Group assesses the remaining useful lives of items of property, plant and equipment at least at each financial year-end and in accordance with the current technical conditions of the assets and estimated period during which the assets are expected to earn benefits for the Group. If expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate 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.

As at 31 December 2012 the Group reassessed the remaining useful lives of items of property, plant and equipment (Note 4).

The estimated useful economic lives for property, plant and equipment are as follows (number of years):

	Revised starting from 1 January 2013	Used before 1 January 2013
Buildings	20–82	20–80
Constructions	5–50	5–45
Containers	10–20	10–15
Flatcars	28–38	28–32
Cranes and loaders	5–23	5–15
Vehicles	3–15	3–10
Other equipment	2–25	2–25

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5. KEY SOURCES OF ESTIMATION UNCERTAINTY (CONTINUED)

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

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

ESTIMATED IMPAIRMENT OF GOODWILL. The Group tests goodwill for impairment at least annually. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations.

COMPLIANCE WITH TAX LEGISLATION. Compliance with tax legislation, particularly in the Russian Federation, is subject to significant degree of interpretation and can be routinely challenged by the tax authorities. Fiscal periods remain open to review by the authorities in respect of taxes for three calendar years preceding the year of review. Under certain circumstances reviews may cover longer periods. Management believes that it has accrued all applicable taxes. Management believes that it has adequately provided for tax liabilities based on its interpretations of tax legislation. However, there exists a possibility that relevant tax authorities may have differing interpretations than those of the management, and the effect of such differences could be significant.

PENSION OBLIGATIONS. The Group uses an actuarial valuation method for measurement of the present value of post-employment benefit obligations and related current service cost. This method involves the use of demographic assumptions about the future characteristics of the current and former employees who are eligible for benefits (mortality, both during and after employment, rates of employee turnover, disability and early retirement, etc.), as well as financial assumptions (discount rate, future salary and benefits levels, etc.). In the event that further changes in the key assumptions are required, the amounts of the pension benefit costs may be materially affected (Note 18).

INITIAL RECOGNITION OF RELATED PARTY TRANSACTIONS. In the normal course of business the Group enters into transactions with its related parties. IAS 39 requires initial recognition of financial instruments based on their fair values. Judgement is applied in determining if transactions are priced at market or non-market interest rates, where there is no active market for such transactions. The basis for judgement is pricing for similar types of transactions with unrelated parties and effective interest rate analyses. Terms and conditions of related party balances are disclosed in Note 28.

INVESTMENT IN JOINT VENTURE. 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 recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as joint venture. Thus the investment in JSC Kedentransservice was recognised at fair value determined on the basis of the independent appraiser’s report (Note 10).

6. CRITICAL ACCOUNTING JUDGEMENTS

In the process of applying the Group’s accounting policies, management has made the following judgments, apart from those involving estimates, which have the most significant effect on the amounts recognised in the consolidated financial statements:

ACCOUNTING FOR LEASES.A lease is classified as finance lease if it transfers substantially all the risks and rewards incidental to ownership. Otherwise it is classified as operating lease. Whether a lease is a finance lease or an operating lease depends on the substance of the transaction rather than the form of the contract. In determining the accounting treatment of transactions that involve the legal form of a lease, all aspects and implications of an arrangements are evaluated to determine the substance of such transactions with weight given to those aspects and implications that have an economic effect. If the lease term is for longer than 75% of the economic life of the asset, or at the inception of the lease the present value of the minimum lease payments amounts to at least 90% of the fair value of the leased asset, the lease is classified by the Group as a finance lease, unless it is clearly demonstrated otherwise.

6. CRITICAL ACCOUNTING JUDGEMENTS (CONTINUED)

REVENUE FROM INTEGRATED FREIGHT FORWARDING AND LOGISTICS SERVICES. There are two types of the Group’s services for which critical accounting judgments are involved in revenue recognition:

- 1) In case the Group provides integrated freight forwarding and logistic services the customers do not interact with other transportation organisations. A full service is charged by the Group to its customers for its services including rail-based container transportation, terminal handling, trucking, etc. and the full third-party charges, including railway tariff.

There are certain characteristics indicating that the Group is acting as an agent, particularly the fact that railway tariffs are available to the public, therefore are known to the customer, and the risk of delivery is borne by the transportation organisations.

However, the Group bears the credit risk as it controls the flow of receipts and payments and is independent in its own pricing policy.

Management believes that the Group acts as a principal in these arrangements and the Group accounts for receipts from customers as sales revenue. Third-party charges, including the railroad tariff is included in third-party charges relating to integrated freight forwarding and logistics services.

Had the railway tariff directly attributable to such services been excluded from revenue and expenses both would have decreased by RUR 13,836m for the year ended 31 December 2013 (RUR 10,791m for the year ended 31 December 2012).

- 2) In cases where Rail-based container shipping services are provided, the Group agrees with the customer the transport fee as above, excluding the railroad tariff which is paid by the Group and reinvoiced to the client as reimbursement of providing rail infrastructure and locomotive services. Management believes that railroad tariff should not be included in revenue and expenses, as any variation in the tariff will be borne by the client.

7. CHANGES IN THE GROUP’S STRUCTURE

Logistic System Management B.V., Helme’s Operation UK Limited, JSC Kedentransservice.

As at 31 December 2012 the Group owned 100% of Logistic System Management B.V., 100% of Helme’s Operation UK Limited and 67% of JSC Kedentransservice.

On 23 December 2013 the Group sold KZT 17% of shares of Logistic System Management B.V., which owns only 100% of shares of JSC Kedentransservice (46.9% via Helme’s Operation UK Limited and directly 20.1%).

In May 2013 within the frame of additional issue of shares of Logistic System Management B.V. the Group transferred 100% of shares of Helme’s Operation UK Limited (which owns 46.9% of shares of JSC Kedentransservice) and 20.1% of the shares of Kedentransservice and JSC National Company Kazakhstan Temir Zholy («KTZ») transferred 33% of shares of JSC Kedentransservice in exchange for 67% of shares and 33% of shares of Logistic System Management B.V. respectively. As a result of this transaction the Group owned 67% of shares of Logistic System Management B.V. and 67% of shares of Kedentransservice.

As a result of linked transactions described above, the Group has lost control over Logistic System Management B.V., Helme’s Operation UK Limited and JSC Kedentransservice and its ownership in these companies accounted for 50%. Accordingly, the assets and liabilities of JSC Kedentransservice were not included in the consolidated statement of financial position as at 31 December 2013, while the results of operations and cash flows of JSC Kedentransservice were consolidated up to date when control was lost (23 December 2013). Investment retained in JSC Kedentransservice was recognised at its fair value at the date when control was lost and accounted for as an investment in the joint venture in accordance with IAS 28 «Investments in Associates and Joint ventures.

The details of the disposed assets and liabilities and disposal consideration are as follows:

JSC Kedentransservice	23 December 2013
Intangible assets	530
Property, plant and equipment	2,407
Investment property	29
Inventory	73
Trade accounts receivable	692
Prepayments	164
Cash and cash equivalents	253
Other assets	54
Total assets	4,202
Deferred tax liability	[353]
Trade and other payables	[642]
Tax payable	[20]
Finance lease obligations	[8]
Total liabilities	(1,023)
Goodwill	216
Net assets of subsidiary, including attributed goodwill	3,395
Less: non-controlling interest	[1,044]
Carrying amount of disposed net assets	2,351
Total disposal consideration	665
Less: cash and cash equivalents in disposed subsidiary	[253]
Cash inflow on disposal	412

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7. CHANGES IN THE GROUP'S STRUCTURE (CONTINUED)

Profit resulting from the loss of control over JSC Kedentransservice is:

	23 December 2013
Consideration for disposal of controlling interest in subsidiary	665
Fair value of investment in joint venture	2,287
Carrying amount of disposed net assets, net of non-controlling interest	(2,351)
Exchange differences on translating foreign operations recycled from other comprehensive income to profit or loss	156
Gain on disposal of controlling interest in subsidiary	757

8. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES FOR ACQUISITION OF NON-CURRENT ASSETS

	Land, buildings and constructions	Locomotives, containers and flatcars	Cranes and loaders	Vehicles and other equipment	Construction in-progress	Total
Cost						
1 January 2012	7,332	27,027	1,515	2,627	941	39,442
Additions	2,859	3,063	159	357	1,479	7,917
Transfers	418	510	23	28	[979]	–
Capitalised borrowing costs	–	–	–	–	45	45
Disposals	[26]	[338]	[4]	[64]	[1]	[433]
Exchange difference	[119]	[33]	[13]	[31]	[3]	[199]
31 December 2012	10,464	30,229	1,680	2,917	1,482	46,772
Additions	138	4,079	150	321	1,832	6,520
Transfers	1,997	409	126	40	[2 572]	–
Capitalised borrowing costs	–	–	–	–	87	87
Disposals	[94]	[559]	[38]	[203]	[6]	[900]
Disposal the of controlling interest in subsidiary	[1,887]	[561]	[280]	[561]	[31]	[3,320]
Exchange difference	93	28	14	28	–	163
31 December 2013	10,711	33,625	1,652	2,542	792	49,322
Accumulated depreciation						
1 January 2012	[1,447]	[6,775]	[770]	[1,230]	[4]	[10,226]
Depreciation charge for the year	[368]	[1,731]	[167]	[389]	–	[2,655]
Reversal of impairment / (impairment)	–	–	–	[1]	–	[1]
Disposals	14	241	3	59	–	317
Exchange difference	10	10	2	4	–	26
31 December 2012	[1,791]	[8,255]	[932]	[1,557]	[4]	[12,539]
Depreciation charge for the year	[229]	[1,168]	[106]	[346]	–	[1,849]
Reversal of impairment / (impairment)	[18]	[92]	[3]	[13]	3	[123]
Disposals	59	377	33	170	–	639
Disposal the of controlling interest in subsidiary	261	356	120	175	1	913
Exchange difference	[13]	[14]	[4]	[6]	–	[37]
31 December 2013	[1,731]	[8,796]	[892]	[1,577]	–	[12,996]
Net book value						
31 December 2012	8,673	21,974	748	1,360	1,478	34,233
31 December 2013	8,980	24,829	760	965	792	36,326

Included under land, buildings and constructions are the amounts of RUR 109m and RUR 701m, which represent the value of land plots owned by the Group as at 31 December 2013 and 31 December 2012, respectively.

During the year ended 31 December 2013 container terminal in Novosibirsk was put into operation in the amount of RUR 723m.

8. PROPERTY, PLANT AND EQUIPMENT AND ADVANCES FOR ACQUISITION OF NON-CURRENT ASSETS (CONTINUED)

The vehicles and other equipment category includes motor transport used for terminal services and truck deliveries with gross carrying amount of RUR 845m and RUR 1,105m as at 31 December 2013 and 31 December 2012, respectively.

As at 31 December 2012 the Group revised the useful lives of all fixed assets. As a result, the amount of depreciation charges for the year ended 31 December 2013 decreased by RUR 901m in comparison with the one that would have been charged under the previous useful life. The estimation of the effect on further periods is impracticable.

The gross carrying amount of fully depreciated property, plant and equipment that is still in use amounted to RUR 1,678m and RUR 1,930m as at 31 December 2013 and 31 December 2012, respectively.

The carrying amount of temporarily idle property, plant and equipment as at 31 December 2013 and 31 December 2012 comprised the following:

	2013	2012
Cost	792	431
Accumulated depreciation	[285]	[191]
Net book value	507	240

Included under construction in-progress as at 31 December 2013 are the capital expenditures incurred for the reconstructions and expansion of container terminals in Yekaterinburg, Khabarovsk and Moscow region amounting to RUR 143m, RUR 56m and RUR 57m, respectively, and containers acquired for the amount of RUR 367m.

Construction in-progress as at 31 December 2012 consisted mainly of the capital expenditures incurred for the reconstructions and expansion of container terminals in Novosibirsk, Krasnoyarsk, Yekaterinburg and Moscow region amounting to RUR 662m, RUR 152m, RUR 90m and RUR 100m, respectively, and containers acquired for the amount of RUR 218m.

Additions of construction in-progress include interest expenses on bonds and other related proceeds from borrowed funds in connection with the construction and reconstructions of property, plant and equipment items. The total amount of interest capitalised for the year ended 31 December 2013 was RUR 87m at a rate of capitalisation of 9.19% and RUR 45m capitalised for the year ended 31 December 2012 at a rate of capitalisation of 9.52%.

