TRANSCONTAINER
ANNUAL REPORT 2012

MOVING INTO THE FUTURE

CONTENTS

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.

This Annual Report may also contain certain forward-looking statements with respect to the business activities, economic indicators, financial condition and the results of economic and production activities of the Company and the Group, its plans, projects and expected results, the dividend and capital expenditure policies, as well as the trends in prices, tariffs, traffic volumes, terminal processing, production and consumption, costs, estimated costs, development prospects, useful lives of assets and other similar factors, economic forecasts with respect to the industry and markets, as well as the timing of the start and end of individual projects for acquisition, closing, preservation or sale of certain businesses (including associated costs).

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.

COMPANY OVERVIEW

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 60,000 containers and a network of rail-side container terminals located at 46 railway stations in Russia along with 18 rail terminals in Kazakhstan and one in Slovakia.

No.1

MARKET LEADER
HALF OF RUSSIA'S RAIL CONTAINER TRAFFIC
PAGE 28

+34%

OUR PROFIT
2012 IFRS PROFIT UP 34% YOY
PAGE 40

UNIQUE ASSET MIX
25,000 FLATCARS, 60,000 CONTAINERS, AND 65 TERMINALS IN RUSSIA, KAZAKHSTAN, AND SLOVAKIA
PAGE 25

+19%

IMPROVEMENT OF FLEET UTILISATION EFFICIENCY
CONTAINER BLOCK TRAIN TRAFFIC UP 19% TO 399,000 TEU
PAGE 36

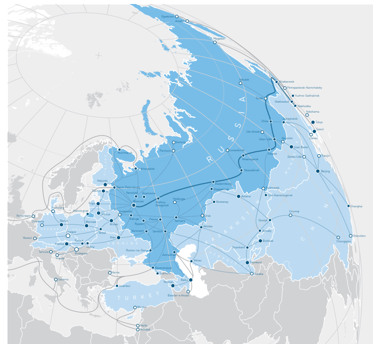
64,000

WIDE CUSTOMER BASE
OVER 64,000 CLIENTS SERVED IN 2012
PAGE 39

INTEGRATED FREIGHT-FORWARDING AND LOGISTICS SERVICES
TRANSPORTATION VOLUMES UNDER INTEGRATED FREIGHT-FORWARDING AND LOGISTICS SERVICES CONTRACTS UP 17.7%
PAGE 38

2,700,000

GROWTH STRATEGY
TRANSPORTATION VOLUMES TO REACH 2.7 MILLION TEU BY 2020
PAGE 12



WIDE GEOGRAPHIC FOOTPRINT
OPERATIONS IN 23 COUNTRIES
PAGE 04

COMPANY OVERVIEW
FINANCIAL AND OPERATIONAL HIGHLIGHTS

The growth and effectiveness of our business is driven by:
- market leadership
- development of our operations in Russia and abroad
- improvement of the quality of service provided to our customers
- operational excellence

+8.9%	+17.7%	+17.9%	+34.0%	0.0%
1,484,000 TEU TOTAL TRAFFIC ('000 TEU)	493,000 TEU TRAFFIC UNDER INTEGRATED LOGISTICS SERVICE CONTRACTS	RUR 36.4 BILLION IFRS REVENUE	RUR 5.2 BILLION IFRS NET PROFIT	GROWTH OF INDUSTRIAL ACCIDENTS

KEY 2012 EVENTS

COMPANY OF THE YEAR
The Automotive Supply Chain Global Awards 2012 were recently held in Frankfurt-on-Main. The list of nominees included such European companies as DB Schenker, TNT, LKW WALTER, Penske Corporation, Autologic, Sovereign Logistics Inc., Wallenius Wilhelmsen Logistics, and others.

TransContainer was named the winner in the Railway Company Category.

01 02 03

BEST IN THE INDUSTRY
Petr Baskakov was named one of the TOP 10 executives in the transportation industry by the joint rating of the Russian Managers Association and Kommersant publishing house.

The following Company's top management was also listed in the industry rating in the respective categories: Olga Miller, Director, Corporate Governance (ranked 1st), Viktor Zhukov, Director, Marketing and Tariff Policy, and Viktor Markov, Director, Legal, and Property Management (ranked 3rd).

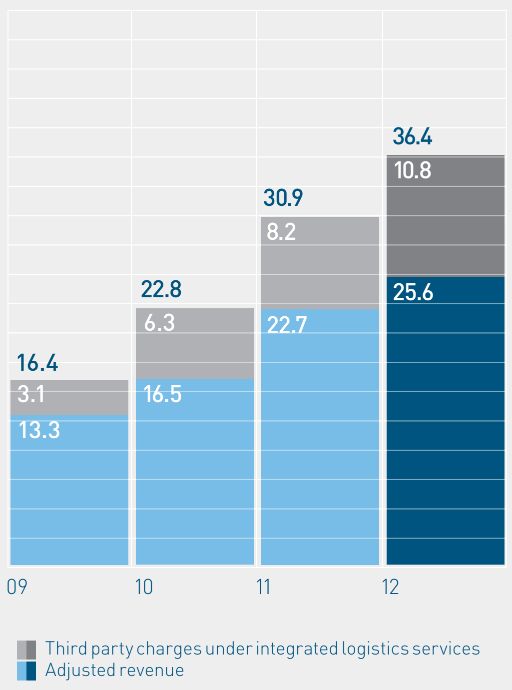
WEB SERVICE
TransContainer introduced an online service on its recently launched improved web site for its customers to place online orders, track existing ones, and check the status of shipments. Regular customers can obtain online personal cabinet for a more efficient interaction with the Company.

e-commerce

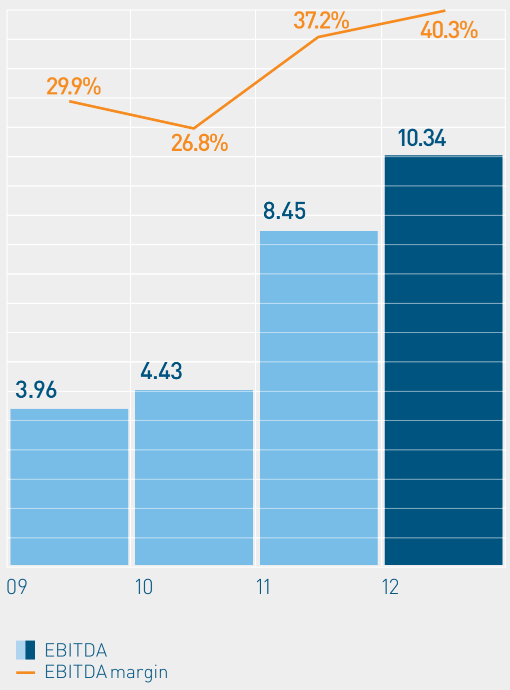
THE LAUNCH OF THE INTEGRATED TRANSPORTATION SERVICE IN KAZAKHSTAN
In 2012, our subsidiary Kedentransservice launched integrated freight-forwarding and logistics services throughout Kazakhstan and Central Asia.

FINANCIAL HIGHLIGHTS

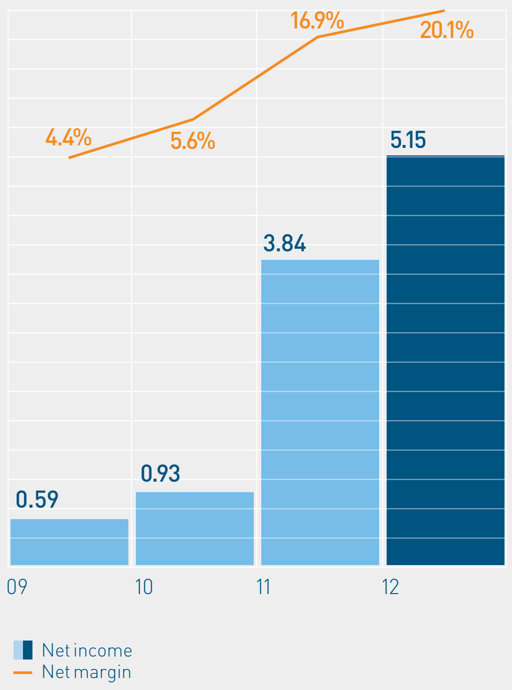
REVENUE AND ADJUSTED REVENUE
36.4 RUR bln +13%



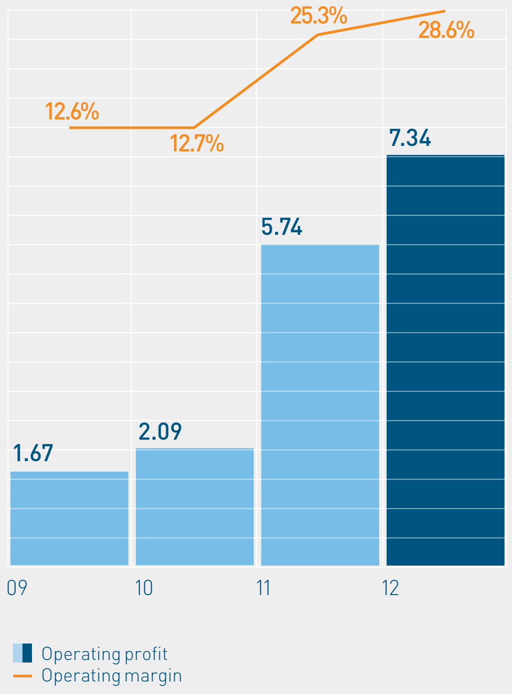
EBITDA & MARGIN
10.3 RUR bln +22%



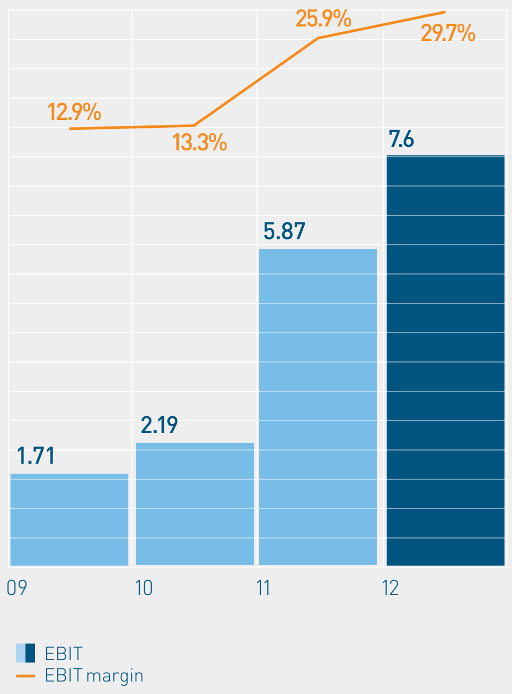
NET PROFIT & MARGIN
5.2 RUR bln +34%



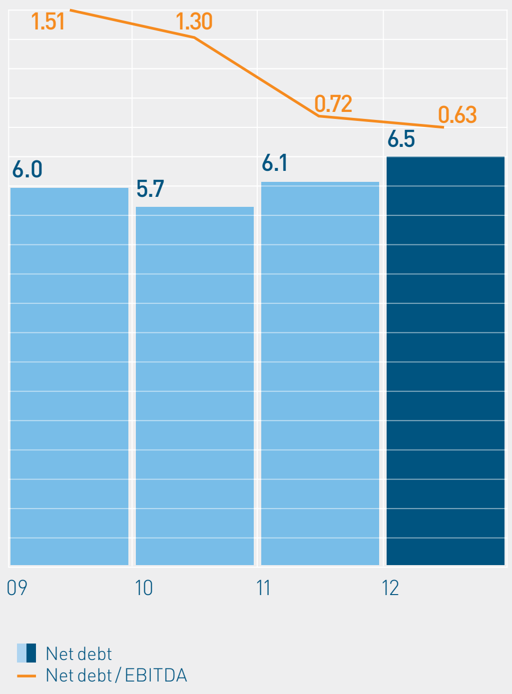
OPERATING PROFIT & MARGIN
7.3 RUR bln +28%



EBIT & MARGIN
7.6 RUR bln +30%



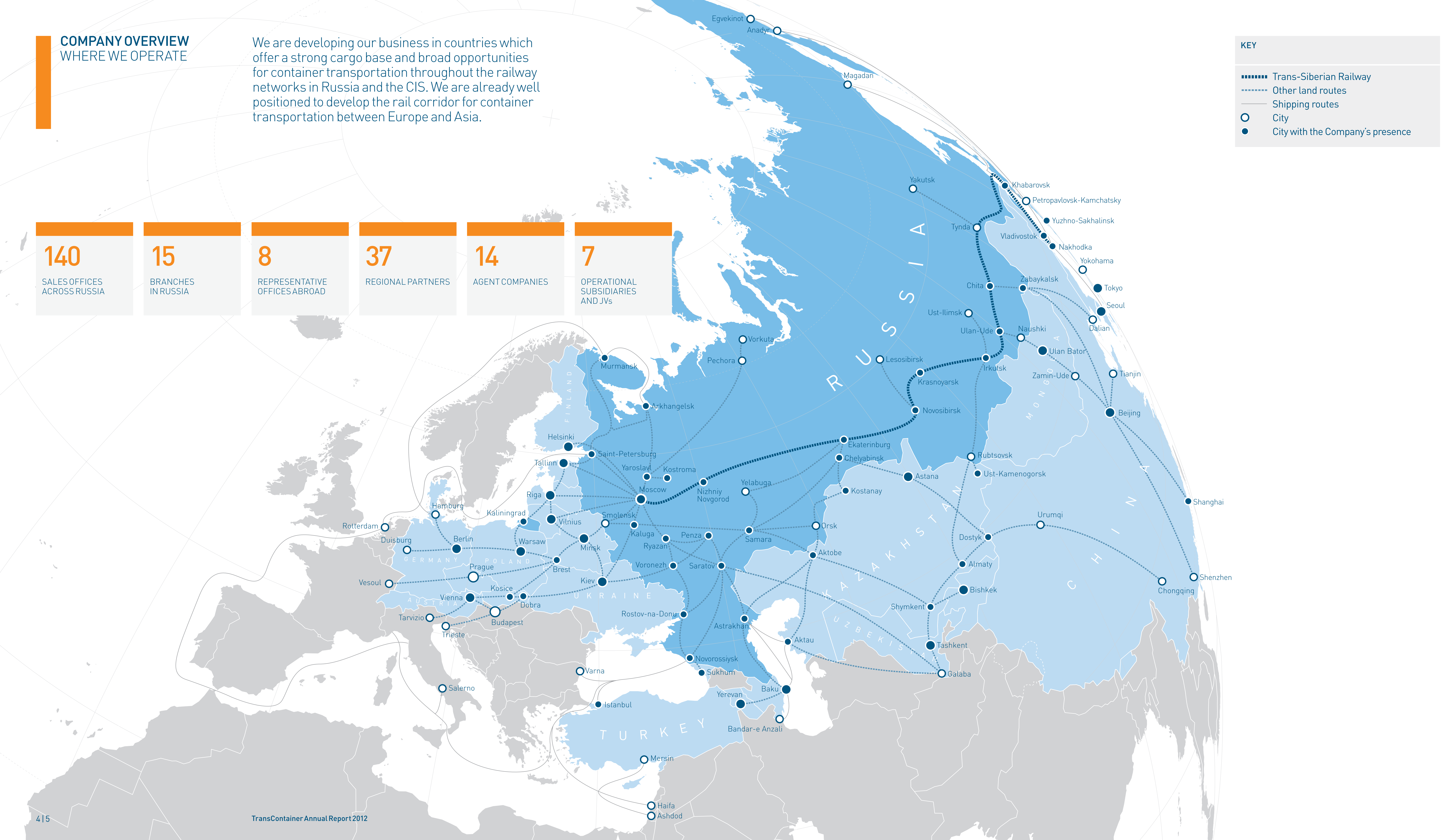
NET DEBT & NET DEBT / EBITDA
6.5 RUR bln



COMPANY OVERVIEW
WHERE WE OPERATE

We are developing our business in countries which offer a strong cargo base and broad opportunities for container transportation throughout the railway networks in Russia and the CIS. We are already well positioned to develop the rail corridor for container transportation between Europe and Asia.

140	**15**	**8**	**37**	**14**	**7**
SALES OFFICES ACROSS RUSSIA	BRANCHES IN RUSSIA	REPRESENTATIVE OFFICES ABROAD	REGIONAL PARTNERS	AGENT COMPANIES	OPERATIONAL SUBSIDIARIES AND JVs



COMPANY OVERVIEW
CORE OPERATIONS

Our business is comprised of four key segments all interconnected within the vertically integrated business model of the Company that we have devised in line with our unique IT experience and business solutions.

INTEGRATION OF ASSETS AND TECHNOLOGIES INTO A SEAMLESS LOGISTICS VALUE CHAIN

RAIL CONTAINER TRANSPORTATION

KEY RESULTS
TOTAL RAIL CONTAINER TRANSPORTATION VOLUMES: 1,484,000 TEU [1]

27.5%
Share of total revenues

50.4%
Company's share in rail container traffic [4]

CORE SERVICES
– Provision of railcars for transportation of clients' cargos in carrier owned containers
– Provision of railcars for transportation of cargos in shipper owned containers
– Leasing of railcars and containers
– Specialised container transporting services

ASSETS AS OF 31.12.12
– 25,086 flatcars
– 60,822 ISO containers, including 2,320 specialised containers
– 19,425 medium-duty containers (MDC)

TERMINAL SERVICES

KEY RESULTS
TERMINAL THROUGHPUT
– IN RUSSIA: 1,428,000 TEU [3]
– IN KAZAKHSTAN: 152,000 CONTAINERS, 3.8 MILLION TONNES OF FREIGHT

11.1%
Share of total revenues

26.2%
Company's share in container terminal throughput in Russia [4]

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

ASSETS AS OF 31.12.12
– Company-owned container terminals at 46 railway stations in Russia
– One leased container terminal in Slovakia (long-term lease agreement)
– 240 units of lifting equipment in Russia and 143 in Kazakhstan

FREIGHT FORWARDING AND LOGISTICS SERVICES

KEY RESULTS
TRANSPORTATION VOLUMES UNDER INTEGRATED FREIGHT-FORWARDING AND LOGISTICS CONTRACTS: 493,000 TEU [2]

55.3%
Share of total revenues

44.0%
Share of integrated logistics services in the company's revenue generating shipments [4]

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 flat through rate

ASSETS AS OF 31.12.12
– 140 sales offices in Russia
– Presence in 23 foreign countries:
  – 8 representative offices,
  – 3 JVs
  – 4 subsidiaries
  – 14 agent companies
  – 37 regional partners abroad

CONTAINER TRUCKING

KEY RESULTS
CARRIED 602,000 TEU OF ISO AND MEDIUM-DUTY CONTAINERS

4.5%
Share of total revenues

42.2%
Share of trucking in terminal throughput [4]

CORE SERVICES
– Container trucking between a rail-side terminal and client's warehouse
– Customs bonded carriage and delivery from the customs office to client's warehouse

ASSETS AS OF 31.12.12
Truck fleet
– in Russia: 860 vehicles,
– in Kazakhstan: 88 vehicles

1. Including transportation under through rate contracts
2. Loaded containers
3. Loaded and empty containers
4. % of IFRS revenue adjusted for third-party integrated logistics services

THE COMPANY'S GLOBAL DEPOSITORY RECEIPTS WERE THE BEST-PERFORMING GDRS IN RUSSIA IN 2012, WITH THE VALUE INCREASING BY 82.7% AGAINST AN RTS INDEX GROWTH OF 10.5%.

TOTAL STOCKHOLDER RETURN IN 2012

86.9%

Dear shareholders,

2012 was a landmark year for TransContainer in many respects. Despite a slump in the rail freight market during the final quarter of 2012, the Company has not only exceeded the net profit target set by the Board but also managed to achieve the pre-crisis levels in key profitability margins.

TransContainer's adjusted revenue in 2012 increased by 13% YoY to RUR 25.6 billion, EBITDA grew by 22% to RUR 10.3 billion, and net profit, the key performance metric for any business, increased by 34.0% reaching RUR 5.2 billion. Our adjusted EBITDA margin reached 40.3%, and net margin reached 20.1% as compared to 16.9% in 2011.

Last year TransContainer introduced an updated Strategy for the coming years up to 2020 to the Board. With the setting of these new ambitious targets, the Company is poised to increase its container traffic from today's 1.5 million TEU to 2.7 million TEU, expand its flatcar fleet from 25,000 to 42,000 cars, and increase its share of integrated freight-forwarding and logistics services in the adjusted revenue to 50%. All of these targets are to be achieved by 2020 with the advantage of the Company's vertically integrated business model, wide geographic footprint and leading market position in the CIS.

The 2020 Strategy is focused on the continuing improvement of efficiency, both operational and financial, and aims to further strengthen our market leadership in the 1,520 mm rail gauge area.

We have enjoyed significant progress in the process of integration of Kedentransservice acquired by TransContainer in 2011 in the business model of the Company. It took us a little more than a year to build a successful, fast-growing rail transportation business for Kazakhstan and other Central Asian countries, which are integrated with Kedentransservice's terminal network, from a scratch.

In 2012, the Company reaffirmed its high corporate governance standards. TransContainer was rated best in the Best Mid-Cap Disclosure nomination of the 15th Annual Reports Awards sponsored by the Moscow Exchange, while TransContainer's Chairman, Independent Directors, and Corporate Secretary were rated best amongst top nominees for the Director of the Year Award established by the Independent Directors Association (IDA), the Russian Union of Industrialists and Entrepreneurs, and PwC. The Board appreciates this level of recognition from the professional community. It inspires us to continue our efforts to improve management practices in line with the best practices. Quite naturally, TransContainer's excellent performance pushed its share price up last year. The Company's depository receipts were the best-performing GDRs in Russia in 2012, performing up 82.7% compared to the 10.5% growth of the RTS Index. Total shareholder return amounted to 86.9% in 2012.

The last year's achievements, however, are no reason for complacency as far as the signs of economic stagnation, reductions in rail cargo transportation volumes, and deterioration of market conditions signal that 2013 is not going to be an easy year. The Company, its management and the Board of Directors will need to call upon their best efforts in order to achieve the objectives and targets set out by the shareholders. Rest assured that they will be achieved.

On behalf of the Board, I would like to express my gratitude to our shareholders, partners, and employees for all their efforts in the past year and wish you all the best of luck for 2013.

Sincerely,

PAVEL ILYICHEV
Chairman of the Board of Directors, TransContainer

DESPITE CONTAINER TRANSPORTATION MARKET SLOWDOWN IN 2012, THE COMPANY WAS ABLE NOT ONLY TO PERFORM AGAINST THE TARGETS SET BY THE SHAREHOLDERS, BUT ALSO TO BRING ITS KEY PROFITABILITY RATIOS TO THE PRE-CRISIS LEVEL.

NET PROFIT

+34%

Dear shareholders, investors, colleagues and partners,

On the subject of our 2012 results, I would like to highlight that despite Russia's economic meltdown and deceleration of container rail freight growth in late 2012, TransContainer managed not only to meet the targets set by the shareholders, but also to attain pre-crisis levels in key margin indicators. Our EBITDA margin once again exceeded the level of 40%, while net margin reached the pre-crisis level of 20%.

KEY FINANCIAL AND OPERATING INDICATORS

This margin grew alongside key operating and financial indicators which renewed their historical records. Our domestic rail container traffic grew 8.9% to 1.48 million TEU, with key financials growing even stronger.

Given the volatile market environment, we have implemented a flexible pricing policy and focused on improving efficiency. In 2012, the flatcar empty run ratio was brought down from 8.3% to 7.5%. Container block train traffic grew by 19.1% year-on-year, reaching 398,500 TEU, with block trains accounting for 26.9% of the company's traffic against 24.6% the previous year.

We are continuously prioritising expansion of complex logistics solutions as they are best suited to meet our clients' needs. In 2012, integrated logistic services accounted for 492,800 TEU, 17.7% growth year-on-year.

FOREIGN EXPANSION

I would like to specially mention the Company's operations in Kazakhstan. Last year we achieved strong results in the process of integration of Kedentransservice into the TransContainer Group business model: interchange of information and transportation technologies, improvement of the Kazakh company's corporate governance and transformation of its business model. In less than a year we managed to unveil to the Kazakhstan and Central Asian markets a fundamentally new player – a vertically integrated operator offering a full range of container freight transportation services, including freight handling at terminals. Today, Kedentransservice offers terminal handling at 18 railway stations in Kazakhstan and operates more than 4,000 flatcars. It has already positioned itself as one of the biggest market players in the region, and this is just the beginning.

NEW HORIZONS

When presenting our achievements to the investors we are often asked whether TransContainer Group has reached the limits of its efficiency and growth. Certainly not, we reply. We believe in the long-term upside potential of the Russian container transportation market, which is still in its infancy. In 2012, we presented to the Board of Directors an updated development strategy taking us through to 2020. Based on the fundamental market growth drivers, advantages of our business model, and headroom to improve operating efficiency, we are setting a course for the next eight years. Now we have to work hard to realise this strategy.

TransContainer's investment programme is an important driver for its strategic development. In 2012, our capital expenditures approached RUR 5.7 billion, 34.1% more than a year before. The Company acquired over 800 80-foot flatcars, 450 40-foot flatcars (on top of the cars acquired through leasing), and a few thousand ISO containers. Consequently, the share of high-efficiency 80-foot flatcars in our total fleet capacity rose from 29.3% to 31.5% (in TEU terms); our flatcar fleet capacity grew 3.4% to almost 75,000 TEU. Over 60% of the funds allocated under TransContainer's Investment Programme were used for these purposes. Almost RUR 1.2 billion was invested into developing the company's key terminals.

A memorandum of understanding signed in May 2012 between the national railway companies of Russia, Kazakhstan, and Belarus was another important milestone. The parties agreed to create a united transportation and logistics company to take the opportunities offered to the railway industry by the emerging Eurasian Economic Community and rapid development of Western and Central China. As a subsidiary of Russian Railways and the largest container operator in the EurAsEC, TransContainer is well-positioned to play a key role in this important strategic project.

CORPORATE RESPONSIBILITY

We take a proactive approach to corporate social responsibility. In 2012, the Company donated RUR 144 million to charity (compared to RUR 23 million in 2011), and invested RUR 23 million into environmental protection.

Health and safety are among our highest priorities. Although our industrial injury rate has remained stable over the past years, our ultimate goal is a clear injury record. In 2012, industrial injuries were included on the TransContainer's Critical Risks Map, which is examined by the Board of Directors on a quarterly basis.

In summary, despite a relatively unsuccessful last quarter of 2012, I would say we have performed well for our shareholders; TransContainer's shares increased in value by over 80% over the course of the year.

NEXT STEPS

2013 looks to be a challenging year for the Russian container market. The negative trends which emerged at the end of 2012 continued into the first quarter of 2013. Amid the seasonal drop in demand and deteriorating economic environment in Russia, competition between container operators has heightened and has, in turn, affected tariffs.

Although a market recovery did begin in March 2013, the sustainability and growth rates it brings will be dependant upon national and global macroeconomic trends. Given these circumstances, we will have to do our best to maintain margins and establish a springboard for long-term sustainable development.

I believe that together with our shareholders, clients and counterparties, backed by our partners and the skill and dedication of our employees, we will overcome this period of volatility and create a robust foundation for progress.

Sincerely,

PETR BASKAKOV
Chief Executive Officer
TransContainer

Company overview
Strategy
Container Transportation Market
Management Report
Corporate Governance
Corporate Social Responsibility
Financial Statements
Additional Information

The Company's Strategy is focused on leveraging the business model as a vertically integrated, nation-wide container operator offering a full range of container transportation and logistics solutions throughout Russia and the CIS.

COMPANY MISSION

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

STRATEGIC GOAL

TO INCREASE THE COMPANY'S MARKET CAPITALISATION THROUGH THE INCREASE OF SCALE OF BUSINESS AND ITS EFFICIENCY.

TARGET BUSINESS MODEL

A VERTICALLY INTEGRATED TRANSPORTATION AND LOGISTICS GROUP THAT PROVIDES CONTAINER FREIGHT CARRIAGE AND LOGISTICS SERVICES THROUGHOUT EUROPE AND ASIA.