Leased assets as at 31 December 2013 and 31 December 2012, for which the Group is a lessee under finance leases primarily related to land, buildings and constructions and comprised the following:

	2013	2012
Cost	575	778
Accumulated depreciation	[12]	[8]
Net book value	563	770

In 2013 the Group bought out a part of non-residential premises in a Moscow head office building, previously acquired under a finance lease agreement. The cost of the bought out building part was RUR 185m. The remaining premises at a value of RUR 575m continued to be used by the Group under the finance lease agreement. See Note 17 for further details regarding finance leases.

ADVANCES FOR ACQUISITION OF NON-CURRENT ASSETS

As at 31 December 2013 and 31 December 2012, net amount of advances for the acquisition of non-current assets consisted of advances for the acquisition and modernisation of the rolling stock (nil and RUR 59m, respectively), advances for the acquisition of cranes and loaders (RUR 147m and RUR 146m, respectively), advances for the acquisition of containers (RUR 85m and RUR 45m, respectively), advances for construction-and-assembling operations (nil and RUR 38m, respectively) and advances for the acquisition of other non-current assets (RUR 11 and RUR 70m, respectively).

As at 31 December 2013 and 31 December 2012 provision was recognised for impairment of advances for acquisition of non-current assets in the amount of RUR 48m and RUR 11m, respectively (Note 11).

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9. INTANGIBLE ASSETS OTHER THAN GOODWILL

	Lease agreements	Software	Total
Cost			
1 January 2012	618	178	796
Additions	–	25	25
Disposals	–	(34)	(34)
Exchange difference	(5)	–	(5)
31 December 2012	613	169	782
Additions	–	146	146
Disposals	–	(28)	(28)
Disposal of controlling interest in the subsidiary	(664)	–	(664)
Exchange difference	51	–	51
31 December 2013	–	287	287
Accumulated amortisation			
1 January 2012	(39)	(104)	(143)
Disposals	–	34	34
Amortisation charge for the year	(45)	(40)	(85)
Exchange difference	4	–	4
31 December 2012	(80)	(110)	(190)
Disposals	–	18	18
Amortisation charge for the year	(49)	(45)	(94)
Disposal of controlling interest in the subsidiary	134	–	134
Exchange difference	(5)	–	(5)
31 December 2013	–	(137)	(137)
Net book value			
31 December 2012	533	59	592
31 December 2013	–	150	150

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES

The table below summarises the movements in the carrying amount of the Group’s investment in associates and joint ventures:

	Joint Venture JSC Kedentransservice	Other joint ventures	Associates	Total associates and joint ventures
Carrying amount as at 1 January 2012	–	46	55	101
Share of profit of associates and joint ventures	–	–	(19)	(19)
Disposals	–	–	(25)	(25)
Effect of translation to presentation currency	–	(3)	–	(3)
Carrying amount as at 31 December 2012	–	43	11	54
Share of profit of associates and joint ventures	–	3	(1)	2
Fair value of net assets of associates and joint ventures acquired	1,977	–	–	1,977
Goodwill arising on acquisition of associates and joint ventures	309	–	–	309
Effect of translation to presentation currency	(16)	4	–	(12)
Carrying amount as at 31 December 2013	2,270	50	10	2,330

10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

Summarised financial information of each associate and joint venture is as follows as at 31 December 2013 and 31 December 2012:

	Joint Venture JSC Kedentransservice		Other joint ventures		Associates		Total associates and joint ventures	
	2013	2012	2013	2012	2013	2012	2013	2012
Current assets	1,078	–	185	182	210	164	1,473	346
Non-current assets	4,022	–	7	4	6	4	4,035	8
Current liabilities	544	–	92	99	163	117	799	216
Non-current liabilities	635	–	–	–	–	1	635	1
Net assets	3,921	–	100	87	53	50	4,074	137
Revenue	–	–	178	142	909	2,296	1,087	2,438
Profit/(loss)	–	–	4	2	(2)	(287)	2	(285)
Other comprehensive income	–	–	13	6	7	3	20	9

Additional financial information of joint venture JSC Kedentransservice is as follows:

	2013
Cash and cash equivalents	253
Current financial liabilities (excluding trade and other payables and provisions)	7

The only reconciling difference between the above amounts and the carrying amount of the investments in associates and joint ventures is elimination of the ownership interest held by the other investors in the associates and joint ventures.

As a result of JSC Kedentransservice deconsolidation in December 2013, described in Note 7, goodwill in amount of RUR 216m accounted as at 31 December 2012 was disposed.

The following table provides information about JSC Kedentransservice that has non-controlling interest that is material to the Group. Information for the year ended 31 December 2013 concerning revenue, profit, comprehensive income and cash flows of the subsidiary presented until the date when control was lost.

	2013	2012
Proportion of non-controlling interest	33%	33%
Profit attributable to non-controlling interest	109	49
Accumulated non-controlling interest as at 31 December	–	937
Dividends paid to non-controlling interest	50	10
Current assets	–	668
Non-current assets	–	2,924
Current liabilities	–	362
Non-current liabilities	–	391
Revenue	6,613	3,916
Profit	329	148
Total comprehensive income	–	62
Cash flows	(19)	24

JOINT VENTURE FAIR VALUE ASSESSMENT

As at 31 December 2013 the consolidated financial statements present the amount of investment in JSC Kedentransservice at fair value in amount of RUR 2,270m determined on the basis of the independent appraiser’s report, including fair value of net assets in amount of RUR 1,961m and RUR 309m of goodwill. While carrying out the evaluation of investment’s fair value independent appraiser primarily used the income approach, considering the cost method approach results. In accordance with a conservative approach JSC Kedentransservice’s business development plans, that involve high capital investments for business expansion, as well as revenue growth and operating profitability increase, are not included in the forecast. In addition the low capacity utilization rate of Dostyk Station and the terminals allows to increase the volume of cargo handling without providing additional capital investment. JSC Kedentransservice will extend the lease agreements on Dostyk Station’s transshipment locations.

- During carrying out of the evaluation of fair value of investment in JSC Kedentransservice the following key assumptions were used in the income approach:
- The growth rate of gross domestic product in Europe was used as Dostyk Station’s volume growth rates and growth rate of gross domestic product in Kazakhstan was used as terminal activity’s growth rates.
 - Since the revenue from transshipment at Dostyk Station was formed in Swiss francs, the prices were forecasted under growth rate of producer price index (PPI) for Switzerland.
 - Prices on cargo handling at the terminals were forecasted under PPI in Kazakhstan.
 - The fixed discount rate of 18.1% was used for the all forecast period from 23 December 2013 to 31 December 2018. The discount rate was calculated as weighted average cost of capital (RWACC).

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10. INVESTMENTS IN ASSOCIATES AND JOINT VENTURES (CONTINUED)

The following table shows sensitivity of fair value of investment in JSC Kedentransservice to reasonably possible changes in the abovementioned factors, with all other variables remain unchanged:

	Price for terminal cargo handling		Price for transshipment at Dostyk Station		Discount rate		Volume of the transshipment at Dostyk Station	
Change of the assumptions on interest points	+5%	–5%	+5%	–5%	+5%	–5%	+5%	–5%
Deviation from the baseline, RUR thousand	364	[290]	222	[222]	[84]	95	[44]	44
Change in value, %	+8%	–6.3%	+4.9%	–4.9%	–1.8%	+2.1%	–1%	+1%

11. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
31 December 2013			
Trade receivables	1,365	[162]	1,203
Other receivables	427	[9]	418
Total trade and other receivables, classified as financial assets	1,792	[171]	1,621
31 December 2012			
Trade receivables	1,228	[87]	1,141
Other receivables	137	[16]	121
Total trade and other receivables, classified as financial assets	1,365	[103]	1,262

Included in the Group’s total trade and other receivables are debtors with a carrying amount of RUR 223m and RUR 293m as at 31 December 2013 and 31 December 2012, respectively, which are past due at the respective reporting date and which the Group considers to be not impaired. The Group does not hold any collateral over these outstanding balances.

Long-term trade receivables are represented mainly by accounts receivable of OJSC RZD Logistics, which expected to be fully repaid till December 2018. A discount rate of 8.6% has been used for the receivables’ fair value determination. As at 31 December 2013 the fair value of long-term accounts receivable of OJSC RZD Logistics amounted to RUR 364m [RUR 452m as at 31 December 2012]. As at 31 December 2013 a part of trade receivables of OJSC RZD Logistics in the amount of RUR 207m, was recognised as a part of short-term trade receivables.

The ageing of past due but not impaired trade and other receivables is as follows:

	2013	2012
Less than 90 days	132	141
90–180 days	49	20
More than 180 days	42	132
Total past due but not impaired	223	293

Movement in the impairment provision for accounts receivable is as follows:

	2013	2012
Balance at beginning of the year	[184]	[283]
Additional provision, recognised in the current year	[201]	[22]
Release of provision	7	33
Utilisation of provision	17	80
Disposal of controlling interest in subsidiary	104	–
Exchange differences on translating foreign operations	[2]	8
Balance at end of the year	[259]	[184]

11. TRADE AND OTHER RECEIVABLES (CONTINUED)

As at 31 December 2013 and 31 December 2012 provision for impairment of accounts receivable was recognised in respect of trade and other receivables balances (RUR 171m and RUR 103m, respectively), advances to suppliers (RUR 40m and RUR 65m, respectively, Note 8), advances for acquisition of non-current assets (RUR 48m and RUR 11m, respectively) and other non-current assets (RUR 5m as at 31 December 2012).

12. PREPAYMENTS AND OTHER CURRENT ASSETS

	2013	2012
VAT receivable	1,674	2,577
Advances to suppliers	1,633	1,674
Other current assets	128	183
Total prepayments and other current assets	3,435	4,434

13. SHORT-TERM INVESTMENTS

	2013	2012
Russian Rouble denominated bank deposits	1	1,293
Foreign currency denominated bank deposits	–	46
Total short-term investments	1	1,339

Short-term investments of the Group are presented by deposits with banks with an original maturity over three months.

Russian Rouble-denominated short-term bank deposit in the amount of RUR 1m bearing interest at an annual rate of 6% was placed by the Group with OJSC Alfa Bank, as at 31 December 2013. The deposit matured on 27 March 2014.

As at 31 December 2012 short-term investments of the Group are presented by following investments in the Russian banks:

- Russian Rouble-denominated short-term bank deposit in the amount of RUR 300m bearing interest at an annual rate of 8.05% in OJSC Bank VTB, a related party (Note 28). The deposit matured on 21 January 2013. The amount of accrued interest is RUR 11m and has been included as the portion of short-term investments in the consolidated statement of financial position.
- Russian Rouble-denominated short-term bank deposit in the amount of RUR 250m bearing interest at an annual rate of 8.85% in OJSC Gazprombank, a related party. The deposit matured on 4 February 2013. The amount of accrued interest is RUR 20m and has been included as the portion of short-term investments in the consolidated statement of financial position.
- Russian Rouble-denominated short-term bank deposit in the amount of RUR 200m bearing interest at an annual rate of 8.22% in JSC TransCreditBank, a related party (Note 28). The deposit matured on 22 February 2013. The amount of accrued interest is RUR 5m and has been included as the portion of short-term investments in the consolidated statement of financial position.
- Russian Rouble-denominated short-term bank deposit in the amount of RUR 500m bearing interest at an annual rate of 8.50% in JSC TransCreditBank, a related party (Note 28). The deposit matured on 22 February 2013. The amount of accrued interest is RUR 7m and has been included as the portion of short-term investments in the consolidated statement of financial position.

Also USD-denominated short-term bank deposit in the amount of USD 1.5m (RUR 46m at the Central Bank of Russia exchange rate as at 31 December 2012) bearing interest at an annual rate of 0.25% was placed by the Group with JSC Nurbank, as at 31 December 2012. The deposit matured on 8 April 2013.

14. CASH AND CASH EQUIVALENTS

	2013	2012
Cash and Russian Rouble denominated current accounts with banks	742	770
Foreign currency denominated current accounts with banks	1,141	433
Foreign currency denominated bank deposits	–	112
Russian Rouble denominated letter of credit	–	3
Total cash and cash equivalents	1,883	1,318

The credit quality of cash and cash equivalents balances may be summarised based on Standard and Poor’s long-term ratings as follows as at 31 December 2013 and 31 December 2012:

	2013			2012		
	Bank balances payable on demand	Term deposits	Letter of credit	Bank balances payable on demand	Term deposits	Letter of credit
– A- to A+ rated	65	–	–	45	–	–
– BBB to A- rated	1,814	–	–	1,042	–	3
– Lower than BBB rated	1	–	–	114	112	–
– Unrated	3	–	–	2	–	–
Total	1,883	–	–	1,203	112	3

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15. EQUITY

SHARE CAPITAL

Authorised, issued and fully paid capital as at 31 December 2013 and 31 December 2012 comprises:

	Number of ordinary shares	Value
Ordinary shares (par value: RUR 1,000)	13,894,778	13,895

RZD is the controlling shareholder of the Company, holding 50%+2 of its ordinary shares.

During the year ended 31 December 2013 the weighted average number of outstanding ordinary shares, excluding treasury shares and including the number of shares earned in accordance with the option plan amounted to 13,896,193 shares. (13,863,408 during the year ended 31 December 2012).

TREASURY SHARES

In relation to the Share Option Plan for the Company’s management (Note 19), the Group purchased 208,421 treasury shares in 2011. Their purchase cost was RUR 514m. During the year ended 31 December 2013 and 2012 exercised options amounted to RUR 24m and RUR 6m, respectively.

OTHER RESERVES, INCLUDING INVESTMENT PROPERTY’S REVALUATION RESERVE

As discussed in Note 1, the Company was formed as a result of a spin-off by RZD which involved the contribution by RZD of containers, flatcars, buildings and constructions, VAT receivable related to these assets, and cash, in exchange for ordinary shares of the Company.

The difference between the fair value of net assets contributed and the nominal value of the shares issued by the Company, as well as differences arising from transactions with shareholders, of RUR 2,221m were recorded as other reserves as at 31 December 2012.

During the year ended 31 December 2013 the investment property’s revaluation reserve was recognised for the amount of RUR 56m.

RETAINED EARNINGS, DIVIDENDS

In accordance with the Russian legislation, dividends may only be declared from the Company’s accumulated undistributed and unreserved earnings as shown in the Company’s statutory financial statements, which are prepared in accordance with Russian Accounting Rules and Reporting of the Russian Federation. The Company had RUR 14,678m and RUR 11,570m of undistributed and unreserved earnings as at 31 December 2013 and 31 December 2012, respectively.

Dividends of RUR 87.68 per share (RUR 1,218m in total) were approved at the annual shareholders’ meeting of the Company on 26 June 2012 relating to the Group’s results for the year ended 31 December 2011. In July 2012 the dividends have been fully paid.

Dividends of RUR 86.67 per share (RUR 1,187m in total) were approved at the annual shareholders’ meeting on 26 June 2013 relating to the Group’s results for the year ended 31 December 2012. In August 2013 the dividends have been fully paid.

Dividends of KZT 102.22 per share were approved at the annual shareholders’ meeting of JSC Kedentransservice on 29 June 2012 relating to the results for the year ended 31 December 2011.

Dividends for the total amount of KZT 42m (RUR 10m at the Central Bank of Russia exchange rate as at 29 June 2012) were accrued to the shareholder of JSC Kedentransservice JSC National Company Kazakh Temir Zholy. In August 2012 the dividends have been fully paid.

Dividends of KZT 561.31 per share were approved at the annual shareholders’ meeting of JSC Kedentransservice on 27 June 2013 relating to the results for the year ended 31 December 2012.

Dividends for the total amount of KZT 233m (RUR 50m at the Central Bank of Russia exchange rate as at 27 June 2013) were accrued to the shareholder of JSC Kedentransservice JSC National Company “Kazakh Temir Zholy».

15. EQUITY (CONTINUED)

RESERVE FUND

According to its charter, the Company is required to establish a legal reserve fund through the allocation of 5 percent of net profit as computed under the Russian Accounting Rules. The total amount of the reserve fund is limited to 5 percent of the nominal registered amount of the Company’s issued share capital. The reserve fund may only be used to offset losses of the Company as well as to redeem issued bonds or purchase treasury shares and cannot be distributed to shareholders. As at 31 December 2013 and 31 December 2012 the Company’s reserve fund is RUR 697m and RUR 478m, respectively.

16. LONG-TERM AND SHORT-TERM DEBT

LONG-TERM DEBT

	Effective interest rate	2013	2012
Bonds	8.35 – 8.8%	5,724	2,232
Bank loans	9.5%	470	490
Total		6,194	2,731

Long-term borrowings of the Group are denominated in Russian Rubles.

During the year ended 31 December 2011 the Group obtained borrowed funds from LLC TrustUnion Asset Management for the amount of RUR 514m to finance the acquisition of ordinary shares in OJSC TransContainer in order to carry out a Share Option Plan for the Company’s management (Note 19). The loan matures in five years. As at 31 December 2013 the amount of loan was RUR 470m.

FIVE-YEAR RUR BONDS, SERIES 2 – On 10 June 2010, the Company issued non-convertible five-year bonds for a total amount of RUR 3,000m at a par value of RUR 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUR 2,975m. The annual coupon rate of the bonds for five years is 8.8% with interest paid semi-annually.

The series 2 bonds should be redeemed in four equal semi-annual installments within the fourth and fifth years. As a result, these bonds were classified as long-term borrowings as at 31 December 2012, except the first principal repayment made in December 2013 in amount of RUR 750m.

As at 31 December 2013 the carrying value of the bonds amounted to RUR 2,236m (RUR 2,982m as at 31 December 2012).

As at 31 December 2013 short-term portion of long-term bonds equals RUR 1,500m (RUR 750m as at 31 December 2012) and this amount was included as short-term debt in the consolidated statement of financial position.

The amount of accrued interest is RUR 18m (RUR 22m as at 31 December 2012), and was included as short-term debt in the consolidated statement of financial position.

FIVE-YEAR RUR BONDS, SERIES 4 –On 1 February 2013, the Company issued non-convertible five-year bonds for a total amount of RUR 5,000m at a par value of RUR 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUR 4,988m. The annual coupon rate of the bonds for five years is 8.35% with interest paid semi-annually.

The series 4 bonds will be redeemed in four equal semi-annual installments within the fourth and fifth years. As a result, these bonds are classified as long-term borrowings as at the reporting date.

As at 31 December 2013 the carrying value of the bonds amounted to RUR 4,988m. The amount of accrued interest is RUR 175m and has been included as short-term debt in the consolidated statement of financial position.

SHORT-TERM DEBT AND CURRENT PORTION OF LONG-TERM DEBT

	Effective interest rate	2013	2012
Bonds	9.5%		3,098
Short-term portion of long-term bonds	–	1,693	772
Bank loans	9.5 – 9.75%		1,825
Total		1,693	5,695

Short-term borrowings of the Group denominated in Russian Rubles.

In February 2013 the Company fully prepaid its loans to OJSC Alfa Bank and also redeemed its short-term obligations on bonds series 1.

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17. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	2013	2012	2013	2012
Due within one year	69	99	66	94
Due after one year but not more than five years	703	369	485	279
More than five years	–	659	–	389
	772	1,127	551	762
Less future finance charges	(221)	(365)	–	–
Present value of minimum lease payments	551	762	551	762

During the year ended 31 December 2012 the Group entered into a finance lease agreement on the acquisition of non-residential premises in a Moscow office building. The lease agreement is for a six-year period with an effective interest rate of 9.65%.

During the year ended 31 December 2013, the Group bought back part of the non-residential premises of the building and redeemed its obligation in the amount of RUR 185m in advance that resulted in recognition of income from early termination of finance lease obligations for a total amount of RUR 32m in the consolidated profit or loss.

In accordance with the lease agreement if the Group does not use the right to acquire the leased premises during the lease period or does not entitle third parties to use the right to acquire the leased premises, the Group is obliged to acquire the leased premises for the amount of RUR 465m at the end of lease period.

All leases are denominated in Russian Roubles. The Group’s obligations under finance leases are secured by the lessors’ title to the leased assets.

18. EMPLOYEE BENEFIT LIABILITY

The employees of the Group are members of a state-managed pension plan operated by the government of the Russian Federation. The Group is required to contribute a specified percentage of payroll costs as part of the contributions to the Pension Fund of the Russian Federation to fund the benefits.

The Group also provides supplementary defined benefit and defined contribution retirement benefit plans covering about a quarter substantially all of its employees, requiring contributions to be made to a separately administered non-state pension fund “Blagosostoyanie” (“Fund Blagosostoyanie”). The not-for-profit fund “Pochet” (“Fund Pochet”) provides pensions to the Group’s employees that retired before the defined benefit plans provided though the Fund Blagosostoyanie were introduced.

Benefits accrued through Fund Blagosostoyanie are partially funded, whilst benefits administered by the Fund Pochet are not funded. In addition, the Group provides other retirement and post employment benefits to its employees, covering compensation for transportation costs on long-distance trains, a one-time bonus on retirement ranging from one to six monthly salaries, depending on the duration of the service period, a benefit for dedication to the company and certain other requirements. These benefits are not funded.

In 2013, the Group has changed some conditions of the defined benefit pension plans administered non-state pension fund “Blagosostoyanie”. One of the plans was eliminated. The number of payments on the other plan was increased. The total gain of RUR 32m recognised in the past service cost.

DEFINED CONTRIBUTION PLANS

The total amount recognised as an expense in respect of payments to defined contribution plans for the years ended 31 December 2013 and 31 December 2012 consisted of the following:

	2013	2012
Pension Fund of the Russian Federation	553	558
Defined contribution plan “Blagosostoyanie”	18	19
Total expense for defined contribution plans	571	577

18. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

DEFINED BENEFIT PLANS

There were 274 employees as at 31 December 2013 (as at 31 December 2012: 372) eligible for defined benefit pension plan with benefits depended on salary and years of service. In addition, there were 85 and 88 retired employees eligible for the post-retirement benefit program of the Group through Fund Pochet as at 31 December 2013 and 31 December 2012, respectively. Other retirement and post-employment defined benefit plans cover substantially all employees of the Group.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2013 by an independent actuary. The present value of the defined benefit obligations, and related current service costs and past service cost, were measured using the projected unit credit method.

The amounts recognised in the consolidated statement of profit or loss in Payroll and related charges for the year ended 31 December 2013 and 31 December 2012, respectively, in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2013	2012	2013	2012	2013	2012
Service cost	2	41	118	130	120	171
Net interest on obligation	58	61	13	19	71	80
Remeasurements of the net defined benefit	–	–	9	(65)	9	(65)
Net expense recognised in the consolidated profit or loss	60	102	140	84	200	186

Net (income)/expenses recognised in the other comprehensive income for post-employment benefits related mainly to remeaseruments of the net defined benefit constitute RUR (119m) and 104m for the year ended 31 December 2013 and 31 December 2012, respectively.

The amounts recognised in the consolidated statement of financial position as at 31 December 2013 and 31 December 2012, respectively, in respect of these defined benefit plans are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2013	2012	2013	2012	2013	2012
Present value of defined benefit obligation	837	1 013	321	311	1,158	1,324
Fair value of plan assets	(62)	(58)	–	–	(62)	(58)
Net employee benefit liability	775	955	321	311	1,096	1,266

Movements in the present value of defined benefit obligation are as follows:

	Post-employment benefits		Other long-term benefits		Total	
	2013	2012	2013	2012	2013	2012
Present value of defined benefit obligation as at 1 January 2012		884		305		1 189
Service cost:		41		130		171
Current service cost		41		130		171
Interest on the defined benefit liability		65		19		84
Actuarial (gain)/losses:		98		(65)		33
from changes in demographic assumptions		3		1		4
from changes in financial assumptions		74		(64)		10
other		21		(2)		19
Losses arising on transfer of employees*		13		–		13
Settlement of liability		(88)		(78)		(166)
Present value of defined benefit obligation as at 31 December 2012		1,013		311		1,324
Service cost:		2		118		120
Current service cost		44		118		162
Past service cost		(42)		–		(42)
Interest on the defined benefit liability		62		13		75
Actuarial (gain)/losses:		(123)		9		(114)
from changes in demographic assumptions		15		–		15
from changes in financial assumptions		(54)		(13)		(67)
other		(84)		22		(62)
Losses arising on transfer of employees*		3		–		3
Settlement of liability		(120)		(130)		(250)
Present value of defined benefit obligation as at 31 December 2013		837		321		1,158

* The losses arising from transfer of employees represent the transfer of obligations on post-retirement benefits, which originated from the movement of employees from, as well as back to, the parent company.