LEADERSHIP

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

KPIs
– MARKET SHARE
– NUMBER OF NEW TRANSPORT PRODUCTS

2012 RESULTS
HELD A 50% SHARE OF THE RUSSIAN RAIL CONTAINER TRANSPORTATION MARKET; LAUNCHED DOOR-TO-DOOR CONTAINER DELIVERY (INTEGRATED LOGISTICS) SERVICES IN THE KAZAKH AND CENTRAL ASIAN MARKETS; TRANSIT THROUGH RUSSIA INCREASED 2.7 TIMES.

STRATEGIC TARGETS FOR 2020
LARGEST MARKET PLAYER AND UNDISPUTED LEADER IN THE RUSSIAN AND THE CIS RAIL CONTAINER TRANSPORTATION MARKET

GROWTH

INCREASE THE VOLUME OF OPERATIONS BY EXPANDING OUR CUSTOMER BASE AS WELL AS TERMINAL ASSETS AND ROLLING STOCK

KPIs
– REVENUE
– TRANSPORTATION VOLUME
– NET PROFIT

2012 RESULTS
RAIL FREIGHT TRAFFIC GREW 8.9%; FLATCAR FLEET CAPACITY GREW 3.4% TO 75,000 TEU REVENUE UP 17.9%, NET PROFIT UP 34.0%.

STRATEGIC TARGETS FOR 2020
RAIL CONTAINER FREIGHT TRAFFIC TO REACH 2.7 MILLION TEU AND CONTAINER FLATCAR FLEET TO REACH 42,000 UNITS BY 2020

ADDED VALUE

EXPAND THE VALUE-ADDED SERVICES, INCLUDING INTEGRATED LOGISTICS SERVICES

KPIs
– INTERMODAL TRANSPORTATION VOLUME
– CUSTOMER SATISFACTION INDEX

2012 RESULTS
SHIPMENTS UNDER INTEGRATED FREIGHT-FORWARDING AND LOGISTICS CONTRACTS GREW 17.7% TO 493,000 TEU; THE SHARE OF INTEGRATED LOGISTICS SERVICES IN ADJUSTED REVENUE REACHED 33.2% VS. 29.6% IN 2011.

STRATEGIC TARGETS FOR 2020
INTEGRATED LOGISTICS AND FREIGHT FORWARDING SERVICES TO GENERATE 50% OF ADJUSTED REVENUE BY 2020

EFFICIENCY

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

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

2012 RESULTS
THE SHARE OF HIGH-EFFICIENCY 80-FOOT FLATCARS IN THE TOTAL FLEET CAPACITY INCREASED FROM 29.3% AT THE END OF 2011 TO 31.5% AT THE END OF 2012; THE FLATCAR EMPTY RUN RATIO IMPROVED FROM 8.3% TO 7.5%; THE SHARE OF BLOCK TRAIN CARRIAGE INCREASED FROM 24.6% TO 26.9%.

STRATEGIC TARGETS FOR 2020
50% SHARE OF 80-FOOT FLATCARS IN THE TOTAL FLEET CAPACITY, LOWER EMPTY RUN RATIO, IMPROVED CAR FLEET TURNOVER

STRATEGY
MAIN OBJECTIVES AND PRIORITIES

The Strategy adopted in 2009 and presented to the market in 2010 has proven its efficiency. With our strategic direction, goals, and objectives unchanged, the updated strategy sets a number of better focused targets to reveal the potential for growth.

Pavel Chichagov
Deputy General Director

RESULTS OF STRATEGY IMPLEMENTATION 2009-2015

The key strategic goal of increasing the Company's market capitalisation through increasing the scale of business and its efficiency was defined in TransContainer's 2015 Strategy (the "2015 Strategy") approved by the Board of Directors on 19 December 2009. The Company's performance in 2012 was in line with the Strategy: our market capitalisation increased by 82.7% and reached almost USD 2.0 billion by 31 December 2012. Revenue generating traffic volume grew 9.8%, whereas total revenue increased by 17.9%. EBITDA margin was 40.3%, and the net profit margin rose from 16.9% in 2011 to 20.1% in 2012.

The majority of strategic projects envisaged in the 2015 Strategy for the years 2009 through 2012 were completed: TransContainer established subsidiaries and JVs in Finland, Germany, Slovakia, Austria, South Korea, and China. The Company also acquired a controlling stake in Kedentransservice, the largest terminal operator in Kazakhstan, launching an unrivalled integrated logistics business in Central Asia.

Overall, the Strategy that we presented to investors during our IPO in 2010 has proven its value and remains an integral part of our operations.

KEY STRATEGIC ASSUMPTIONS BY 2020

In 2012, the Company updated its Strategy to reflect the previous three years' developments in not only the Company's business, but also in the macroeconomic environment. While our strategic direction, goals, and objectives remain unchanged, the updated Strategy introduces the following essential shifts:

- extending the forecast period to 2020;
- updating basic macroeconomic assumptions, including GDP growth and inflation rates, natural monopolies' price growth, etc.,
- updating the outlook of the container market, including industry and region-specific forecasts;
- incorporating the functional strategy for the terminal network;
- reflecting the Company's post-crisis performance, including the higher-than-anticipated growth of key financial indicators.

TransContainer's Development Strategy until 2020 (the "2020 Strategy") was approved at the Board meeting held on 21 January 2013.

The updated market forecast is based on the long-term fundamental growth drivers of the Russia and the CIS rail container transportation market. This includes the current low level of containerisation compared to developed markets as well as the growth potential of the economy, consumer demand, and value-added industrial production.

The 2020 Strategy envisages TransContainer to retain its leading position in the fast-growing rail container transportation market, amongst other accomplishments. These will be namely aligning its terminal-handling business with the anticipated changes in the cargo mix, the further fading out of medium-duty containers in Russia, and the continued development of the logistics segment of business.

STRATEGIC TARGETS

The Strategy not only assumes the organic growth in the key Russian and CIS markets, but also envisages the opportunity for acquisitions in new markets if estimated as cost-effective and easily synergised.

The aim of implementing the 2020 Strategy's base case scenario is to ensure steady growth in profitability, an increase in rail container traffic to 2.7 million TEU by 2020, and the expansion of the flatcar fleet to 42,000 cars. The 2020 Strategy envisages further additions to the high-efficiency fleet, primarily 80-foot flatcars and 40-foot containers, as well as commissioning of new types of containers and rolling stock: articulated flatcars (to be built from two standard 60-foot cars taken from our existing fleet), 60-foot open-top containers, etc. Special-fleet container transportation is also set to grow, while the share of logistics and freight forwarding services in the total revenue is expected to reach 50%.

MAIN PRIORITIES

To achieve these targets, the Company plans to allocate an average range of 20% to 30% of its annual adjusted revenue to capital expenditures. Total capital expenditure during the period ending 2020 may amount to RUR 110 billion, with the major part allocated to the expansion and renovation of the flatcar fleet.

The Company believes that implementing its 2020 Strategy will enable TransContainer to maintain and strengthen its market leadership as well as secure steady growth of value for its shareholders.

A priority strategic objective is to more efficiently use the Company's assets. The Company plans to increase its operating efficiency by using new transportation technologies, upgrading and streamlining its fleet, and implementing modern IT solutions and management practices. The Company sees significant potential for further reductions in empty runs, increasing car capacity utilisation, and improving fleet turnover.

TransContainer's priority strategic objectives include increasing container block train traffic by launching a block train circulation between the Company's own hub terminals. This will lead to a better consolidation of container flows.

With regard to the current operations, the implementation of the 2020 Strategy is supported by a balanced system of key performance indicators (KPIs) set for the management each calendar year.

Market leadership offers new opportunities. To retain our leading position, we not only intend to retain a high market share in the fast-growing container freight market, but also to continue developing new, highly-competitive transport products, rolling out innovative technologies, and identifying and occupying emerging market niches.

LEADERSHIP

CONTAINER TRAFFIC TRANSPORTED BY THE COMPANY'S FLATCAR FLEET

1,484
'000 TEU

SHARE OF RAIL CONTAINER FREIGHT MARKET

50.4%

SHARE OF CONTAINER TERMINAL SERVICES MARKET ON RUSSIAN RAILWAY'S NETWORK

26.2%

CUSTOMERS SERVED IN 2012

64,000

VOLUME OF OPERATOR SERVICES OF JSC KEDENTRANSSERVICE IN KAZAKHSTAN

24.1
'000 TEU

YURI YURIEV
STRATEGIC DEVELOPMENT DIRECTOR

In 2012, we successfully implemented our plans to promote integrated container services on the Kazakh market, a key element of the Europe – Asia transport corridor.

Kedentransservice, our Kazakh subsidiary, used its regional footprint and terminal capacity to create a container services business integrated with TransContainer's IT systems. The business focused on the door-to-door delivery of container cargos to any destination of choice in Kazakhstan and to most Central Asian countries. We were the first Russian operator to take advantage of the new market niche that opened up when private railcar fleet service became viable in Kazakhstan.

We are committed to increasing business volume by taking every opportunity offered by the container market's fundamental growth drivers. We are also focusing our efforts on expanding our customer base, number of terminals, and rolling stock. Operational growth drives the Company's financial performance and business value.

GROWTH

COMPANY'S TRAFFIC GROWTH IN 2012

+8.9%

NEW CONTAINERS PURCHASED

2,384

UNITS

NET PROFIT

5.2

RUR BILLION

+34.0%

REVENUE GROWTH

+17.9%

EBITDA GROWTH

+22.4%

ALEXANDER URUDZHEV
DIRECTOR FOR TRANSPORTATION

In the timeframe of several years 2012 was the first year when the Russian rail container transit traffic saw significant growth. Transit shipments grew by 61,200 TEU. Up to 90% of this growth attributes to containers carried by our flatcars. Our efforts in recent years to tap the potential demand for transit through Russian territory produced their first tangible results in 2012, when our transit traffic increased 2.7 times and reached 90,000 TEU. Most of this growth was generated on the Europe and China routes as well as the Europe and Central Asia routes due to the higher volumes in our international projects.

ADDED VALUE

Creating added value is our strategic goal. We add value for our customers by offering services tailored to the specific needs of each customer group. We expand the scope and range of our added-value offering, targeting end-shippers that have a growing demand for such services. The value we create translates into our financial results and, in turn, increases the value of our business, our market capitalisation, and our shareholders' returns.

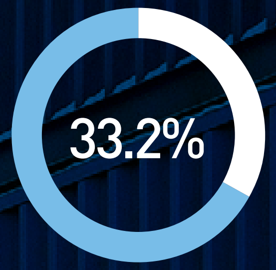
GROWTH OF TRAFFIC UNDER INTEGRATED LOGISTICS CONTRACTS

+17.7%

OPERATING MARGIN

28.6%

SHARE OF INTEGRATED LOGISTICS SERVICES IN NET REVENUE



RETURN ON EQUITY

18.6%

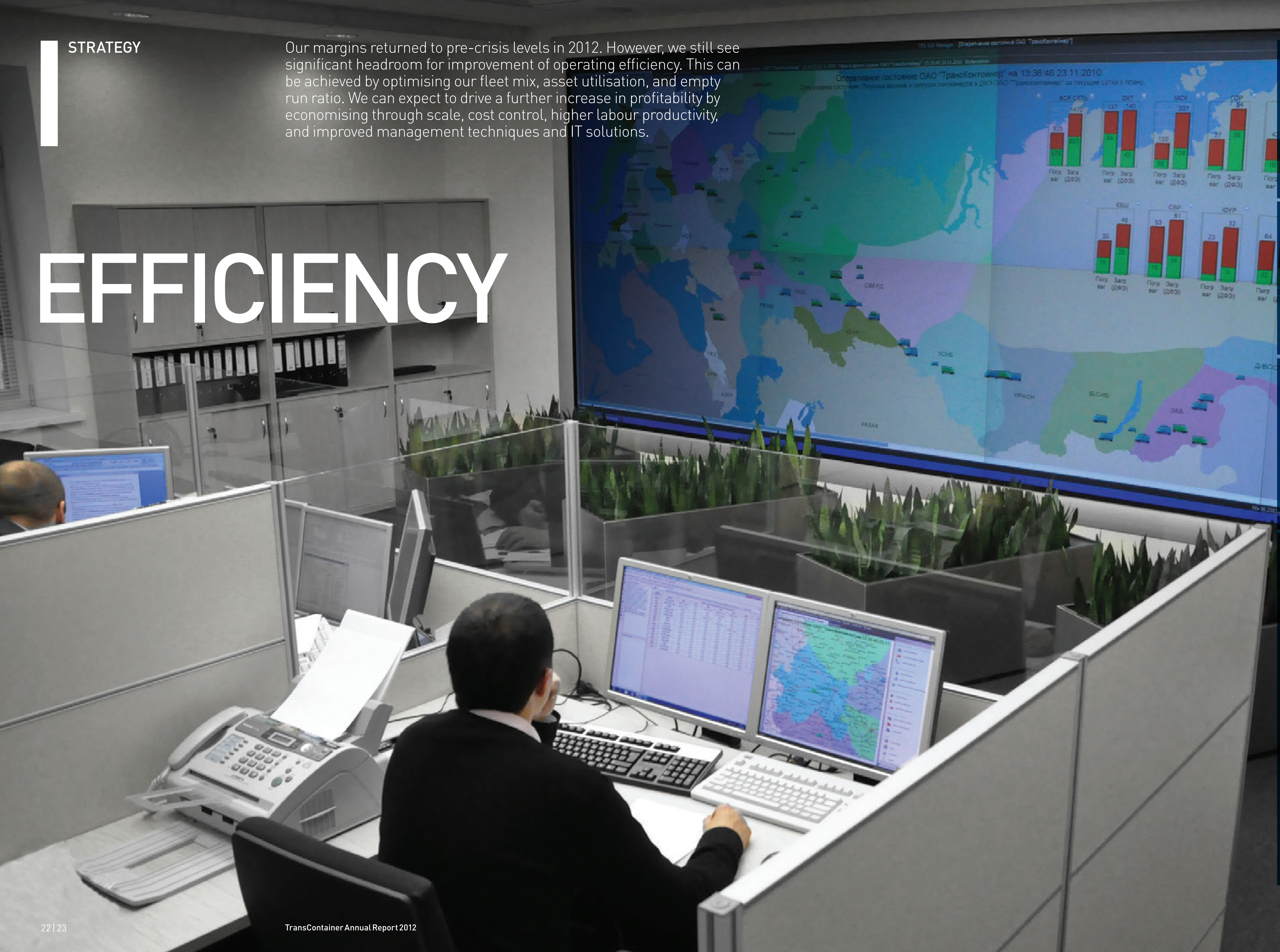
MARKET CAP GROWTH IN 2012

+82.7%[1]

1. Based on GDR price on the London Stock Exchange

DMITRY BULAENKO
DIRECTOR FOR SALES

One of the most complicated segments of the transportation and logistics business is integrated services provided to the automotive plants. In August 2012, we began to deliver auto components for the Ford Sollers plant in Tatarstan. We won the tender for a logistics partner contract due to our reputation for excellent quality, reliability, and the comprehensiveness of services offered for this high-potential project. We also transported over 4,000 TEU for this project in 2012. Our successful track record with component deliveries for Russian automobile assembly plants is demonstrated not only in our dealings with Ford Sollers, but also in our long-standing relations with BMW, Volkswagen, Peugeot-Citroen, Audi, General Motors, Daewoo, Isuzu, Mitsubishi, SsangYong, KIA, Hyundai, Great Wall, Foton, and other vehicle manufacturers.



STRATEGY

Our margins returned to pre-crisis levels in 2012. However, we still see significant headroom for improvement of operating efficiency. This can be achieved by optimising our fleet mix, asset utilisation, and empty run ratio. We can expect to drive a further increase in profitability by economising through scale, cost control, higher labour productivity, and improved management techniques and IT solutions.

EFFICIENCY

CONTAINER BLOCK TRAIN TRAFFIC GROWTH

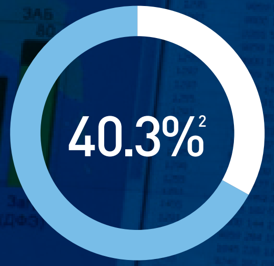
+19.1%

LABOUR PRODUCTIVITY GROWTH

+13.7%[1]

1. Average annual net revenue per Group employee

EBITDA MARGIN



2. Based on net revenue

EMPTY RUN RATIO

7.5%[3]

3. Average empty run against loaded run

NET MARGIN

20.1%[4]

4. Annual profit to net revenue

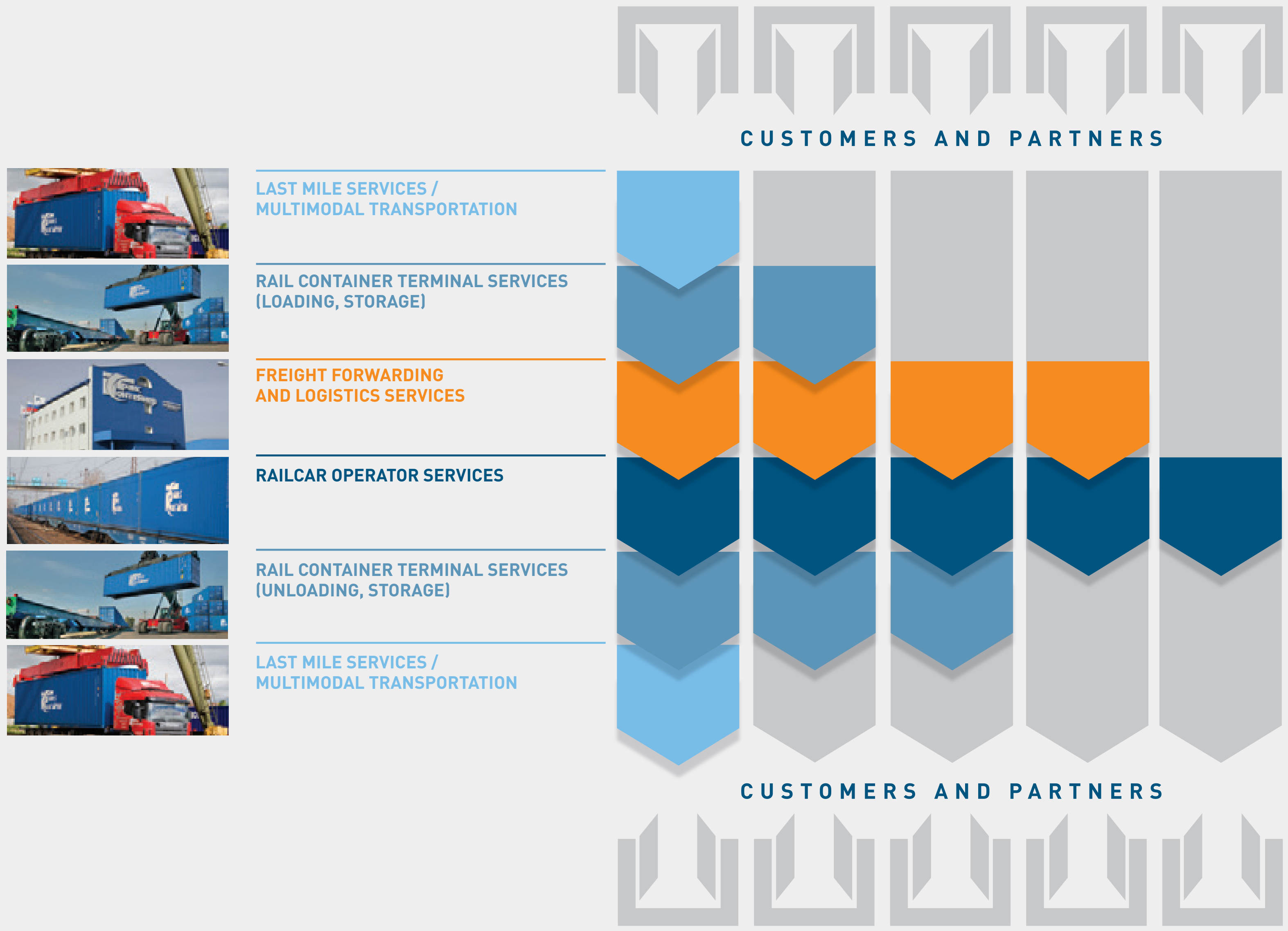
VLADIMIR CHISNAKOV
FIRST DEPUTY GENERAL DIRECTOR

In October 2012 we launched new block train service from Moscow to Novosibirsk, Irkutsk, and Khabarovsk; from St Petersburg to Novosibirsk and Khabarovsk; and from Vladivostok to Yekaterinburg and Moscow. A distinctive feature of the new service is that both delivery times and train timetables are guaranteed, and so clients can benefit from high-precision delivery time planning. The fast speed of these trains led to a significant delivery time reduction, with Moscow–Khabarovsk haulage taking only eleven days. At the client's request we can add last mile services at both ends of the route. The new arrangement brings about significant efficiency improvements, enabling us to offer our clients a high quality transportation product at a competitive price.

STRATEGY
BUSINESS MODEL

Our business model relies on an integrated asset mix and unparalleled network coverage. The Company's assets comprise all key components of the container transportation value chain. This allows us to be flexible in responding to the needs of all types of customers and offering either standard container transportation and terminal handling services or integrated end-to-end delivery solutions.

INTEGRATED CONTAINER CARGO DELIVERY VALUE CHAIN

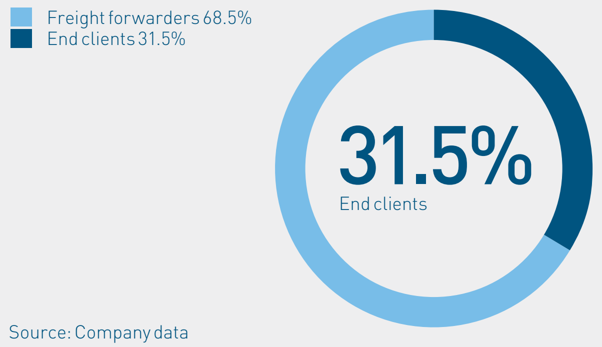


OUR BUSINESS ASSETS

	FLATCARS	ISO CONTAINERS	LIFTING EQUIPMENT	MOTOR VEHICLES	RAILWAY CONTAINER TERMINALS
QUANTITY AS OF 31.12.2012	25,086	60,822	240	860	65
USES	Special railcars for transportation of ISO containers. Depending on size (40, 60, or 80 foot), flatcars are used for the carriage of light, heavy or mixed cargo	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 cargos, liquid cargos, or perishable goods	Special gantry cranes for container handling, special loaders for ISO containers (reach stackers), low-tonnage loaders for warehousing and repair operations	Truck tractors, ISO container trailers, high-sided trucks	Equipped sites adjacent to rail tracks, with lifting machinery and other equipment and facilities designed for loading containers and unloading containers to and from railcars and trucks, storage of cargos and containers, and other operations related to container transportation

Our business model enables us to provide fully-fledged services to end-customers interested in using integrated transportation and logistics services. Given our geographical scope and the growing demand for containerised cargo transportation, we are continuing to develop partner relations with freight-forwarding companies both in Russia and abroad.

BREAKDOWN OF CLIENTS BY SHARE IN PAYMENTS RECEIVED IN 2012



Source: Company data

CONTAINER TRANSPORTATION MARKET

The global container transportation market saw recovering demand and rising sea freight rates in 2012.

Viktor Zhukov
Director of Marketing and Tariff Policy

GLOBAL CONTAINER TRANSPORTATION MARKET

SHIPMENT VOLUMES

Global container traffic is predominantly seaborne. According to Drewry Maritime Research, the market size reached 168.6 mln TEU in 2012, up 3.4% from 2011.

This growth was mainly driven by intraregional transportation, which increased by 5.2%, mainly due to the faster growth of container shipments within the Asian region as well as north-south shipments. These rose 11.9% due to the strong growth in traffic between Asia and Latin America. By contrast, the east-west route saw a 1.8% decline in volume as a result of a 6.6% reduction in container traffic between Asia and North America and a 1% decrease in traffic between Asia and Mediterranean basin ports.

As such, the geographic shifts in container carriage reflect the changes in the global economy, where the emerging markets of Asia and Latin America are showing faster growth than the stagnating economies of North America and the European Union.

The share of the total container market held by intraregional traffic increased from 40% to 41% in 2012 and became its largest segment, while the share of the east-west route shrank from 42% to 40%. The remaining volume is carried along the north-south routes, the share of which grew from 18% to 19%.

GLOBAL CONTAINER TRANSPORTATION IN 2012 BY ROUTE

Route	2011 Volume, '000 TEU	2011 Share	2012 Volume, '000 TEU	2012 Share	YoY, %
East-West, total	68,794	42%	67,580	40%	-1.8%
Far East – North America	32,094	20%	29,962	18%	-6.6%
Northern Europe – Far East	18,154	11%	18,923	11%	4.2%
Mediterranean – Far East	10,436	6%	10,334	6%	-1.0%
Northern Europe – North America	4,789	3%	5,239	3%	9.4%
Mediterranean – North America	3,320	2%	3,122	2%	-6.0
North-South, total	28,267	18%	31,640	19%	11.9
Intraregional	65,939	40%	69,380	41%	5.2%
TOTAL traffic	163,000	100%	168,600	100%	3.4%

PRICING

2012 saw some recovery in container sea freight rates, which grew by 11% on average compared to 2011.

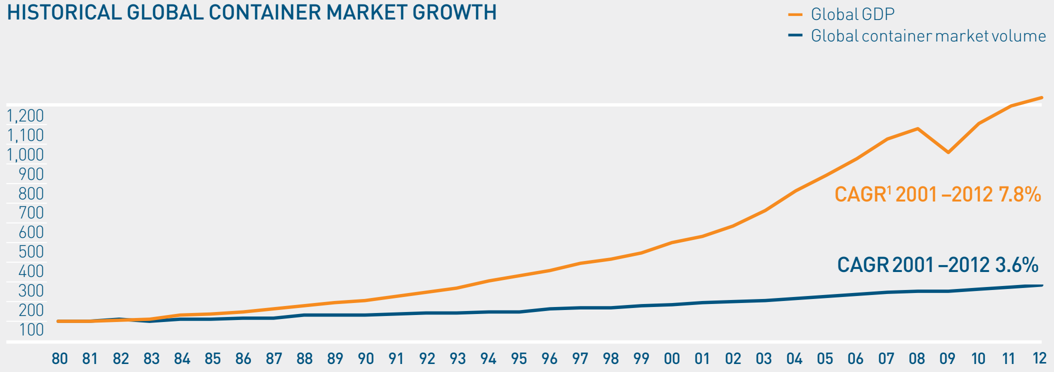
However, this pricing environment was not sustainable throughout the year. Attempts by major players to stabilise their prices at a level which ensures sufficient profitability were constrained by the volatility of demand and excess capacity. This was caused by the continued commissioning of new container vessels, including 40 new 10,000 TEU ships.

Sea line operators' efforts to balance supply by reducing average speed and operating fleet size had only a limited effect. Following a substantial price boost in March 2012, the Asia-Northern European freight rate averaged USD 1,350 per TEU and peaked at USD 1,500 per TEU during the year, but fell back to USD 1,200 per TEU by January 2013.

OUTLOOK

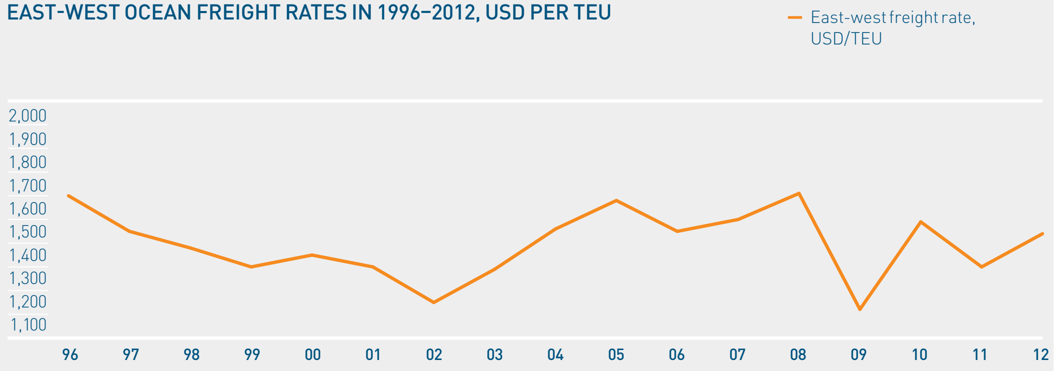
Drewry estimates that global container freight demand will rise 4.6% in 2013, while the pricing environment will depend on the major players' ability to manage their capacity supply amid unstable demand. According to Drewry's base case scenario, east-west sea freight prices will increase by about 9% in 2013.