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18. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

Movements in the fair value of defined benefit pension plan assets are as follows:

	2013	2012
Fair value of plan assets as at 1 January	(58)	(47)
Income on plan assets:	(3)	(2)
interest on the plan assets	(4)	(4)
the return on plan assets, excluding amounts included in net interest on the net defined benefit liability	1	2
Assets arising on transfer of employees*	–	(8)
Contributions from the employer	(251)	(167)
Settlement of liability	250	166
Fair value of plan assets as at 31 December	(62)	(58)

* The losses arising from transfer of employees represent the transfer of obligations on post-retirement benefits, which originated from the movement of employees from, as well as back to, the parent company.

Net losses are the difference between the losses arising from transfer of employees and the assets arising from transfer of employees.

The major categories of plan assets administered by Fund Blagosostoyanie as a percentage of the fair value of total plan assets as at the balance sheet date were as follows:

	Share in total plan assets	
	2013	2012
Corporate bonds and stock of Russian legal entities	57%	45%
Shares in closed investment funds	26%	33%
Bank deposits	14%	16%
Other	3%	6%
	100%	100%

Most benefits to employees and retired employees depend on wage growth and rising consumer prices. Besides inflation risk, post-employment benefits are also subject to demographic risk due to the dependence of payment duration to changes in life expectancy of retired employees.

Plan assets under the supplementary defined benefit pension plan are subject to investment risks. To reduce the risks in accordance with local laws Fund Blagosostoyanie places the assets in a diversified portfolio with a statutory structure. Since retirement of a participant Fund Blagosostoyanie carries out all the risks of the plan with respect to this participant.

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2013	2012
Discount rate	7.8%	7.2%
Average rate of employee turnover	Based on the industry average	Based on the industry average
Projected average annual growth of consumer prices	5.0%	5.2%
Life expectancy table	Russia, 2012, with probability corrected to 83% of the initial level	Russia, 2011

As at 31 December 2013 the Group assumed that the growth of salary and benefits will be in line with the growth of consumer prices.

The change in the discount rate and in the assumptions for salary growth in general resulted in the recognition of an actuarial gains for the current period.

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18. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

Results of sensitivity analysis of defined benefit obligation at 31 December 2013:

	Change in assumption	Change in liabilities
Discount rate	–1%	65
	+1%	(56)
Rate of employee turnover	–1%	23
	+1%	(22)
Projected average growth of benefits and	–1%	(66)
	+1%	74
Average life expectancy after retirement	–1 год	(3)
	+1 год	3

Weighted average duration of the defined benefit obligation is 6.2 years.

The maturity profile of the defined benefit obligation as at 31 December 2013:

	Before year	1 to 2 years	2 to 5 years
Post-employment benefits	103	98	274
Other long-term benefits	134	87	130
	237	185	404

19. EMPLOYEE SHARE OPTION PLAN

In October 2010, the Board of Directors approved a Share Option Plan for the Company’s management (the “Plan”). In general, 1.5% of the Company’s outstanding ordinary shares may be allocated under this Plan, which has been in effect since 20 May 2011. Management participation in the Plan and the number of shares in individual manager’s share option agreements are determined by the Board of Directors.

The Plan provides for granting share options to the members of the Group’s management (the “Plan Participants”). All Plan Participants had signed relevant agreements by the end of June 2011.

The options are to be vested in four annual installments at the end of each of four next years after June 2011. Each Plan Participant obtains the right to a certain quantity of share options for each year of service with the Company.

Under certain circumstances, including breach of specific labour agreement provisions, Plan Participants can forfeit their right to purchase shares.

Ordinary shares will be allocated from treasury shares purchased by the Group for this purpose on the open market by a special-purpose entity, by LLC TransContainer Finance, which is fully controlled by the Group.

The exercise price will be RUR 2,464 per share plus certain costs and expenses related to Plan implementation. Plan Participants will have up until June 2016 to exercise their share options.

In relation to the Plan, the Group had purchased 208,421 treasury shares. Their purchase cost was RUR 514m. The shares were purchased by LLC TransContainer Finance.

The following number of share options is outstanding:

	2013	2012
Options outstanding at 1 January	171,873	208,421
Options exercised during the year	(6,696)	(36,548)
Options outstanding at 31 December	165,177	171,873

The fair value of services received in return for share options granted to employees is measured by reference to the fair value of share options granted. The Black-Scholes-Merton model is used to estimate the fair value of the share option granted.

	Options granted as at 20 May 2011
Share price (in Russian Roubles)	3,116
Exercise price (in Russian Roubles) (including expenses related to implementation of the Plan)	2,464 – 3,145
Expected volatility	37%
Option life	1 – 5 years
Risk-free interest rate	4.6% – 7.4%
Fair value at measurement date (in Russian Roubles)	1,308–1,462

The measure of volatility used in the Black-Scholes-Merton model is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. Volatility has been determined on the basis of the historical volatility of the share price over the most recent period (last six months before grant date).

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18. EMPLOYEE SHARE OPTION PLAN (CONTINUED)

During the year ended 31 December 2013, the Group recognised expenses of RUR 41m related to the options. These expenses were included into payroll.

Also during the year ended 31 December 2013 6,696 options in respect of shares were exercised, the weighted average exercise price was RUR 2,721 and the weighted average share price at the date of exercise was RUR 3,894.

Movements in the reserve held for Share-based option plan during the year:

	2013	2012
Reserve as at 1 January	188	148
Expense recognised for the period	41	87
Exercised options under option plan during the period	(8)	(47)
Reserve as at 31 December	221	188

20. TRADE AND OTHER PAYABLES

	2013	2012
Trade payables	505	601
Amounts payable for the acquisition of property, plant and equipment	90	153
Total financial liabilities within trade and other payable	595	754
Liabilities to customers (advances)	2,621	3,019
Total trade and other payables	3,216	3,773

21. TAXES OTHER THAN INCOME TAX PAYABLE

	2013	2012
Social insurance contribution	171	144
Property tax	148	144
Personal income tax	26	29
VAT	22	40
Other taxes	5	10
Total taxes other than income tax payable	372	367

22. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2013	2012
Settlements with employees	740	704
Other liabilities (financial liabilities)	94	85
Total accrued expenses and other current liabilities	834	789

Settlements with employees as at 31 December 2013 and 31 December 2012 comprised accrued salaries and bonuses of RUR 580m and RUR 516m, respectively, and accruals for unused vacation of RUR 160m and RUR 188m, respectively.

23. SEGMENT INFORMATION

The Company's General Director is its chief operating decision-maker. The Group's business activities are interdependent in providing customers with rail-based container shipping and other logistics services. As such, the Group's internal reporting, as reviewed by the General Director to assess performance and allocate resources, is prepared on a consolidated basis as a single reportable segment. The Group's internal management reports are prepared on the same basis as these consolidated financial statements.

23. SEGMENT INFORMATION (CONTINUED)

Analysis of revenue by category	2013	2012
Integrated freight forwarding and logistics services	24,273	19,307
Rail-based container shipping services	8,154	9,962
Terminal services and agency fees	4,181	4,031
Truck deliveries	1,367	1,631
Other freight forwarding services	571	824
Bonded warehousing services	317	388
Other	301	222
Total revenue	39,164	36,365

Analysis of revenue by location of customers	2013	2012
Revenue from external customers		
Russia	28,598	28,961
Kazakhstan	5,465	2,641
Korea	1,829	1,493
Germany	1,367	954
China	550	579
Estonia	230	521
Cyprus	193	227
Uzbekistan	189	319
Great Britain	161	73
Latvia	154	116
Switzerland	99	194
Other	329	287
Total revenue	39,164	36,365

During the year ended 31 December 2013, OJSC «RZD» and its subsidiaries accounted for RUR 2,683m or 7% of the Group's total revenue. During the year ended 31 December 2012, OJSC «RZD» and its subsidiaries accounted for RUR 2,954m or 8% of the Group's total revenue.

24. OTHER OPERATING INCOME

For the year ended 31 December 2013 the Group received income from the sale of inventory and from the reuse of spare parts for the amount of RUR 370m (for the year ended 31 December 2012: RUR 256m), income from the sale and disposal of containers and flatcars for the amount of RUR 166m (for the year ended 31 December 2012: RUR nil), refund of VAT on the sale of services by applying the tax rate 0% for the amount of RUR 100m (for the year ended 31 December 2012: RUR 37m) and other operating income for the amount of RUR 111m (for the year ended 31 December 2012: RUR 124m).

25. OPERATING EXPENSES

	2013	2012
Cost of integrated freight forwarding and logistics services	13,836	10,791
Payroll and related charges	5,048	5,009
Freight and transportation services	4,315	4,873
Materials, repair and maintenance	2,985	2,806
Depreciation and amortisation	1,943	2,740
Rent	1,869	538
Taxes other than income tax	724	591
Security	288	293
License and software	227	140
Fuel costs	211	200
Change in provision for impairment of receivables	194	–
Consulting services	147	178
Charity	130	144
Change in provision for impairment of property, plant and equipment	123	1
Communication costs	88	99
Other expenses	731	956
Total operating expenses	32,859	29,359

26. INTEREST EXPENSE

	2013	2012
Interest expense on RUR bonds	614	509
Interest expense on bank loans and borrowings	65	236
Interest expense on finance lease obligations	61	78
Discounting of accounts receivables	42	62
Total interest expense	782	885

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27. INCOME TAX

	2013	2012
Current income tax charge	(1,317)	(1,564)
Deferred income tax (expense) / benefit	(58)	[6]
Income tax	(1,375)	(1,570)

The statutory tax rate effective in the Russian Federation was 20% for the years ended 31 December 2013 and 31 December 2012.

Profit before income tax for financial reporting purposes is reconciled to income tax expense for as follows:

	2013	2012
Profit before income tax	7,349	6,802
Theoretical tax charge at statutory rate of 20%	(1,470)	(1,360)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Benefits in-kind and other non-deductible payments to employees	(39)	(39)
Non-deductible post-employment benefits	(12)	(17)
Non-deductible charitable donations	(24)	(28)
Income tax adjustments for prior periods	50	–
Disposal of controlling interest in subsidiary	155	–
Other non-deductible expenses	(35)	(126)
Income tax	(1,375)	(1,570)

Total accumulated temporary differences that arise between the Russian statutory tax base of assets and liabilities and their carrying amounts in the accompanying consolidated statements of financial position give rise to the following deferred tax effects:

	1 January 2013	profit or loss	Charged to comprehensive income	Charged to other controlling interest in subsidiary	Disposal of Exchange difference	31 December 2013
Investment property	–	1	14	–	–	15
Loans and borrowings	4	–	–	–	–	4
Intangible assets	105	(19)	–	(94)	5	(3)
Finance lease obligations	(150)	40	–	–	–	(110)
Property, plant and equipment	2,100	99	–	(302)	17	1,914
Employee benefits liability	(140)	17	6	–	–	(117)
Trade and other receivables	(45)	(51)	–	19	(1)	(78)
Trade and other payables	(143)	(16)	–	6	–	(153)
Other	(31)	(14)	–	18	–	(27)
Total net deferred tax liability	1,700	57	20	(353)	21	1,445
Total net deferred tax asset	(1)	1	–	–	–	–

	1 January 2013	Charged to profit or loss	Charged to other comprehensive income	Exchange difference	31 December 2013
Deferred income	(3)	3	–	–	–
Loans and borrowings	5	(1)	–	–	4
Intangible assets	126	(14)	–	(7)	105
Finance lease obligations	(95)	(55)	–	–	(150)
Property, plant and equipment	2,067	56	–	(23)	2,100
Employee benefits liability	(125)	(10)	(5)	–	(140)
Trade and other receivables	(55)	10	–	–	(45)
Trade and other payables	(146)	3	–	–	(143)
Other	(42)	11	–	–	(31)
Total net deferred tax liability	1,732	3	(5)	(30)	1,700
Total net deferred tax asset	(4)	3	–	–	(1)

27. INCOME TAX (CONTINUED)

The Group did not recognise a deferred tax liability concerning temporary differences of RUR 113m (2012: RUR 180m) in respect of investments in subsidiaries as the Group is able to control the timing of the reversal of these temporary differences and does not intend to reverse them in the foreseeable future.

Management has performed an analysis of the dividend policies at the Group’s associates and joint ventures with regards to the Group’s potential deferred tax liabilities where the Group does not control reversal of the temporary difference or expects the reversal to occur in the foreseeable future. For all associates and joint ventures, management expects that the carrying value of the investments would be recovered primarily through a sale and partially through dividends. No deferred taxes related to a future sale are recognised in respect of all associates and joint ventures because any sale would occur in a tax free jurisdiction.