HISTORICAL GLOBAL CONTAINER MARKET GROWTH



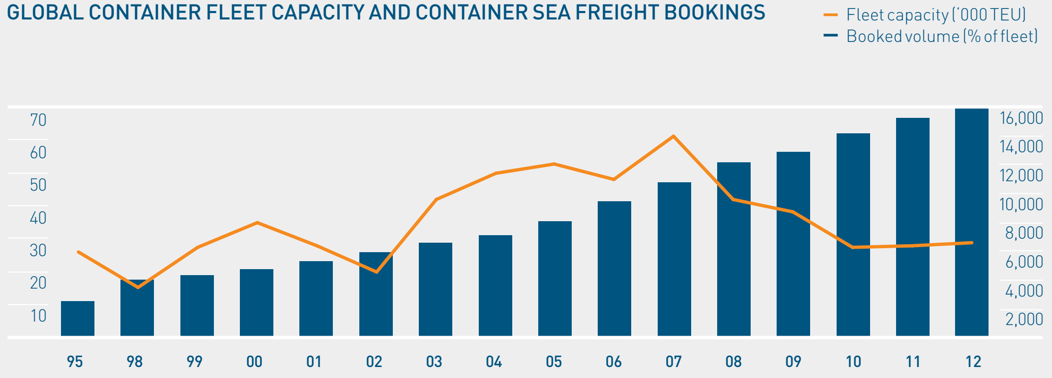
1. Compound annual growth rate
Source: Drewry, Morgan Stanley Research

EAST-WEST OCEAN FREIGHT RATES IN 1996–2012, USD PER TEU



Source: Drewry

GLOBAL CONTAINER FLEET CAPACITY AND CONTAINER SEA FREIGHT BOOKINGS



Source: Drewry, Braemar Seascope

CONTAINER TRANSPORTATION MARKET

Russia's container market growth continues to outperform domestic GDP

RUSSIAN CONTAINER TRANSPORTATION MARKET

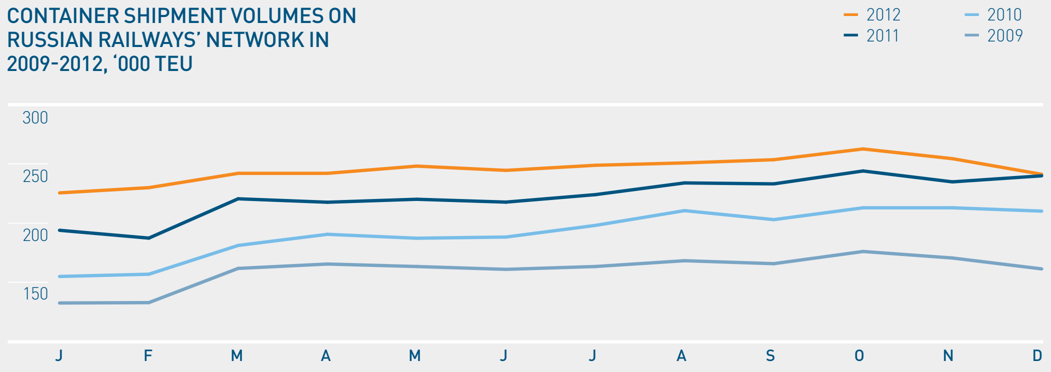
The Russian rail container transportation market exceeded the pre-crisis level in 2011 and continued to show growth through 2012. The total number of containers carried along Russian Railways' network in 2012 was 2.9 million TEU, up 10.4% compared to 2011.

The increase was due to the global and Russian post-crisis recovery and some positive macroeconomic factors affecting container traffic. According to Rosstat's estimates, Russia's GDP increased by 3.4% in 2012, backed by growth in manufacturing output (+4.8%), real household disposable income (+3%), and the physical volume of both imports (+5.9%) and exports (+2.3%).

The continued expansion of containerisation in rail transport was an additional driver for the recovery of rail container traffic volumes in 2012. The Company estimates the share of containerised cargos on Russian Railways' network to have risen from 4.1% in 2011 to 4.2% in 2012 (Source: Russian Railways, Company estimates).

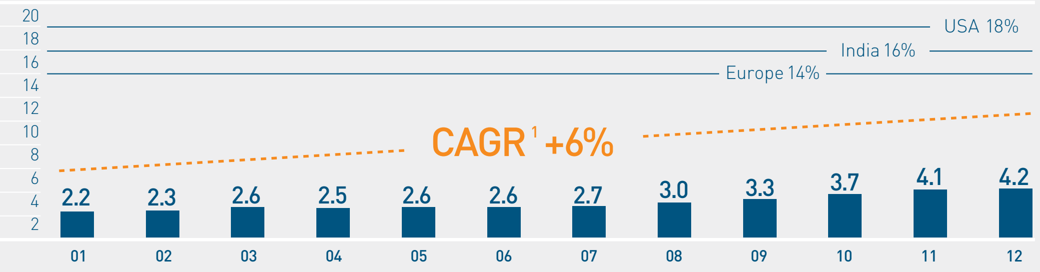
International rail container traffic showed the highest recovery rates and increased by 13.3% in 2012, while domestic traffic increased by 7.1%. As a result, the market, by and large, returned to its pre-crisis composition: international shipments accounted for 54% of the market, while the domestic traffic share decreased from 47% in 2011 to 46% in 2012.

CONTAINER SHIPMENT VOLUMES ON RUSSIAN RAILWAYS' NETWORK IN 2009-2012, '000 TEU



Source: Russian Railways, Company estimates

CONTAINERISATION IN RAIL TRANSPORT IN RUSSIA, 2001-2012

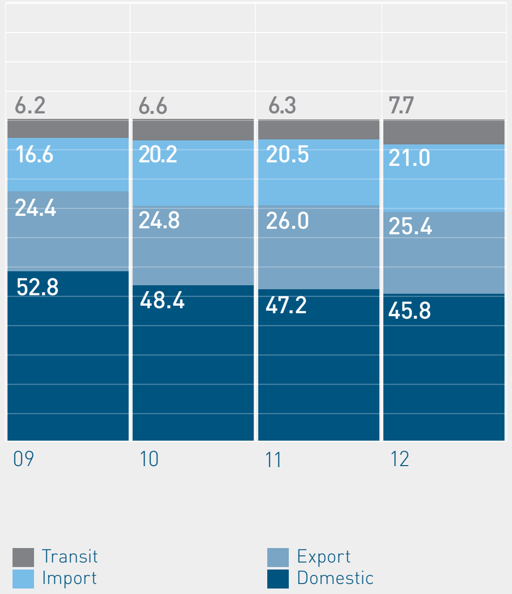


1. Compound annual growth rate
Source: Company estimates, A.T. Kearney

RUSSIAN RAILWAY CONTAINER MARKET COMPOSITION BY DESTINATION ('000 TEU)

Source: Russian Railways, Company estimates

RUSSIAN RAILWAY CONTAINER SHIPMENTS STRUCTURE, %



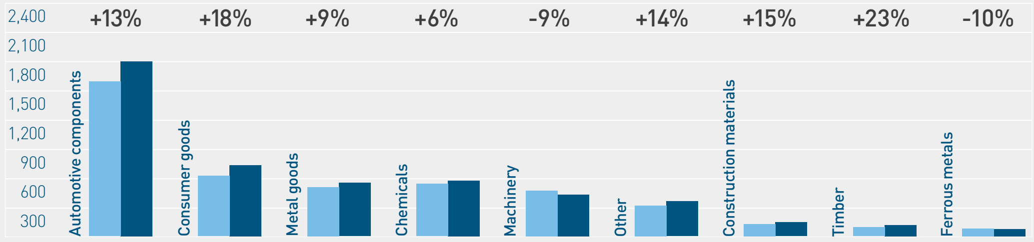
Source: Russian Railways, Company estimates

Market growth slowed down in the fourth quarter of 2012, when the volume of rail-based container transportation was only 5.5% greater than in the corresponding period of 2011, reflecting the overall slowdown in the Russian economy late in 2012.

In 2013 the Company expects Russian container market performance to be mainly dependent on the macroeconomic environment and the pace of international trade growth. Our base case assumes a modest growth in key macro indicators, though there remains the risk of a downturn caused by possible external shocks. In the long term, the growth of the Russian container market is likely to be supported by rising gross domestic product. What will also help is Russia's greater involvement in international trade – particularly driven by WTO accession – and a continued increase in Russia's containerisation rate as it approaches the global average.

CONTAINER TRANSPORTATION MARKET

GROWTH OF CONTAINERISED IMPORT TRAFFIC ON RUSSIAN RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2012, '000 TEU



Source: Russian Railways, Company estimates

IMPORT TRAFFIC

The import rail container segment reclaimed its status as growth leader in 2012 as traffic increased by 13.2% YoY from 546,000 to 618,000 TEU.

The recovery in rail-based container imports was backed by rising westbound sea freight rates, which resulted in more container flows destined for Russia from the Far East. The container turnover at Russian Far Eastern ports grew 15.6% in 2012 (Source: Morcenter TFC).

Incoming railway container traffic is dominated by loaded containers, though last year their share in overall container imports declined from 82% to 79%. Loaded container transportation grew 9.3% in 2012, while empty container traffic soared 30.1%. The share of total incoming container traffic reached 21% as compared to 18% in the previous year.

Containerised imports were dominated by automotive components (38%), consumer goods (15%), chemicals (12%), and metal goods (12%).

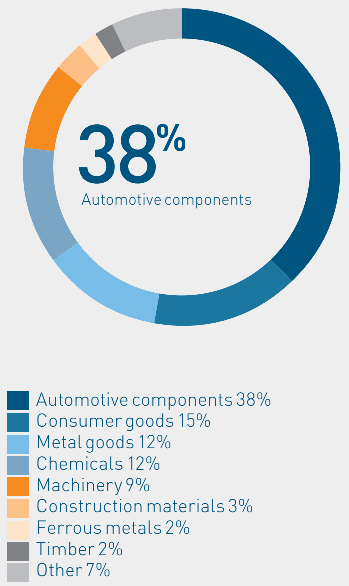
In terms of cargo types, the highest growth rates in 2012 were seen in containerised automotive components (+13%) and consumer goods (+18%).

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

CONTAINER SHIPMENTS ON IMPORT ROUTES ON RUSSIAN RAILWAYS' NETWORK, 2012, '000 TEU

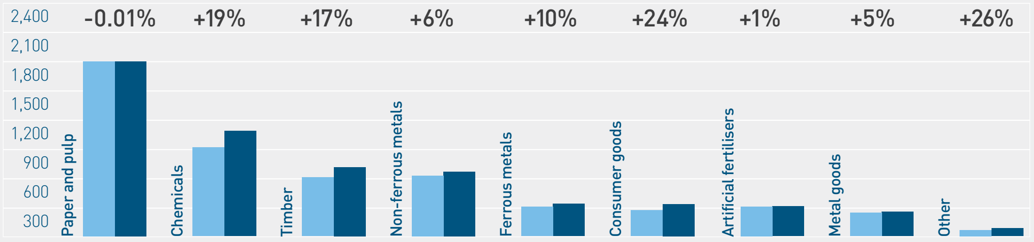
Source: Russian Railways, Company estimates

BREAKDOWN OF CONTAINERISED IMPORT TRAFFIC ON RUSSIAN RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2012



Source: Russian Railways, Company estimates

GROWTH OF CONTAINERISED EXPORT TRAFFIC ON RUSSIAN RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2012, '000 TEU



Source: Russian Railways, Company estimates

EXPORT TRAFFIC

Outgoing rail container traffic increased by 7.9% in 2012, reaching 748,900 TEU.

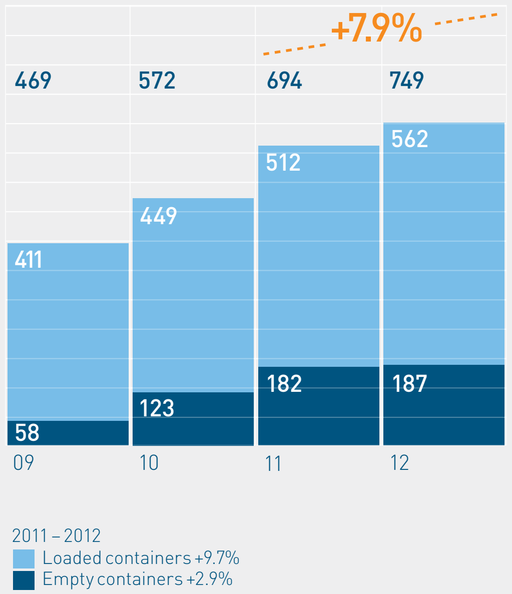
This mainly consisted of loaded containers, whose share reached 75.0% as opposed to the previous year's 73.8%. Loaded container traffic grew 9.7% YoY, while empty container carriage volumes increased by a mere 2.9%.

In terms of cargo types, paper and pulp along with chemical products continued to dominate containerised rail exports in 2012 with a combined share of 52%.

The major contributors to the growth of containerised exports in 2012 were chemical products (up 19% to 110,000 TEU), timber (up 17% to 72,000 TEU), and consumer goods (up 24% to 33,500 TEU).

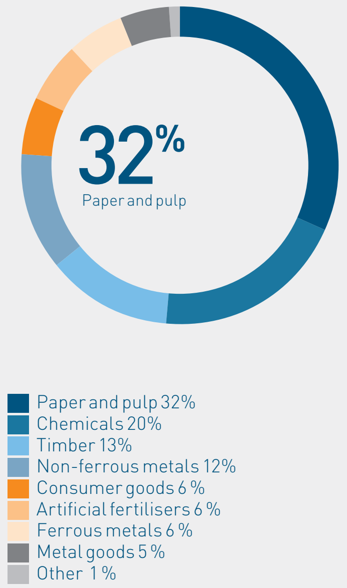
In 2012, most outgoing containerised exports were bound for Russia's northwestern and Far Eastern ports and to countries in Eastern Europe.

CONTAINER SHIPMENTS ON EXPORT ROUTES ON RUSSIAN RAILWAYS' NETWORK, 2012, '000 TEU



Source: Russian Railways, Company estimates

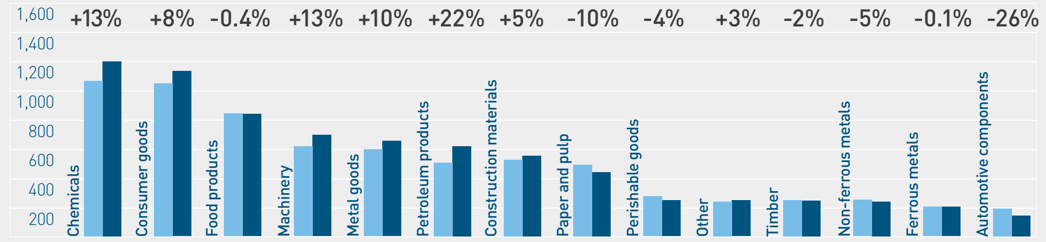
BREAKDOWN OF CONTAINERISED EXPORT TRAFFIC ON RUSSIAN RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2012



Source: Russian Railways, Company estimates

CONTAINER TRANSPORTATION MARKET

GROWTH OF CONTAINERISED DOMESTIC TRAFFIC ON RUSSIAN RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2012, '000 TEU



Source: Russian Railways, Company estimates

DOMESTIC TRAFFIC

In 2012, the volume of domestic container traffic totalled 1,348,900 TEU, up 7.1% YoY.

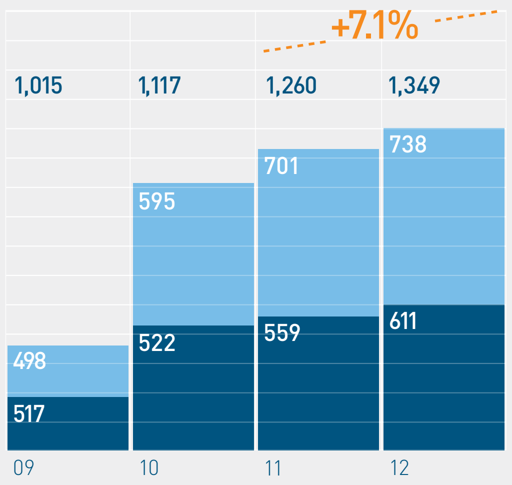
Loaded containers represented 54.7% of domestic rail container traffic, as compared to 55.6% in 2011. Loaded container traffic grew 5.2% YoY, while empty container carriage volume increased by 9.2%.

In terms of cargo types, there was more diversification in domestic rail container transportation than in the international one. The best performing cargo groups in 2012 were chemical products, with a 16% share, consumer goods (15%) and food products (11%).

The main contributors to domestic container traffic were chemicals (up 13%), petroleum products (up 22%), engineering goods (up 13%), and automotive components (down 26%).

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

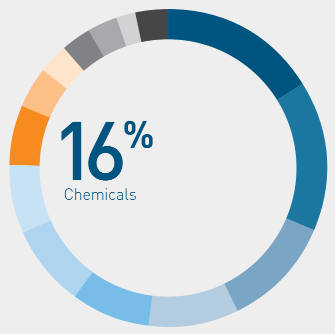
CONTAINER SHIPMENTS ON DOMESTIC ROUTES ON RUSSIAN RAILWAYS' NETWORK, 2012, '000 TEU



2011 – 2012
Loaded containers +5.2%
Empty containers +9.2%

Source: Russian Railways, Company estimates

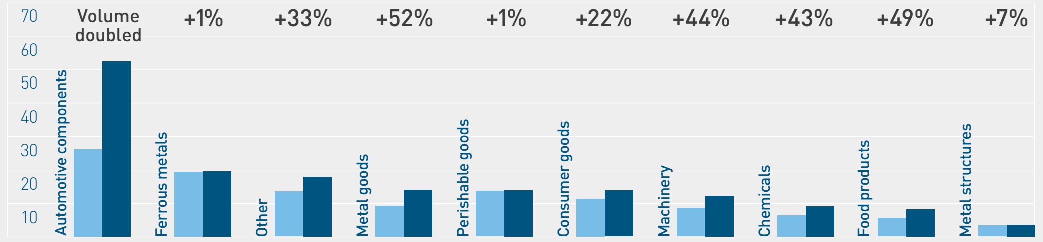
BREAKDOWN OF CONTAINERISED DOMESTIC TRAFFIC ON RUSSIAN RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2012



- Chemicals 16%
- Consumer goods 15%
- Food products 11%
- Machinery 9%
- Metal goods 8%
- Petroleum and products 8%
- Construction materials 7%
- Paper and pulp 6%
- Perishable goods 4%
- Non-ferrous metals 3%
- Ferrous metals 3%
- Timber 3%
- Automotive components 2%
- Other 3%

Source: Russian Railways, Company estimates

GROWTH OF CONTAINERISED TRANSIT TRAFFIC ON RUSSIAN RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2012, '000 TEU



Source: Russian Railways, Company estimates

TRANSIT TRAFFIC

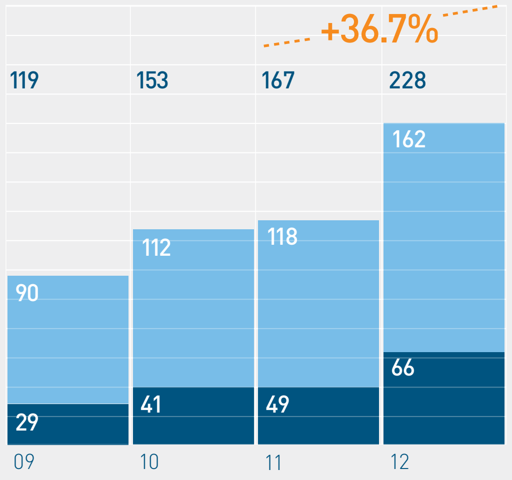
Rail-based container transits grew by 36.7% in 2012, from 166,800 TEU to 228,000 TEU. Loaded containers continued to dominate, with their share in rail transit container turnover increasing to 71.2% in 2012 compared to 70.8% in the previous year.

Transit cargo traffic was mostly driven by automotive components, whose share in the total loaded container transit volume was 31%; ferrous metals (12%); and perishable, metal, and consumer goods (8% each).

The growth of rail-based transit container traffic in 2012 was mostly driven by automotive components, whose shipment volume doubled metal goods (up 52%), food cargos (up 49%), as well as machinery and equipment (up 44%).

Geographically, the majority of rail container transit flows were on the north-south route between Eastern Europe (including the Baltic states) and Central Asia.

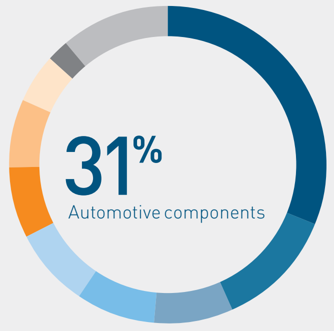
TRANSIT CONTAINER SHIPMENTS ON RUSSIAN RAILWAYS' NETWORK, 2012, '000 TEU



2011 – 2012
Loaded containers +37.5%
Empty containers +34.4%

Source: Russian Railways, Company estimates

BREAKDOWN OF CONTAINERISED TRANSIT TRAFFIC ON RUSSIAN RAILWAYS' NETWORK BY KEY CARGO TYPES IN 2012



- Automotive components 31%
- Ferrous metals 12%
- Consumer goods 8%
- Metal goods 8%
- Perishable goods 8%
- Chemicals 7%
- Machinery 7%
- Food products 5%
- Metal structures 2%
- Other 11%

Source: Russian Railways, Company estimates

MANAGEMENT REPORT
OPERATING RESULTS

Despite the challenging market conditions in 2012, we achieved further growth in traffic volume and fleet utilisation efficiency by enhancing our container block train service and international freight. We also continued to renew and optimise our flatcar fleet.

Vladimir Drachev
First Deputy General Director

RAIL CONTAINER TRANSPORTATION

The Company's services include providing special flatcars for container carriage as well as containers for cargo transportation. In 2012, the volume of rail container transportation by the Company's flatcar fleet grew 8.9% YoY and reached 1,484,000 TEU. As with the previous year, this growth was mainly driven by international traffic, which increased by 18.3% to 691,000 TEU, while domestic rail container transportation grew 1.9% to 793,000 TEU in 2012.

The Company reasserted its market leadership in 2012, taking a 50.4% share in the Russian rail container freight market.

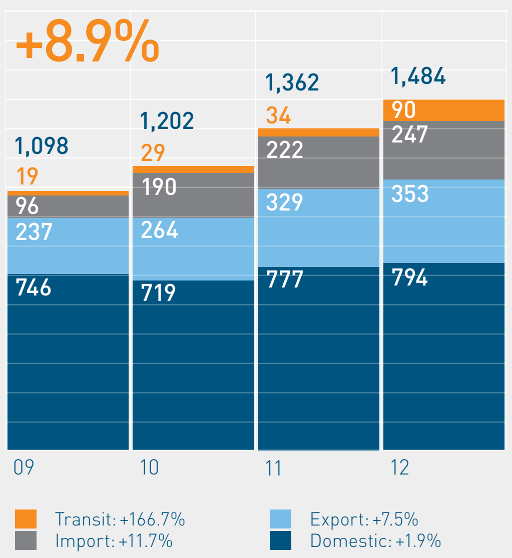
During 2012, the Company strengthened its position in the international container carriage segment, increasing its share from 41.5% in 2011 to 43.3% in 2012. The transit segment market share showed the highest growth (from 20.2% to 39.5%), while the domestic traffic share dropped to 58.8% in 2012 from 61.7% in 2011. The reasons for this were the reallocation of part of the fleet to the better-performing international trade segment and the launch of rail container transportation services in Kazakhstan.

The Company earns revenue by transporting both third-party owned containers, including empty containers, and its own containers. When transporting its own empty containers, the Company itself pays the infrastructure and locomotive fees to Russian Railways and other railway administrations, generating empty run costs for the Company.

The volume of revenue generating transportation by the Company's fleet grew 9.8% and reached 1,120,000 TEU in 2012. At the same time, the Company's container empty runs increased by 6.2% to 364,000 TEU. Accordingly, revenue generating shipments increased from 74.9% of all container traffic carried by the Company's fleet in 2011 to 75.5% in 2012.

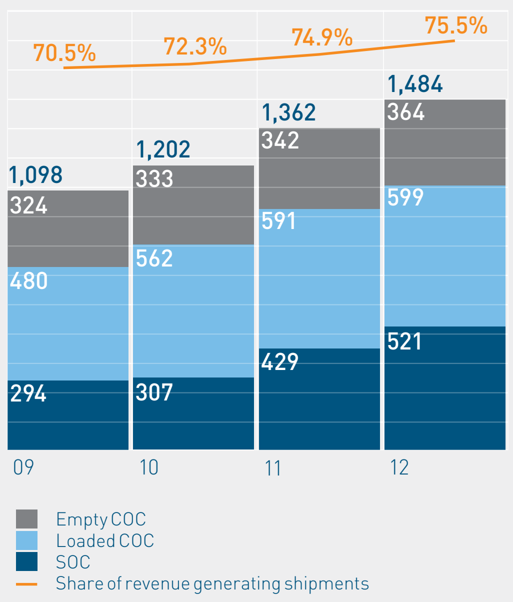
The main cargo groups transported by the Company's fleet were chemicals (15.7% of total loaded container traffic), automotive components for assembly plants (14.2%), paper and pulp (10.8%), and metal goods (8.3%). The share of chemicals, paper and pulp products, and automotive components in the Company's fleet service increased YoY, while the share of food and metal goods declined.

CONTAINER TRAFFIC TRANSPORTED BY THE COMPANY'S FLEET IN 2009–2012 (LOADED AND EMPTY ISO CONTAINERS) '000 TEU



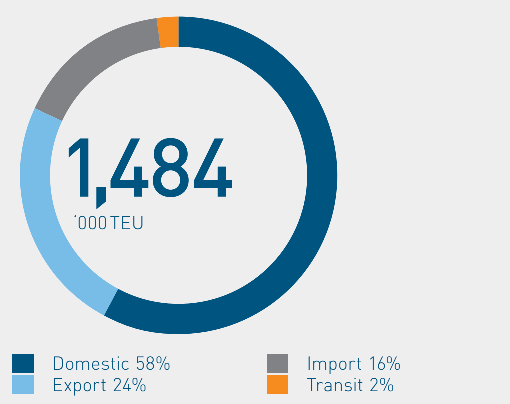
Source: Company data

BREAKDOWN OF CONTAINER TRAFFIC CARRIED BY THE COMPANY'S FLEET IN 2009–2012 BY CONTAINER OWNERSHIP, '000 TEU



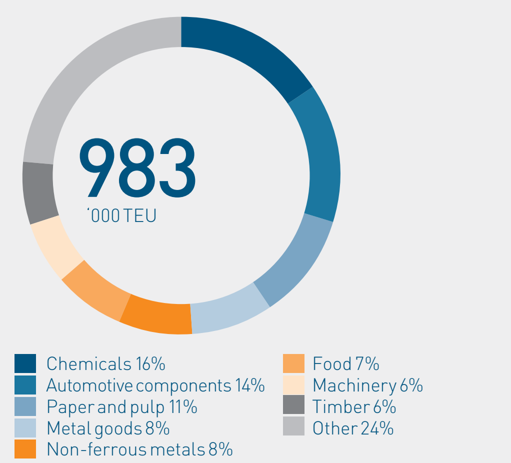
Source: Company data

BREAKDOWN OF CONTAINER TRAFFIC TRANSPORTED BY THE COMPANY'S FLEET IN 2012 BY TRAFFIC TYPE (LOADED AND EMPTY ISO CONTAINERS, TEU-BASED)



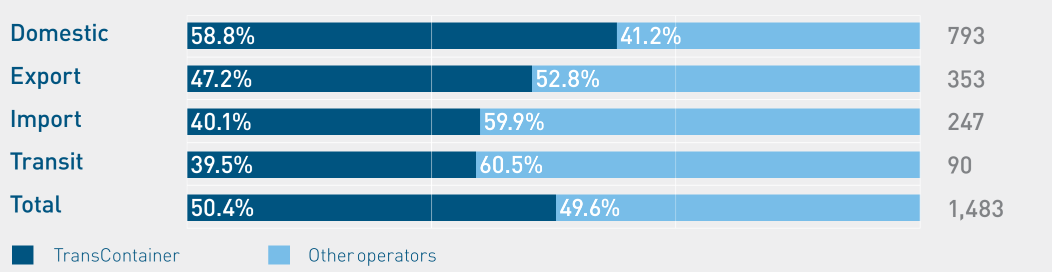
Source: Company data

BREAKDOWN OF LOADED CONTAINER TRAFFIC CARRIED BY THE COMPANY'S FLEET IN 2012 BY CARGO TYPE (TEU-BASED)



Source: Company data

THE COMPANY'S SHARE OF TOTAL CONTAINER TRAFFIC ON RUSSIAN RAILWAYS' NETWORK IN 2012 VERSUS 2011 (LOADED AND EMPTY ISO CONTAINERS) '000 TEU



Source: Russian Railways, Company data

SPECIAL CONTAINER SERVICE

The Company continued to provide transportation services using thermally-insulated containers ("thermos insulated containers") used for juice (60%), beer, wine, milk, and other beverages, and also food. In 2012, the volume of cargo transported by the Company's flatcar fleet in insulated containers was 11.7 TEU, or about 2% of total loaded COC traffic.