In the context of the Group’s current structure, tax losses and current tax assets of different group companies may not be offset against current tax liabilities and taxable profits of other group companies and, accordingly, taxes may accrue even where there is a consolidated tax loss. Therefore, deferred tax assets and liabilities are offset only when they relate to the same taxable entity.

Management estimates that deferred tax liabilities of RUR 1,692m (31 December 2012: RUR 1,928m) are recoverable after more than twelve months after the end of the reporting period.

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 “Related party disclosures”, parties are considered to be related if they are under common control or if one party has the ability to control the other party or can exercise significant influence or joint control over the other party in making financial and operational decisions. In considering each possible related-party relationship, attention is directed to the substance of the relationship, not merely the legal form.

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

The nature of the related-party relationships for those related parties with which the Group has entered into significant transactions, or had significant balances outstanding as at 31 December 2013, are disclosed below:

Related party	Nature of relationship
OJSC Russian Railways (RZD)	Parent company
JSC Kedentransservice	Joint venture of the Company
Oy ContainerTrans ScandinaviaLtd	Joint venture of the Company
Chinese–Russian Rail–Container International Freight Forwarding (Beijing) Co, Ltd.	Joint venture of the Company
Trans-Eurasia Logistics GmbH	Associate of the Company
Far East Land Bridge Ltd.	Associate of the RZD
CJSC Torgov’y dom TMH	Associate of the RZD
JSC Wagon Repair Company - 1	Subsidiary of RZD
JSC Wagon Repair Company - 2	Subsidiary of RZD
JSC Wagon Repair Company - 3	Subsidiary of RZD
OJSC RZD Logistics	Subsidiary of RZD
OJSC Bank VTB	State-controlled entity
Fund Blagosostoyanie	Post-employment benefit plan for Company employees
FAR-EASTERN SHIPPING COMPANY PLC.	Significant shareholder

The Group’s ultimate controlling party is the Russian Federation Government and, therefore, all companies controlled by the Russian Federation Government are also treated as related parties of the Group for the purposes of these consolidated financial statements.

As a part of its ordinary course of business, the Group enters into various transactions and has outstanding balances with state-controlled entities and governmental bodies, which are shown as “other” in the tables below. The Group also enters in transactions with government entities for goods and services like electricity, taxes and post services. These transactions are conducted on commercial terms. The majority of related-party transactions are with OJSC Russian Railways, its subsidiaries, joint ventures and associates (shown as “Other RZD group entites” in the table below), and OJSC Bank VTB, which are also state-controlled.

RELATIONSHIPS WITH RZD, ITS SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

The Group carries out various transactions with RZD, which is the sole owner and provider of railroad infrastructure and locomotive services in Russia. Furthermore, RZD owns the vast majority of rail-car repair facilities in Russia, which the Group uses to maintain its rolling stock in operating condition.

Under current Russian regulations, only RZD can perform certain functions associated with arranging the container transportation process. As the assets required for performing such functions were transferred to the Company, RZD engaged the Company to act as its agent in the performance of these functions. Company’s revenues generated from such transactions with RZD is reported as agency fees in the consolidated profit or loss.

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28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and balances with related parties as at and for the year ended 31 December 2013 are shown below:

	Parent company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties	Total
ASSETS						
Non-current assets						
Trade receivables	–	364	–	–	–	364
Current assets						
Cash and cash equivalents	–	–	–	–	1,811	1,811
Trade receivables	228	400	21	85	2	736
Other receivables	65	94	–	2	96	257
Advances to suppliers	1,475	59	2	–	1	1,537
	1,768	553	23	87	1,910	4,341
Total assets	1,768	917	23	87	1,910	4,705
LIABILITIES						
Current liabilities						
Trade payables	12	5	1	156	9	183
Liabilities to customers	2	28	1	8	69	108
Other payables	–	–	–	–	73	73
Total liabilities	14	33	2	164	151	364
Revenue						
Rail-based container shipping services	143	136	8	31	120	438
Terminal services and agency fees	1,706	11	2	–	15	1,734
Integrated freight forwarding and logistics services	6	698	133	317	137	1,291
Other services	30	67	21	6	35	159
	1,885	912	164	354	307	3,622
Interest income on deposits						
Interest income on deposits	–	–	–	–	180	180
Other interest income						
Other interest income	–	–	–	–	14	14
Other operating income						
Other operating income	140	27	2	–	3	172
	140	27	2	–	197	366
Total income	2,025	939	166	354	504	3,988
Operating Expenses						
Freight and transportation services	3,113	5	–	5	6	3,129
Third-party charges relating to integrated freight forwarding and logistics services	9,030	4	4	214	34	9,286
Repair services	381	1,059	–	–	3	1,443
Rent of property and equipment	39	1	–	–	4	44
Other expenses	124	198	–	–	182	504
Total expenses	12,697	1,267	4	219	229	14,406
Acquisition of property, plant and equipment						
Acquisition of property, plant and equipment	6	834	–	–	77	917
Contributions to non-state pension funds						
Contributions to non-state pension funds	–	–	–	–	100	100
Total other transactions	6	834	–	–	177	1,017

28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and balances with related parties as at and for the year ended 31 December 2012 are shown below:

	Parent company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties	Total
ASSETS						
Non-current assets						
Advances for acquisition of non-current assets	–	3	–	–	37	40
Trade receivables	–	453	–	–	–	453
	–	456	–	–	37	493
Current assets						
Short-term investments	–	–	–	–	1,293	1,293
Cash and cash equivalents	–	–	–	–	948	948
Trade receivables	210	358	11	12	2	593
Other receivables	7	81	–	–	3	91
Advances to suppliers	1,431	23	1	–	3	1,458
	1,648	462	12	12	2,249	4,383
Total assets	1,648	918	12	12	2,286	4,876
LIABILITIES						
Current liabilities						
Trade payables	52	7	2	16	27	104
Liabilities to customers	1	30	1	2	34	68
Other payables	1	–	–	–	43	44
Total liabilities	54	37	3	18	104	216
Revenue						
Rail-based container shipping services	225	158	–	5	6	554
Terminal services and agency fees	1,833	6	–	–	3	1,846
Integrated freight forwarding and logistics services	5	663	4	214	34	853
Other services	48	72	4	219	229	209
	2,111	899	250	30	172	3,462
Interest income on deposits						
Interest income on deposits	–	95	–	–	73	168
Other interest income						
Other interest income	–	12	–	–	3	15
Gain recognised on disposal of interest in former associate						
Gain recognised on disposal of interest in former associate	–	72	–	–	–	72
Other operating income						
Other operating income	76	9	–	–	6	91
	76	188	–	–	82	346
Total income	2,187	1,087	250	30	254	3,808
Operating Expenses						
Freight and transportation services	3,461	3	2	–	5	3,471
Third-party charges relating to integrated freight forwarding and logistics services	7,061	6	37	6	33	7,143
Repair services	260	1,202	–	–	3	1,465
Rent of property and equipment	38	1	–	–	2	41
Other expenses	110	75	4	–	121	310
	10,930	1,287	43	6	164	12,430
Interest expense on finance lease obligations						
Interest expense on finance lease obligations	–	–	–	–	29	29
Discounting of accounts receivables						
Discounting of accounts receivables	–	98	–	–	–	98
	–	98	–	–	29	127
Total expenses	10,930	1,385	43	6	193	12,557
Acquisition of property, plant and equipment	–	166	–	–	43	209
Purchase of materials	–	–	–	–	2	2
Contributions to non-state pension funds	–	–	–	–	67	67
Total other transactions	–	166	–	–	112	278

The amounts outstanding to and from related parties are unsecured and expected to be settled by cash or supplies of goods or services (in respect of advances to suppliers and liabilities to customers) in the normal course of business.

DIVIDENDS

During the year ended 31 December 2013 RUR 602m and RUR 270m of dividends were paid to RZD and the Group FAR-EASTERN SHIPPING COMPANY PLC., accordingly (as at 31 December 2012 RUR 609m and RUR 257m, respectively).

COMPENSATION OF KEY MANAGEMENT PERSONNEL

Key management personnel consist of members of the Company's Board of Directors, as well as the General Director and his deputies, and comprised 20 persons as at 31 December 2013 and 31 December 2012, respectively. Total gross compensation (including insurance contributions and before withholding of personal income tax) to key management personnel amounted to RUR 280m (including total insurance contributions of RUR 22m) and RUR 309m (including total insurance contributions of RUR 25m) for the years ended 31 December 2013 and 31 December 2012, respectively. This compensation is included under payroll and related charges and other expenses in the consolidated profit and loss. Major part of compensation for Key management personnel is generally sort-term excluding future payments under pension plans with defined benefits. Defined benefit payments to Key management of the Group are calculated based on the same terms as for the other employees.

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28. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

As stated in Note 19, during the year ended 31 December 2013, the Group recognised expenses of RUR 41m (87m as at 31 December 2012) related to the Share Option Plan approved by the Board of Directors in October 2010. Expenses related to options provided to the General Director and his deputies comprised RUR 22m (46m as at 31 December 2012).

29. COMMITMENTS UNDER OPERATING LEASES

As a 31 December 2013, the Group leases container terminal Dobra in Slovakia. The remaining period of agreements validity is 11 years.

The Group leases certain production buildings and office premises in Russia. The relevant lease agreements have terms varying from one to six years. Additionally, the Group leases the land on which its container terminals are located.

Future minimum lease payments under contracted operating leases are as follows:

	2013	2012
Within one year	179	359
Within two to five years	176	144
After five years	196	381
Total minimum lease payments	551	1,354

Decrease of minimum lease payments under contracted operating leases relates to deconsolidation of JSC Kedentransservice.

30. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group’s capital commitments as at 31 December 2013 and 31 December 2012 consisted of the following, including VAT:

	2013	2012
Acquisition of containers and flatcars	853	961
Construction of container terminal complexes and modernisation of existing assets	715	230
Acquisition of lifting machines and other equipment	52	234
Total capital commitments	1,620	1,425

OPERATING ENVIRONMENT OF THE GROUP. The Russian Federation displays certain characteristics of an emerging market. Its economy is particularly sensitive to oil and gas prices. The legal, tax and regulatory frameworks continue to develop and are subject to varying interpretations. The political and economic turmoil witnessed in the region, including the developments in Ukraine have had and may continue to have a negative impact on the Russian economy, including weakening of the Rouble and making it harder to raise international funding. At present, there is an ongoing threat of sanctions against Russia and Russian officials the impact of which, if they were to be implemented, are at this stage difficult to determine. The financial markets are uncertain and volatile. These and other events may have a significant impact on the Group’s operations and financial position, the effect of which is difficult to predict. The future economic and regulatory situation may differ from management’s current expectations.

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30. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS (CONTINUED)

TRANSFER PRICING. The transfer pricing rules that became effective from 1 January 2012 appear to be more technically elaborate and, to a certain extent, better aligned with the international transfer pricing principles developed by the Organisation for Economic Cooperation and Development. This new legislation provides the possibility for tax authorities to make transfer pricing adjustments and impose additional tax liabilities in respect of controlled transactions (transactions with related parties and some types of transactions with unrelated parties), provided that the transaction price is not on an arm’s length basis. Management has implemented internal controls to be in compliance with the new transfer pricing legislation.

The transfer pricing legislation that is applicable to transactions on or prior to 31 December 2011, also provided the possibility for tax authorities to make transfer pricing adjustments and to impose additional tax liabilities in respect of all controllable transactions, provided that the transaction price differs from the market price by more than 20%. Controllable transactions included transactions with interdependent parties, as determined under the Russian Tax Code, all cross-border transactions (irrespective of whether performed between related or unrelated parties), transactions where the price applied by a taxpayer differed by more than 20% from the price applied in similar transactions by the same taxpayer within a short period of time, and barter transactions. Significant difficulties exist in interpreting and applying that transfer pricing legislation in practice.

Tax liabilities arising from transactions between companies are determined using actual transaction prices. It is possible, with the evolution of the interpretation of the transfer pricing rules, that such transfer prices could be challenged. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

As Russian tax legislation does not provide definitive guidance in certain areas, the Group adopts, from time to time, interpretations of such uncertain areas that reduce the overall tax rate of the Group. While management currently estimates that the tax positions and interpretations that it has taken can probably be sustained, there is a possible risk that outflow of resources will be required should such tax positions and interpretations be challenged by the tax authorities. The impact of any such challenge cannot be reliably estimated; however, it may be significant to the financial position and/or the overall operations of the Group.