The clients who used insulated container transportation services the most were Lebedyansky (juice), Sady Pridonya (juice) and Terkon-Logistic (beer, juice). Together, they accounted for 65% of the total insulated container load in 2012.

The Company increased its fleet of open-top and hard-top containers, which are used for oversized, heavy, and hard-to-handle cargos. By the end of 2012, we had 127 open-tops and hard-tops manufactured by our Shakhunya Depot, a sharp rise from 90 in operation at the beginning of the year.

The Company continues to implement technologies that expand the range of containerisable cargos, e.g. manufacturing bulk containers and using flexitanks and dry liners for bulk commodities.

RAIL CONTAINER TRANSPORTATION IN KAZAKHSTAN AND CENTRAL ASIA

In 2012, the Company's new subsidiary, Kedentransservice, began developing its own flatcar fleet services in Kazakhstan and other Central Asian countries. By the end of the year a total of 689 flatcars were in operation. This included 200 cars provided by the Company and 489 third-party cars. Kedentransservice's container traffic reached 24,100 TEU in 2012.

The Company will continue to expand the footprint of its rail container carriage and integrated logistics services in Kazakhstan and Central Asia, using its own and third-party rolling stock to complement Kedentransservice's extensive terminal network.

OPERATING EFFICIENCY

The Company continued to improve its key operating efficiency metrics.

In early 2012, the Company conducted fleet relocation to resolve the imbalances that had accumulated throughout the peak demand season in the second half of 2011. This resulted in a notably higher container empty run ratio in the first quarter of 2012, though it later returned to historical lows of 33% by the end of the year. In annual terms, the container empty run ratio was 35.9% in 2012, compared to 34.4% in 2011. For flatcars, however, the empty run ratio decreased to 7.5% in 2012 as opposed to 8.3% in the previous year, while the fleet capacity utilisation rate increased to 85.0% in 2012 from 84.0% in 2011.

Owing to the Company's efforts in improving block train container transportation, the percentage of containers transported by block trains increased to 26.9% compared with 24.6% the previous year. This method of container transportation is 2.5 to 3 times faster than carload shipments in mixed cargo trains. In 2012, the Company's container train traffic volume grew 19.1% to 399,000 TEU, up from the previous year's 335,000 TEU.

The growing share of shipments in container block trains largely offset the negative effect of the average speed reduction on Russian Railways' network in 2012. As a result, the Company's average flatcar turnover stayed essentially the same at 13.3 days in 2012 compared to 13.1 days in 2011.

FLEET

FLATCAR FLEET

As of 31 December 2012, the Company had a fleet of 25,086 container flatcars, or about 59% of all flatcars owned by Russian companies[1]. During 2012, 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 5,310 to 5,907 (up 11.2%), while their capacity share in TEU terms increased from 29.3% to 31.5% by the end of the year.

Following a number of acquisitions and write-offs during 2012 the total number of flatcars operated by the Company increased by 2.9%, from 24,376 to 25,086 cars. At the same time, due to the fleet's improved structure, its capacity increased by 3.4% to 74,994 TEU. The average flatcar fleet age decreased from 17.3 years to 17.1 years during 2012.

CONTAINER FLEET

In 2012, the Company purchased 1,850 forty-foot containers and 534 twenty-foot containers while decommissioning 359 forty-foot containers and 319 twenty-foot containers. As a result, the Company's ISO container fleet increased by 2,384 units in 2012, reaching 60,822 by the end of the year, and comprising 19,452 forty-foot containers and 41,370 twenty-foot containers. The Company's specialised container fleet as of 31 December 2012 included 2,320 units: 115 open-top containers, 12 hard-top containers, 70 bulk containers, and 2,123 insulated containers.

As of the end of 2012, TransContainer also owned 19,425 medium-duty (3-tonne and 5-tonne) containers, which were leased out to Russian Railways. The MDC fleet was reduced by 21,330 containers during 2012 due to continued decommissioning.

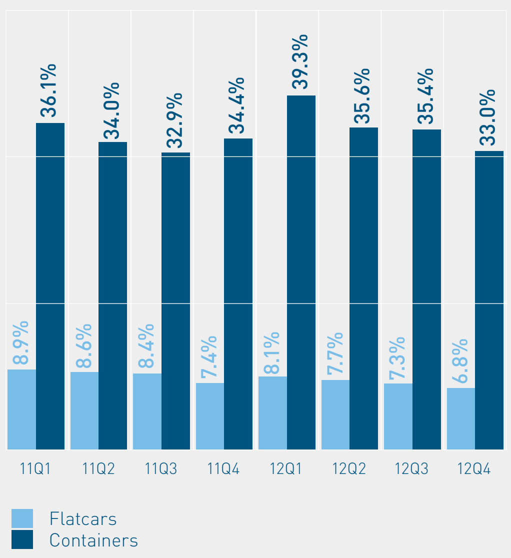
1. By fleet capacity

KEY ASSET UTILISATION METRICS IN 2011 AND 2012

Metrics	2011	2012
Container turnaround, days	21.9	23.1
Flatcar turnaround, days	13.1	13.3
Container empty run ratio[2], %	34.4%	35.9%
Flatcar empty run ratio[2], %	8.3%	7.5%
Share of shipments in container trains[3], %	24.6%	26.9%

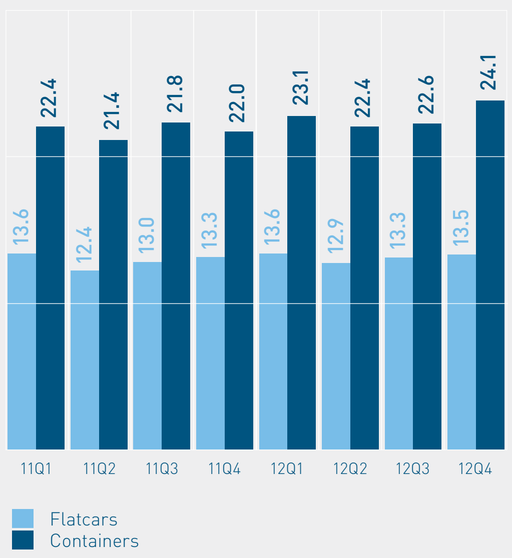
2. Empty run ratio is calculated as average empty run divided by average total distance (km)
3. Loaded containers in block trains to total company transportation volume
Source: Company data

EMPTY RUN RATIOS[4] FOR THE COMPANY'S CONTAINERS AND FLATCARS IN 2011 AND 2012



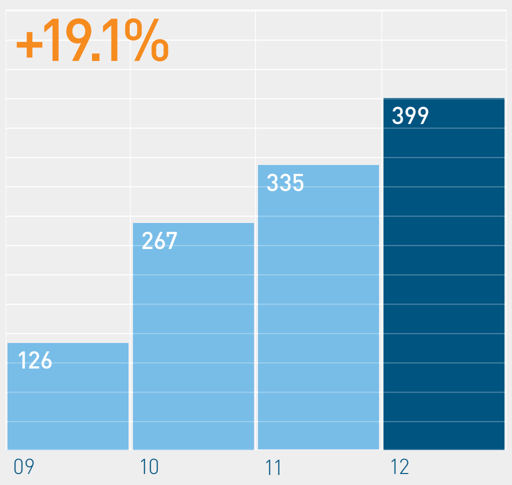
4. Empty run ratio is calculated as average empty run divided by average total distance (km)
Source: Company data

CONTAINER AND FLATCAR TURNOVER RATES IN 2011 AND 2012, DAYS



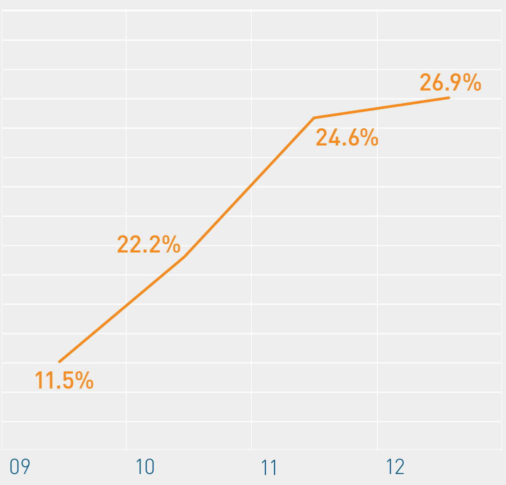
Source: Company data

GROWTH OF THE COMPANY'S CONTAINER TRAIN TRAFFIC IN 2009–2012



Source: Company data

CONTAINER BLOCK TRAIN TRAFFIC, 2009–2012[5]



5. Loaded containers in block trains to total company transportation volume
Source: Company data

FLATCAR FLEET BREAKDOWN AS OF 31 DECEMBER 2012

Flatcars	Owned	Leased	Total	Capacity, TEU	Average age, years
40 ft	6,171	0	6,171	12,342	12.5
60 ft	13,008	0	13,008	39,024	25.2
80 ft	5,837	70	5,907	23,628	3.7
Total	25,016	70	25,086	74,994	17.1

Source: Company data

TERMINAL HANDLING

The Company provides a wide range of container handling services through its own rail terminals, including loading and unloading railcars and trucks, container sorting and storage. Additional services include pre-loading container treatment, cargo handling, and container sealing.

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 17 terminals in the Kazakh Railways network and one terminal bordering China at the Dostyk crossing point. Furthermore, 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 publicly used sites under the Russian Federal Law On Railway Transport, and the Company provides a range of services (loading containers onto flatcars, unloading containers from flatcars, sorting, etc.) as an agent of Russian Railways.

The Company's terminal handling volumes in Russia decreased by 3.7% to 1,428,000 TEU in 2012. However, ISO container handling grew 1.4% to 1,305,000 TEU in 2012, the volume of MDC handling dropping by 36.9% from 196,000 TEU to 124,000 TEU due to gradual decommissioning of the medium-duty fleet.

The Company's terminals accommodate 10 bonded warehouses with a total storage area of ca. 20,000 square metres.

As of 31 December 2012, the Company's loading equipment totalled 240 units compared to 246 units at the beginning of the year. The decrease was due to the reduction of cranes and loaders used to handle medium-duty containers.

TERMINAL BUSINESS ABROAD

Kredentransservice, the leading provider of terminal services in Kazakhstan, is 67% owned by the Company. It operates 17 freight terminals across Kazakhstan and a terminal at the Dostyk crossing point on the Kazakhstan–China border. As of 31 December 2012, its asset base included 143 units of lifting equipment, 88 trucks, and 41.5 main-line locomotives.

In 2012, Kedentransservice handled 48,300 containers at the Dostyk station, up 61.1% from 2011. In the fourth quarter of 2012, when Kedentransservice acquired an additional handling yard at Dostyk, its handling volumes tripled YoY.

The volume of cargo handling in Kedentransservice's terminal network reached 3.8 million tonnes, up 9.9% from the 2011 figure.

In addition, through its subsidiary TransContainer Slovakia, the Company operates a container terminal located at the Dobra crossing point on the Slovakia–Ukraine border. Dobra's container handling volume grew 3.7% to 20,800 TEU in 2012.

CONTAINER TRUCKING SERVICES

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

In 2012, 602,000 TEUs were transported by the Company's own fleet and third-party vehicles, down 8.3% against 2011. The reduction in container trucking reflects the lower terminal handling volume at our Russian rail terminals.

The share of the Company's truck fleet out of the total trucking volume remained almost flat at 44%, while the share of ISO containers in the traffic breakdown increased from 89% in 2011 to 93% in 2012.

As of 31 December, the Company's truck fleet totalled 860 units as compared with 891 the previous year. The reduction was due to the decommissioning of trucks used for MDC transportation.

LOGISTICS AND FREIGHT FORWARDING SERVICES

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

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 a high demand due to a combination of factors: convenience: integrated logistics is a one-stop shop for the customer, simplicity: a single price for the customer, and reliability: at each key element of the container delivery chain the company has its advantages. The volume of container transportation under our integrated container logistics contracts amounted to 493,000 TEU in 2012, up 17.7% from 2011. At the same time, the integrated logistics service brings a higher degree of liability and requires more complex solutions than conventional rail transportation business.

The share of the integrated logistics service in the Company's total revenue generating shipments increased from 41% in 2011 to 44% in 2012, driven by higher demand, including that of small and medium-sized customers.

Major customers that employed our integrated logistics service included Volkswagen, RUSAL, Samsung, PSA Peugeot Citroen, and others. Door-to-door deliveries are also growing in popularity with many regional clients.

CUSTOMER BASE AND SALES ORGANISATION

TransContainer is the only rail container operator in Russia with presence in all major Russian cities – the Company's sales network spans Russia. As of 31 December 2012, the Company had 140 sales offices in Russia, including its central sales office in Moscow.

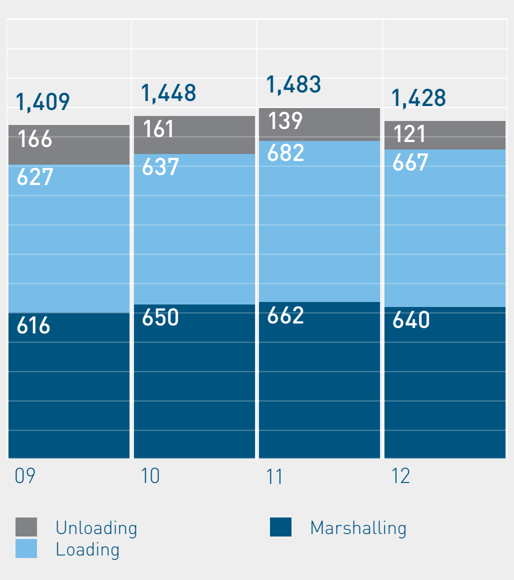
The Company's international network included four subsidiaries, three joint ventures, eight representative offices, 14 agent companies, and 37 regional partners as of the end of 2012. The international network services 23 countries including the CIS as well as Central European and Southeast Asian countries.