ENVIRONMENTAL MATTERS. The enforcement of environmental regulation in the Russian Federation is evolving and the enforcement posture of government authorities is continually being reconsidered. The Group periodically evaluates its obligations under environmental regulations. As obligations are determined, they are recognised immediately. Potential liabilities, which might arise as a result of changes in existing regulations, civil litigation or legislation, cannot be estimated but could be material. In the current enforcement climate under existing legislation, management believes that there are no significant liabilities for environmental damage.

LEGAL PROCEEDINGS. During the year, the Group was involved in a number of court proceedings (both as a plaintiff and a defendant) arising in the ordinary course of business. In the opinion of management, there are no current legal proceedings or other claims outstanding, which management believes could have a material effect on the result of operations or financial position of the Group, beyond those already recognised in these financial statements.

INSURANCE. The Group holds no insurance policies in relation to its assets, operations, or in respect of public liability or other insurable risks, with the exception of insurance policies that partially cover its vehicles, flatcars and buildings, Directors and Officers liability insurance policy and a carrier’s liability insurance policy. Until the Group obtains adequate insurance coverage, there is a risk that the loss or destruction of certain assets could have a material adverse effect on the Group’s operations and financial position.

31. RISK MANAGEMENT ACTIVITIES

CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that it will be able to continue as a going concern while maximising the return to the equity holder through the optimisation of the debt and equity balance.

The Group’s objectives when managing capital are to safeguard the Group’s ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The amount of capital that the Group managed as at 31 December 2013 was RUR 31,479m (as at 31 December 2012: RUR 26,624m).

The capital structure of the Group consists of issued capital, reserves and retained earnings as disclosed in Note 15.

The management of the Group reviews the capital structure on a regular basis. As part of this review, management considers the cost of capital and the risks associated with each class of capital.

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31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

MAJOR CATEGORIES OF FINANCIAL INSTRUMENTS

The Group’s financial assets include trade and other receivables, cash and cash equivalents, other non-current assets. All financial assets fall into the loans and receivables category under IAS 39 “Financial instruments: recognition and measurement”.

	2013	2012
Financial assets		
Loans and receivables		
Cash and cash equivalents	1,883	1,318
Trade and other receivables	1,986	1,714
Short-term investments	–	758
Other non-current assets	7	14
Held-to-maturity investments		
Short-term investments	–	581
Total financial assets	3,876	4,385

The Group’s principal financial liabilities are trade and other payables, finance lease obligations, and debt (which includes bonds and long-term borrowings). All financial liabilities are carried at amortised cost.

	2013	2012
Financial liabilities		
Trade and other payables	595	754
Other liabilities	94	85
Long-term debt	6,194	2,731
Short-term debt and current portion of long-term debt	1,693	5,695
Finance lease obligations	551	762
Total financial liabilities	9,127	10,027

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. The Group has established budgeting and cash flow planning procedures to ensure it has adequate cash available to meet its payment obligations as they fall due. Management controls current liquidity based on expected cash flows and expected revenue receipts. In the long-term perspective the liquidity risk is determined by forecasting future cash flows at the moment of signing new credit, loan or lease agreements and by budgeting procedures. In February 2013 the Company placed five-year RUR bonds series 4 therefore loans from OJSC Alfa Bank classified as short-term as at 31 December 2012 were repaid (Note 16) which affected current liquidity ratio of the Group.

The Group has both interest bearing and non-interest bearing financial liabilities. The interest bearing liabilities consist of finance lease obligations, debt and bond obligations. The non-interest bearing liabilities include trade and other payables and amounts payable to employees.

The following table details the Group’s remaining contractual maturity for financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay or expect to make the payment.

31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

	Effective interest rate	Less than 1 month	1–3 months	3months-1 year	1-5 years	More than 5 years	Total
2013							
Non-interest bearing liabilities (including trade and other payables and other liabilities)		442	181	66	–	–	689
Long-term debt	9.5%	4	7	33	532	–	576
Bonds	8.35% – 8.8%	208	–	1 873	6 928	–	9 009
Finance lease liabilities	9.65%	6	12	52	703	–	773
Total		660	200	2,024	8,163	–	11,047
2012							
Non-interest bearing liabilities (including trade and other payables and other liabilities)		388	138	313	–	–	839
Long-term debt	9.5%	4	8	36	612	–	660
Bonds	8.35% – 8.8%	208	–	1 873	6 928	–	6,603
Short-term debt and current portion of long-term debt	9.5% – 9.75%	3	12	52	–	–	1,825
Finance lease liabilities	9.65% – 9.97%	8	15	77	369	659	1,128
Total		403	5,125	1,439	3,429	659	11,055

The following table details the Group’s expected maturity for its financial assets, with the exception of cash. The tables below have been drawn up based on the undiscounted contractual maturities of the financial assets, including interest that will be earned on those assets except where the Group anticipates that the cash flow will occur in a different period.

	Effective interest rate	Less than 1 month	1–3 months	3 months–1 year	1–5 years	Total
2013						
Loans and receivables						
Trade and other receivables		904	547	170	504	2,125
Other non-current assets		–	–	–	7	7
Total		904	547	170	511	2,132
2012						
Loans and receivables						
Trade and other receivables		523	138	646	504	1,811
Short-term investments	8,22% – 8,5%	–	712	46	–	758
Other non-current assets		–	–	–	14	14
Held-to-maturity investments						
Short-term investments	8,05% – 8,85%	311	270	–	–	581
Total		834	1,120	692	518	3,164

CURRENCY RISK

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. The Group has export revenue, and purchases third party transportation services, which are denominated in foreign currencies. Certain receivable and payable balances, related primarily to settlements with customers, are denominated in currencies other than the Russian Rouble, the functional currency of the Company.

During 2013 and 2012 the Group’s financial assets denominated in foreign currency have exceeded its foreign currency financial liabilities.

For the year ended 31 December 2013 the Russian Rouble depreciated against the US Dollar by 8%, and against EURO by 12% (appreciated against the US Dollar by 6% and against the EURO by 3% for the year ended 31 December 2012). The Group does not have or use any formal arrangements (i.e. derivatives) to manage foreign currency risk exposure.

The carrying amounts of the Group’s foreign currency denominated monetary assets and liabilities as at the reporting date are as follows:

	USD		EUR		Other	
	2013	2012	2013	2012	2013	2012
Assets						
Cash and cash equivalents	981	250	159	141	1	72
Trade and other receivables	162	219	251	193	1	5
Total assets	1,143	469	410	334	2	77
Обязательства						
Trade and other payables	273	169	34	46	2	2
Total liabilities	273	169	34	46	2	2

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31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

The table below details the Group’s sensitivity to strengthening of the Russian Rouble against the US Dollar and EURO by 20%, all other variables being held constant. The analysis was applied to monetary items at the balance sheet dates denominated in respective currencies.

	USD – impact		EUR – impact	
	2013	2012	2013	2012
Loss	(174)	(60)	(75)	(58)

The weakening of the Russian Rouble 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.

INTEREST RATE RISK

Interest rate risk is the risk that movement in interest rates for borrowed funds will have an adverse effect on the Group’s financial performance. Management monitors changes in interest rates and takes steps to mitigate these risks as far as practicable by ensuring the Group has financial liabilities with both floating and fixed interest rates, and maintaining an appropriate mix between debt and equity.

As at 31 December 2013 the Group’s borrowed funds consist of long-term and short-term bonds (Note 16), long-term debt (Note 16) and finance lease liabilities (Note 17).

The annual coupon rate for RUR bonds, series 2 has been set at 8.8% for the entire five-year maturity period of the bonds, with no subsequent changes. The effective interest rate for these bonds is 9.01%.

The annual coupon rate of the five-year RUR bonds, series 4 issued on 1 February 2014 was set at 8.35% for five years without any further changes. The effective interest rate of the bonds, series 4 is 8.4%.

As at 31 December 2013, loan from LLC TrustUnion Asset Management were recognised by the Group. This loan was granted at fixed interest rates, therefore the Group did not have an additional interest risk.

In 2012, the Group entered into the lease agreement of premises in a Moscow office building for a six-year period. The rent under the agreement includes a fixed fee for the possession and use of leased premises, as well as compensation of utility expenses. The effective interest rate under the agreement is 9.65% (Note 17). As these finance lease obligations are financial instruments bearing a fixed interest rate, therefore, they do not subject the Group to an additional interest risk.

CREDIT RISK

Credit risk refers to the risk that counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group does not hedge its credit risk.

The Group’s exposure to credit risk arises primarily with respect to receivables in connection with container shipping activities.

Credit exposure is managed by establishing credit limits for the most significant customers that are reviewed and approved by management. Deferred payment terms are offered only to the most significant customers of the Group with proven credit history. Sales to other customers are made on a prepayment basis.

The carrying amount of accounts receivable, net of provision for impairment of receivables, represents the maximum amount exposed to credit risk. Although collection of receivables could be influenced by economic factors, management believes that there is no significant risk of loss to the Group beyond the provision already recorded.

The Group’s concentration of credit risk is dependent on a few large key customers. As at 31 December 2013 62% of the total net amount of trade and other receivables related to the seven largest counterparties of the Group (as at 31 December 2012: 75%).

31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

The largest receivables outstanding as at the balance sheet date are as follows:

	Outstanding balance, net	
	2013	2012
OJSC RZD Logistics	638	705
RZD	294	212
Schenker Rail Automotive GmbH	146	84
UNICO LOGISTICS	70	56
Rail-Container (Beiging) Go., LTD	51	23
LLC Unico Logistics Rus	31	23
LLC Volkswagen Group Rus	7	88
Far East Land Bridge Ltd.	–	93
Total	1,237	1,284

As at 31 December 2013 and 31 December 2012 no impairment of accounts receivable has been identified for all these customers, except for OJSC RZD Logistics. Accounts receivable of OJSC RZD Logistics was discounted in accordance with confirmed schedule for the repayment of debts (Note 11).

Financial assets neither past due nor impaired are the primarily receivables from related parties (Note 28) and receivables from other companies. Accounts receivable from related parties are characterised by a high degree of creditworthiness and the likelihood of recovery. Accounts receivable from other companies have similar rates of credit capacity and analysed on a regular basis by the Group for reliability and collectibility.

There is no independent rating for the Group’s customers and therefore the Group considers the credit quality of customers at the contract execution stage. The Group considers their financial position and credit history. The Group monitors the existing receivables on a continuous basis and takes actions regularly to ensure collection and to minimize losses.

The Group’s management monitors past due balances of receivables and provides ageing analysis as disclosed in Note 11.

Credit risk on liquid funds is limited because these funds are placed only with financial institutions well known to the Group. 96% of total cash and cash equivalents as at 31 December 2013 (as at 31 December 2012: 69%), were held with one bank which is related to the Group.

The Group’s maximum exposure to credit risk by class of assets is reflected in the carrying amounts of financial assets in the consolidated statement of financial position, described above.

FAIR VALUE OF FINANCIAL ASSETS AND LIABILITIES

Management uses its judgment to the assessment and classification of financial instruments by category using the fair value measurement hierarchy.

Fair value of financial assets and liabilities is analysed and distributed by level in the fair value hierarchy as described in Note 3. As at the reporting date the Group had financial assets and liabilities classified as Level 1 and Level 3 only.

For assets and liabilities not measured at fair value but for which fair value is disclosed, management believes that the fair value of the following assets and liabilities approximates their carrying value: investment property, trade and other receivables, cash and cash equivalents, other financial assets, trade and other payables. These financial assets and liabilities relate to Level 3 in the fair value hierarchy. Investments in associates and joint ventures fair value, determined at the date of recognition as non-recurring measurement approximates their carrying value and refer to the Level 3 in the fair value hierarchy.

Company’s bonds are placed on the Moscow Stock Exchange and quoted on the market, thus they refer to the Level 1 in the fair value hierarchy.

The following table details the fair value of the Company’s bonds:

	2013	2012
Financial liabilities		
Bonds	7,308	6,026
Total	7,308	6,026

FINANCIAL ASSETS CARRIED AT AMORTISED COST. The fair value of floating rate instruments is normally their carrying amount. The estimated fair value of fixed interest rate instruments is based on estimated future cash flows expected to be received discounted at current interest rates for new instruments with similar credit risk and remaining maturity. Discount rates used depend on credit risk of the counterparty.

LIABILITIES CARRIED AT AMORTISED COST. The fair value of bonds is based on quoted market prices. Fair values of other liabilities were determined using valuation techniques. The estimated fair value of fixed interest rate instruments with stated maturity was estimated based on expected cash flows discounted at current interest rates for new instruments with similar credit risk and maturity.

FINANCIAL STATEMENTS

OJSC TRANSCONTAINER

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2013

(AMOUNTS IN MILLIONS OF RUSSIAN ROUBLES

UNLESS OTHERWISE STATED BELOW)

31. RISK MANAGEMENT ACTIVITIES (CONTINUED)

OFFSETTING FINANCIAL ASSETS AND FINANCIAL LIABILITIES. As at 31 December 2013 and 31 December 2012 the Group does not have any financial instruments subject to offsetting, enforceable master netting and similar arrangements. As at 31 December 2013 corresponding accounts receivable and accounts payable under various contracts with the same counterparties had amounted to RUR 118m (RUR 331m as of 31 December 2012) and accounts payable had amounted to RUR 190m, respectively (RUR 62m as of 31 December 2012). As at 31 December 2013 if there are such master netting agreements the offsetting amount will account for RUR 118m as at 31 December 2013 (as at 31 December 2013 will account for RUR 62m).

32. SUBSEQUENT EVENTS

ACQUISITION OF REAL ESTATE. In February 2014 the Company entered into a preliminary purchase-and-sale agreement with CJSC RWM Capital Asset Management for the acquisition of premises in a Moscow office building at 19 Oruzheiniy pereulok for a total amount of RUR 116m (plus VAT in the amount of RUR 21m).

AGREEMENT ON ACQUISITION OF FLATCARS. In March 2014 the Group has signed the following agreements:

- with LLC Spetscompany for the purchase of 300 flatcars for the total amount of RUR 547m (plus VAT in the amount of RUR 99m) and obtained 54 flatcars for the total amount of RUR 98m (plus VAT in the amount of RUR 18m);
- with LLC SpetsTransServis for the purchase of 200 flatcars for the total amount of RUR 365m (plus VAT in the amount of RUR 66m) and obtained 35 flatcars for the total amount of RUR 64m (plus VAT in the amount of RUR 11m);
- with CJSC Torgovy'y dom TMH for the purchase of 300 flatcars for the total amount of RUR 547m (plus VAT in the amount of RUR 99m) and obtained 36 flatcars for the total amount of RUR 66m (plus VAT in the amount of RUR 12m).

FINANCIAL STATEMENTS

REPORT OF THE REVISION COMMISSION

ON THE RESULTS OF AUDITING THE

FINANCIAL AND BUSINESS ACTIVITIES

OF TRANSCONTAINER OJSC IN 2013

Moscow, 10 April 2014

Pursuant to Article 85 of the Federal Law «On Joint Stock Companies», Regulations concerning the Revision Commission as approved by the General Meeting of Shareholders of TransContainer OJSC («the Company»), and the Work Plan of the Company's Revision Commission approved by the Revision Commission (Minutes No. 1 of July 24, 2013) – whose members consisted of Chair O.B. Ivanov as well as S.V. Davydov, N.A. Lem, M.V. Kalvorskaya, V.F. Kuzin– there was a scheduled inspection of the Company's financial and business operations in 2013.

The inspection took place at the Company Headquarters and at Company branches, from February 3, 2014 to April 3, 2014.

Information on the Company's financial and business operations was obtained from the following sources: financial and business documents, including financial reporting, primary accounting documents, bank documents, contracts, etc.

The inspection was conducted in the form of spot checking of the Company's accounting data and financial statements.

Based on the results of the inspection, the Revision Commission has reasonable grounds to confirm the data included in the Company's reports and other financial documents, including the Annual Report 2013 of TransContainer OJSC.

O.B. Ivanov
TransContainer OJSC Revision Commission Chair

ADDITIONAL INFORMATION
CODE ADHERENCE REPORT

Nº	Essentials of the Corporate Governance Code of JSC TransContainer	Observed/ not observed	Comments¹
General Meeting of Shareholders			
1.	The Company ensures effective participation of shareholders in the adoption of key decisions. Shareholders’ rights are governed by the provisions of the Articles of documents.	Observed	The Company has approved Regulations on the Procedure for on the Procedure for the Preparation and Association and internal Conduct of General Meetings of Shareholders (GMSs).
2.	An independent registrar possessing all the necessary technical means and a flawless reputation is selected and appointed.	Observed	STATUS JSC acts as the Company’s independent registrar.
3.	Stockholders holding voting shares are entitled to attend GMSs to vote on all matters placed within the GMS’s scope of reference.	Observed	
4.	A notice of plans to hold a GMS is sent to each person specified in the list of persons entitled to attend GMSs, either by registered mail or delivered in person no later than thirty (30) days prior to the meeting.	Observed	
5.	The Company provides persons entitled to attend GMSs with information (materials) on the agenda of a GMS that is to be held no later than thirty (30) days prior to the meeting.	Observed	Materials pertaining to GMSs are placed on the Company website.
6.	In determining the place, date and time of holding a GMS, the Company seeks to provide the shareholders with a real and unimpeded opportunity to take part in the meeting. A GMS is held in a reasonable location in the city in which the Company is based, no earlier than 9 am and no later than 10 pm local time.	Observed	The annual and extraordinary GMSs that were held in 2013 were held in Moscow (in a large hotel near the office of the Company). Registration of shareholders/shareholder representatives started at 10 am Moscow Time, the GMSs of Shareholders started at 11 am Moscow time.
7.	In voting at GMSs, each voting share is granted one vote, except for cumulative voting when electing BoD members.	Observed	
8.	The presiding functions at a GMS are performed by the BoD Chair. If the BoD Chair is absent from a GMS, one of the BoD members or a representative of shareholders present at the meeting (either of these must be elected by the shareholders elected by shareholders) takes the chair.	Observed	
9.	The Company invites the CEO, Board of Directors, Revision Commission members, the External Auditor and the Head of the Company’s Internal Audit Service to attend GMSs.	Observed	
10.	The functions of the Counting Committee at GMSs are performed by the company’s Registrar that maintains the Company’s Shareholders’ Register.	Observed	
Board of Directors			
11.	In order to ensure impartiality of decisions and maintain a balance between the interests of different groups of shareholders, the Company seeks to create an optimum structure of the Board of Directors by, inter alia, increasing the membership of non-executive and independent directors and representatives of minority shareholders.	Observed	Currently, ten of the eleven directors are non-executive Directors, and three directors meet the requirements set for independent directors.
12.	The Board of Directors annually evaluates the compliance of BoD members using criteria/requirements that are specifically set for independent directors.	Observed	On 24 September, 20132, the Board of Directors reviewed the criteria concerning director independence and decided that BoD members A.G. Belova, I.S. Shitkina and D. Hexter met the requirements set for independent directors.
13.	The BoD Chair leads the work of the Board of Directors and ensures its efficient operation. The BoD Chair ensures effective communication with Company shareholders and constructive relationships between the Board of Directors and Company management.	Observed	
14.	The BoD Chair seeks to create a favourable atmosphere at BoD meetings in order to encourage comprehensive discussion of the agenda, ensuring that the views of all BoD members are heard and that effective decisions are formulated.	Observed	
15.	Together with the Corporate Secretary, the BoD Chair ensures that BoD members are provided with timely, reliable and complete information on the issues included in the agenda of a meeting to be held by the Board of Directors.	Observed	

1. The basic documentation that sets out the principles for the various activities of OJSC TransContainer can be found at the Company’s website at: <http://www.trcont.ru/investor-relations/charter-and-bylaws/bylaws/>

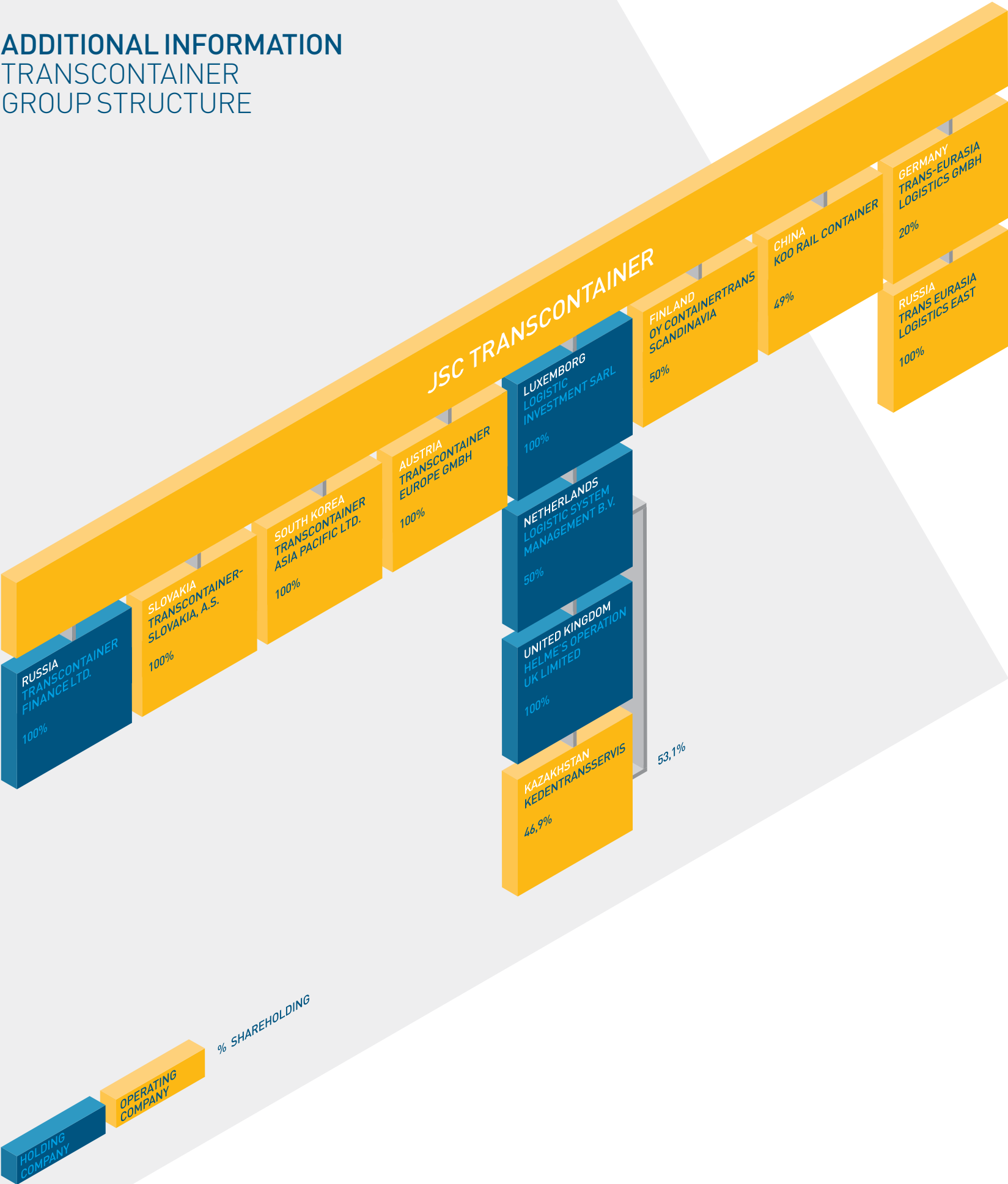
Nº	Essentials of the Corporate Governance Code of JSC TransContainer	Observed/ not observed	Comments
16.	The Board of Directors annually evaluates its own performance and the performance of its Committees and, based on the results of discussing the outcomes of the evaluation at a full-time meeting of the Board of Directors, adopts decisions to improve the effectiveness of the Board of Directors.	Observed	Based on the outcomes of Corporate Year 2012 to 2013, BoD evaluated its activities.
BoD Committees			
17.	BoD committees are made up of individuals with extensive experience and expertise in the relevant area, with the expectation that such experience and expertise will improve the efficiency and quality of the performance of the Board of Directors. The Company aims to form BoD committees of Independent Directors and representatives of minority shareholders.	Observed	Hexter D., the Chairs of the Audit Committee and Shitkina I.S., the Personnel and Remuneration are independent directors. There is also an independent director in the Strategy Committee. In addition, D. Hexter is a member of the Strategy Committee and the Audit Committee includes an independent director Belova A.G.
CEO			
18.	The CEO is accountable to the GMS and to the Board of Directors.	Observed	
19.	The rights and duties of the employer of the CEO are exercised by the Board of Directors on behalf of the Company.	Observed	
Revision Commission			
20.	In carrying out its tasks, the Revision Commission is independent of Company managers and officers of structural subdivisions of the Company.	Observed	
21.	Audit Committee members are not Company officers or employees.	Observed	
Stakeholders’ roles			
22.	The Company seeks to achieve long-term sustainable profitability by maintaining a balance between its business and social interests.	Observed	
23.	The Company aims to identify the interests of different stakeholder groups in the course of meetings, negotiations and workgroup activities dedicated to addressing specific problems. The Company intends to consider the interests of stakeholders in making decisions concerning business management.	Observed	
24.	The Company efficiently addresses public expectations by way of, inter alia, identifying and analysing such expectations and responding to them.	Observed	
25.	In order to ensure a high level of social responsibility, the Company has adopted a Code of Ethics that establishes the principles and standards to be used for guidance by all Company employees in their activities, including when interacting with Company stakeholders.	Observed	The Code of Ethics was approved by the BoD on 18.05.2009.
26.	The Company implements corporate social responsibility projects for Company employees and their families, for the community at the place of the Company’s operation and for the Company’s partners and contractors, and implements charity and sponsorship projects.	Observed	Relevant information is presented in the Corporate Social Responsibility section of this Annual Report.
27.	The Company practices competitive selection of suppliers for the provision of goods and services to the Company in amounts established by the Company.	Observed	Regulations on the Procedures for Placing Orders for Procurement of Goods, Works and Services for the Company’s Needs was approved by the BoD 20.02.2013.
Disclosure of information			
28.	The Company pursues an information disclosure policy focused on securing a high degree of confidence among shareholders, creditors, investors and other interested parties in the Company by providing such parties with information about the Company, its activities and securities to an extent sufficient for making informed and balanced decisions regarding the Company and its securities.	Observed	The Information Disclosure Policy, the list of information to be disclosed by the Company and the disclosure procedures and timeframes are set in Regulations on Disclosure approved by the Board of Directors.
29.	In disclosing information about itself, the Company does not limit the scope of disclosure to information whose disclosure is mandatory in accordance with the requirements of Russian laws and bylaws, and additionally discloses other information that provides a high degree of transparency regarding the Company’s affairs.	Observed	The company has disclosed information in accordance with the requirements of relevant stock exchanges, including the London Stock Exchange, since 2010.
30.	In disclosing information, the Company is guided by the following principles: - Regularity and timeliness of information; - Accuracy and completeness of information; - Availability of disclosed information; - Neutrality of disclosure; - Provision of a reasonable balance between the openness of the Company and protection of its commercial interests.	Observed	

ADDITIONAL INFORMATION
CODE ADHERENCE REPORT
(CONTINUED)

Nº	Essentials of the Corporate Governance Code of JSC TransContainer	Observed/ not observed	Comments
31.	In order to find a reasonable balance between the openness of the Company and protection of its commercial interests, the Company, when disclosing information, protects confidential information, including any material that might constitute state or commercial secrets, in accordance with Russian laws and Company regulations. The Company has approved a document that contains a list of information constituting commercial secrets, as well as the criteria used for classifying such information as commercial secrets and the procedures adopted for accessing such information. Information obtained by Company employees and management in the process of discharging their duties cannot be used for personal purposes.	Observed	The treatment of the information constitutes a trade secret in the JSC "TransContainer" approved by the Company's order dated 20.10.2006 Nº 58.
32.	In order to exercise control over the use of insider information, the Board of Directors has approved Regulations on Insider Information that provides a definition of insider information and sets out procedures for the use and protection of such information.	Observed	Regulations on Insider Information of JSC "TransContainer" approved by the BoD dated 19.06.2012.
Risk management			
33.	The Company has established processes and procedures for identification, evaluation and minimisation of the Company's risks. Risk assessment and management plays an essential role in the formulation and implementation of the Company's development strategy.	Observed	Information on the Company's risk management activities is presented in the Risk Management section of this Annual Report.
34.	The Board of Directors exercises permanent risk management control, including through BoD Committees involved in risk management processes.	Observed	The Company has developed a normative and methodological framework for risk management The Board of Directors has approved a Risk Management Policy serving as the basic document governing risk management processes and assigning roles and responsibilities to risk management personnel, and a Risk Management Concept clearly regulating the process of building a corporate risk management system. A risk map and a risk register are maintained, and the competences of risks owners and the overall approach to risk management are defined.
35.	The Company has established a Risk Committee that provides methodical support to risk owners, carries out consolidated registration of risks and their baseline assessment, maintains a risk register, prepares reports on monitoring critical, acceptable and slight risks and performs other risk management functions.	Observed	
External and internal audit			
36.	In order to ensure independently audited financial reporting, the Company has approved a Policy for Rotation of External Auditors and for Interaction with External Auditors for the Provision of Non-Audit Services.	Observed	Policy for Rotation of External Auditors approved by the Board of Directors dated 07.09.2009.
37.	The selection of a candidate for External Auditor to audit the Company's financial reporting under RAS and IFRS is carried out on a competitive basis, with a frequency of no less than once in five years. The Company selects a candidate for External Auditor from the Big Four auditors. The Company also considers it appropriate to select a single auditor to audit the Company's financial reporting under both RAS and IFRS.	Observed	
38.	The Company considers it necessary to disclose publicly the amounts of fees paid to its Auditors for the provision of both audit and non-audit services.	Observed	The information is presented in the "Corporate Governance" section.
39.	In order to ensure the independence of external audits, the Audit Committee oversees the provision of non-audit services by the Auditor in the manner prescribed by the Policy for Rotation of External Auditors and for Interaction with External Auditors for the Provision of Non-Audit Services.	Observed	
40.	The Audit Committee evaluates annually the performance of the External Auditor and its compliance with the criteria of independence.	Observed	

Nº	Essentials of the Corporate Governance Code of JSC TransContainer	Observed/ not observed	Comments
41.	The Internal Audit Service is established by the Board of Directors in order to improve internal control and risk management in the Company, to provide the Company's management bodies with accurate and complete information about the Company's operations and to identify and prevent violations and abuses by Company officers.	Observed	The Internal Audit Service was created by the BoD dated 12.08.2009.
Dividends			
42.	The Dividend policy is based on the following principles: - Dividends are paid annually if the Company has a net profit; - A balance is sought between the interests of the Company and its shareholders; - The Company seeks to increase its capitalisation and investment attractiveness; - The Company respects shareholders' rights in a manner that is consistent with laws of the Russian Federation and with best practices in corporate governance; - The Company the procedures used for determining the size of dividends and their payment are transparent.	Observed	The Dividend Policy of JSC "TransContainer" approved by the BoD on 20.02.2013
43.	The Company recognises the importance shareholders attach to dividends as a form of investment income that accrues from the ownership of shares and seeks to establish a transparent and clear mechanism for determining the size of such dividends and the procedures governing their payment to shareholders.	Observed	
Management of subsidiaries and affiliates			
44.	By participating in the equity of subsidiary and affiliated companies (affiliates hereinafter), the Company seeks to ensure profitability and overall balanced development of the Company and its affiliates. When making strategic decisions for the development of affiliates, the Company seeks to consider the interests of other stakeholders/shareholders in such affiliates, and agree appropriate approaches with them regarding management of such affiliates. By developing affiliated businesses, the Company also seeks to identify and consider the interests of affiliates' stakeholders (investors, partners, customers, etc.).	Observed	
45.	The Company manages affiliates by corporate governance methods, namely, through participation in affiliates' management bodies and in the adoption of administrative decisions (decisions of General Meetings of Shareholders and Boards of Directors within their scope of reference), as well as through exercising control over affiliates' operations via the affiliates' control bodies.	Observed	
Corporate conflicts			
46.	The Company aims to conduct activities aimed at identifying, preventing and resolving conflicts at early stages.		
47.	If a corporate conflict affecting the interests of the Company itself or its shareholders arises between Company bodies and shareholders or between Company shareholders, the Board of Directors reviews the conflict and decides whether it can act as a mediator in resolving the conflict and determines the required and possible measures to resolve the conflict. To prevent and effectively resolve corporate disputes, the Board of Directors may establish a special Corporate Conflict Conciliation Committee made up of BoD members. The Company intends to include only independent directors in the Corporate Conflict Conciliation Committee. If this proves to be impossible for objective reasons, the Corporate Conflict Conciliation Committee will be chaired by an independent director and consist of non-executive board members who are not a party, or a representative of a party, to the corporate conflict.	Not applicable	No such situations have occurred as yet.
48.	If a BoD member involved in the resolution of a conflict believes that the conflict affects or may affect his/her interests, he/she must inform the Board of Directors about this immediately, as soon as he/she becomes aware of it, whereupon the Board of Directors will determine the possibility of further participation of the BoD member in resolving the conflict.	Not applicable	No such situations have occurred as yet.
49.	If necessary, the CEO may take part in resolving a corporate conflict.	Not applicable	No such situations have occurred as yet.
50.	At the consent of shareholders who are parties to a corporate conflict, the Board of Directors and/or the CEO may act as a mediator in the settlement of the conflict.	Not applicable	No such situations have occurred as yet.
51.	At the consent of shareholders who are parties to a corporate conflict, the Board of Directors (BoD members) and/or CEO may take part in negotiations between the shareholders, explain norms of corporate laws and Company bylaws and give recommendations for drafting documents to facilitate resolving the conflict.	Not applicable	No such situations have occurred as yet.
52.	Records of corporate disputes are kept by the Company's Corporate Secretary. The Corporate Secretary registers applications, letters and claims coming from shareholders, makes a preliminary evaluation and provides for their consideration by the Board of Directors.	Not applicable	This norm is included in the Regulations on the Corporate Secretary approved by the Board of Directors, however no such situations have occurred as yet.

ADDITIONAL INFORMATION
TRANSCONTAINER
GROUP STRUCTURE



LEGAL AND CONTACT
INFORMATION

FULL NAME:

Joint Stock Company "Center for cargo container traffic "TransContainer"

Abbreviated name:

TransContainer JSC

REGISTERED AND MAILING ADDRESS:

19 Oruzheyniy Pereulok, Moscow 125047 Russia
Date of incorporation: 4 March 2006
Company number (OGRN): 1067746341024

COMPANY REGISTRATION OFFICE:

Moscow Inter-District Inspectorate no. 46,
Federal Tax Service
Tax number (INN): 7708591995

TAX REGISTRATION REASON CODE (KPP):

997650001

ACCOUNT NUMBER:

40702810900000007269

CORRESPONDENT ACCOUNT:

301018106000000000562

BANK SORTING CODE (BIK):

044525562

WEBSITE:

www.trcont.ru

E-MAIL:

trcont@trcont.ru

OFFICE OF THE CEO:

Phone: +7 499 262 8506
Fax: +7 499 262 7578

PRESS CENTRE:

E-mail: PR@trcont.ru
Contact person: Natalya Rostova,
Press Secretary
Phone: +7 499 262 0665

INVESTOR RELATIONS CONTACTS:

E-mail: IR@trcont.ru

Andrey Zhemchugov, Director for
Capital Markets and Investor Relations
Phone: +7 495 637 9178

Alexander Shakhanov, Deputy Director for
Capital Markets and Investor Relations
Phone: +7 495 609 6062

Yulia Gelfer, Acting Corporate Governance Director
Phone: +7 495 788 1717, ext. 10-29

SALES AND CUSTOMER RELATIONS:

E-mail: Sales@trcont.ru

CUSTOMER HOTLINE:

+7 495 788 1717; +7 499 262 7700

Glossary and other useful information for
customers is available at:
www.trcont.ru/ru/klentam/poleznaja-informacija

STATUS ZAO, REGISTRAR:

Location: 32/1 Novorogozhskaya Ulitsa,
Moscow 109544 Russia
Phone / Fax: +7 495 974 8350; +7 495 974 8345
E-mail: office@rostatus.ru
Licence number: 10-000-1-00304 dated 1
2 March 2004
Issued by: Federal Securities Market Commission
Licence validity: indefinite
In securities registrar business since: 20 June 1997

COMPANY'S AUDITOR:

PricewaterhouseCoopers Audit JSC
Location: 10 Butyrsky Val, Moscow 125047 Russia
OGRN: 1027700148431
INN: 7705051102
Phone: +7 495 967 6000
Fax: +7 495 967 6001
Website: http://www.pwc.ru/

Member of the Audit Chamber of Russia,
a self-regulatory organisation of auditors
Auditors register main entry number (ORNZ):
10201003683