In 2012, the Company launched new scheduled block train services on the following routes:
– Penza — Vladivostok
– Muuga — Galaba
– Nakhodka — Kostanay
– Nakhodka — Zashchita
– St. Petersburg — Vladivostok
– St. Petersburg — Khabarovsk
– St. Petersburg — Elabuga
– St. Petersburg — Babushkino.

More than 64,000 customers used the Company's services in 2012. Ten largest clients generated 23% of the sales revenues in 2012, and the largest 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 4.3% of all customer payments.

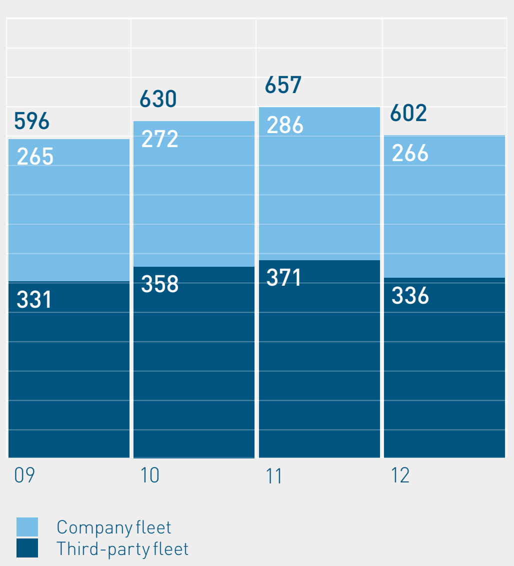
The share of end-customers and consignees in our customer base was 31.5% in 2012 (For more information please see our strategy and business model).

CONTAINER HANDLING VOLUMES AT THE COMPANY'S RUSSIAN TERMINALS (ISO CONTAINERS + MEDIUM-DUTY CONTAINERS) IN 2009–2012, '000 TEU



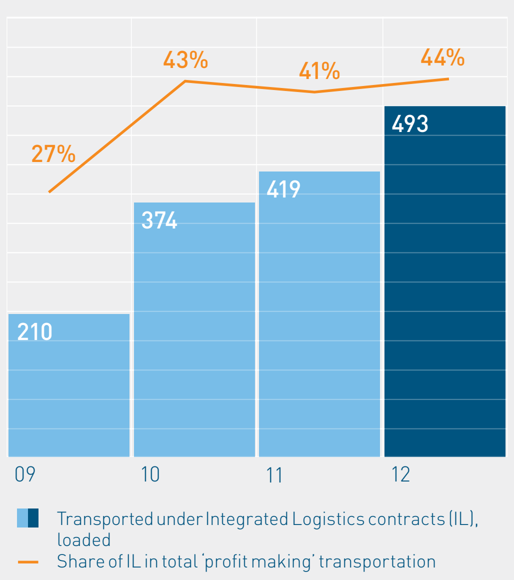
Source: Company data

CONTAINER TRANSPORTATION BY IN-HOUSE AND THIRD-PARTY TRUCK FLEET (ISO CONTAINERS + MDC) IN 2009–2012, '000 TEU



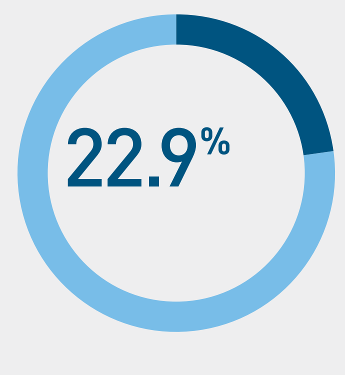
Source: Company data

LOADED CONTAINER TRANSPORTATION UNDER INTEGRATED LOGISTICS CONTRACTS IN 2009–2012, '000 TEU



Source: Company data

THE COMPANY'S 10 LARGEST CUSTOMERS IN 2012 (BY REVENUE)



Top 10	22.9%		
UNICO	4.3%	Petromaks	1.4%
Volkswagen	4.0%	Voskhod	1.4%
Rusal	3.4%	DelExpress	1.3%
Fintrans	3.0%	Vostochnaya Stevedoring Co.	1.1%
Russian Railways Logistics	2.0%	Parallel	1.1%
Others	77.1%		

Source: Company data

MANAGEMENT REPORT
FINANCIAL RESULTS

We have considerably exceeded pre-crisis revenue and profit levels and our margins have fully recovered. Our business continues to enjoy an enviable degree of financial stability.

Anton Lopatin
Deputy General Director for Economics and Finance

OVERVIEW

The Company's financial results for the year ended 31 December 2012 reflect the market growth in rail container transportation in Russia, as well as the Company's efforts to improve operational efficiency and cost effectiveness.

Despite the weakening market in the fourth quarter of 2012 the Company's total revenue increased by 17.9% to RUR 36,396 million, adjusted revenue increased by 13.0% to 25,644 million. EBITDA grew by 22.4% to RUR 10,344 million, with profit for the period increasing from RUR 3,843 in 2011 to RUR 5,151 million in 2012.

The Company's debt position improved substantially during the year. Total debt decreased from RUR 9,348 million to 9,188 million, bringing Net debt/EBITDA ratio to 0.63 as at 31.12.2012 from 0.72 as at 31.12.2011. The increase in interest income exceeded the increase in interest expense by RUR 104 million.

THE COMPANY'S RESULTS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

RUR mln	2012	2011	Period on period change, RUR mln	Period on period change, %
Adjusted revenue	36,396	30,876	5,520	17.9%
Other operating income	417	610	-193	-31.6%
Operating expenses	-29,472	-25,751	-3,721	14.4%
Operating profit	7,341	5,735	1,606	28.0%
Interest expense	-885	-841	-44	5.2%
Interest income	212	64	148	231.3%
Foreign exchange gain, net	-2	119	-121	-101.7%
Share of result of associates	-19	-47	28	-59.6%
Gain recognised on disposal of interest in former associate	72	0	72	–
Profit before income tax	6,719	5,030	1,689	33.6%
Income tax expense	-1,568	-1,187	-381	32.1%
Profit for the period	5,151	3,843	1,308	34.0%
Attributable to:				
Equity holders of the parent	5,102	3,810	1,292	33.9%
Non-controlling interest	49	33	16	48.5%
Other comprehensive income				
Exchange differences on translating foreign operations	-208	272	-480	-176.5%
Total comprehensive income for the period	4,943	4,115	828	20.1%
Attributable to:				
Equity holders of the parent	4,958	3,996	962	24.1%
Non-controlling interest	-15	119	-134	-112.6%

NON-IFRS FINANCIAL INFORMATION

Adjusted Revenue, Adjusted Operating Expenses, EBITDA, Adjusted EBITDA Margin and Adjusted Operating 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

Total revenue increased by RUR 5,520 million, or 17.9%, from RUR 30,876 million for the year ended 31 December 2011 to RUR 36,396 million for the year ended 31 December 2012. This increase was primarily due to a higher demand for the Company's key services, mainly during the first three quarters of the year, on the back of strong consumer confidence which led to an increase in transportation volumes and support for a more favorable pricing environment. The increase in the Company's total revenue was partially offset by weakening in demand for container transportation during November-December 2012, as well as by a reduction in container handling volumes at the rail-side terminals of the Company in Russia, mainly due to the fading out of MDCs.

SUPPLEMENTAL INDICATORS OF THE COMPANY'S OPERATING PERFORMANCE

RUR mln	2012	2011	Period on period change, RUR mln	Period on period change %
Adjusted Revenue[1]	25,644	22,701	2,943	13.0%
Adjusted operating expenses[2]	-18,720	-17,576	-1,144	6.5%
EBITDA[3]	10,344	8,448	1,896	22.4%
Adjusted EBITDA margin[4]	40.3%	37.2%	3.1%	–
Total debt	9,188	9,348	-160	-1.7%
Net debt[5]	6,484	6,107	377	6.2%
Net debt / EBITDA	0.63	0.72	-0.10	–

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. 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.

BREAKDOWN OF TOTAL REVENUE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

RUR mln	2012	2011	Period on period change, RUR mln	Period on period change %
Integrated freight forwarding and logistics services	19,277	14,894	4,383	29.4%
Rail-based container shipping services	10,014	9,312	702	7.5%
Terminal services and agency fees	4,031	3,426	605	17.7%
Truck deliveries	1,631	1,710	-79	-4.6%
Other freight forwarding services	833	1,025	-192	-18.7%
Bonded warehousing services	388	383	5	1.3%
Other	222	126	96	-76.2%
Total revenue	36,396	30,876	5,520	17.9%

ADJUSTED REVENUE

Adjusted revenue (as defined above) grew by 13.0% from RUR 22,701 million for the year ended 31 December 2011 to RUR 25,644 million for the year ended 31 December 2012. This was primarily due to a 9.8% increase in revenue-generating rail container transportation volumes by the Company's fleet to 1,120 thousand TEU for the year ended 2012, compared to 1,020 thousand TEU for the same period of 2011, with support also coming from the Company's pricing policy.

There were no substantial changes in the structure of the adjusted revenue during 2012. For the year ended 31 December 2012, rail-based container transportation services remained the largest component of adjusted revenue, representing 39.1% of adjusted revenue, compared to 41.0% in the same period of 2011. The share of integrated freight forwarding and logistics services net of cost of integrated freight forwarding and logistics services increased to 33.2% from 29.6%, the share of terminal services and agency fees increased to 15.7% whilst the shares of other services decreased marginally.

ADJUSTED REVENUE CALCULATIONS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

RUR mln	2012	2011	Period on period change, RUR mln	Period on period change, %
Total revenue	36,396	30,876	5,520	17.9%
Cost of integrated freight forwarding and logistics services	10,752	8,175	2,577	31.5%
Adjusted revenue	25,644	22,701	2,943	13.0%

COMPONENTS OF RELATIVE CONTRIBUTION TO ADJUSTED REVENUE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

	2012 RUR mln	2012 share, %	2011 RUR mln	2011 share, %	2012 / 2011 Period on period change, RUR mln	2012 / 2011 Period on period change, %
Rail-based container shipping services	10,014	39.1%	9,312	41.0%	702	7.5%
Adjusted integrated freight forwarding and logistics services	8,525	33.2%	6,719	29.6%	1,806	26.9%
Terminal services and agency fees	4,031	15.7%	3,426	15.1%	605	17.7%
Truck deliveries	1,631	6.4%	1,710	7.5%	-79	-4.6%
Other freight forwarding services	833	3.2%	1,025	4.5%	-192	-18.7%
Bonded warehousing services	388	1.5%	383	1.7%	5	1.3%
Other	222	0.9%	126	0.6%	96	76.2%
Total adjusted revenue	25 644	100%	22,701	100%	2,943	13.0%

INTEGRATED FREIGHT FORWARDING AND LOGISTICS SERVICES

Revenue from integrated freight forwarding and logistics services increased by 29.4% to RUR 19,277 million in 2012.

Revenue from adjusted integrated freight forwarding and logistics services grew by 26.9% to RUR 8,525 million for the year ended 31 December 2012. This increase was primarily due to a growth in loaded container transportation volumes under integrated logistics contracts by 17.7% from 419 thousand TEU in 2011 to 493 thousand TEU in 2012, as well as an increase in average prices driven by higher customer demand.

RAIL-BASED CONTAINER TRANSPORTATION SERVICES

Revenue from rail-based container transportation increased by 7.5% to RUR 10,014 million for the reporting period from RUR 9,312 million for the same period of 2011 mainly due to an increase in revenue-generating transportation volumes, other than under integrated logistics contracts, in terms of TEU by 4.3% from 601 thousand TEU in 2011 to 627 thousand TEU in 2012, as well as due to an accrued price increase undertaken by the Company.

TERMINAL SERVICES AND AGENCY FEES

Revenue from terminal services, including agency fees, increased by 17.7% to RUR 4,031 million for the year ended 31 December 2012 from RUR 3,426 million in 2011.

This increase was primarily due to the consolidation of JSC Kedentransservice, a leading operator of rail terminals in Kazakhstan, from 18 March 2011. Terminal throughput in Russia changed insignificantly due to a decrease in container handling volumes compensated by increased prices.

Agency fees, which are charged for services the Company renders as an agent of Russian Railways, increased by 1.0% to RUR 1,846 million for the year ended 31 December 2012 compared to RUR 1,828 million for 2011, as a result of a 3.7% decrease in TransContainer's terminal network throughput in Russia, offset by tariff indexing.

TRUCK DELIVERIES

Revenue from truck deliveries decreased by RUR 79 million, or by 4.6%, to RUR 1,631 million for the year ended 31 December 2012 from RUR 1,710 million for 2011. This was due to a 8.3% reduction in container transportation volumes by the Company's own and outsourced truck fleet from 657 thousand TEU in 2011 to 602 thousand TEU in 2012, a result of a decrease in the Company's terminal throughput, partly offset by the increase of prices.

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, decreased by 18.7% from RUR 1,025 million to RUR 833 million for the year ended 31 December 2012. This decrease was primarily due to changes in the structure of services provided by the Company's subsidiary JSC Kedentransservice due to an adjustment to the business model of the Company in Kazakhstan.

BONDED WAREHOUSING SERVICES

Revenue from bonded warehousing services increased by RUR 5 million, or 1.3%, to RUR 388 million for the year ended 31 December 2012 from RUR 383 million in 2011 This was primarily due to the consolidation of JSC Kedentransservice, a leading operator of rail terminals in Kazakhstan.

ADJUSTED INTEGRATED FREIGHT FORWARDING AND LOGISTICS SERVICES CALCULATION FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

RUR mln	2012	2011	Period on period change, RUR mln	Period on period change, %
Integrated freight forwarding and logistics services	19,277	14,894	4,383	29.4%
Cost of integrated freight forwarding and logistics services	10,752	8,175	2,577	31.5%
Adjusted revenue from integrated freight forwarding and logistics services	8,525	6,719	1,806	26.9%

OPERATING EXPENSES

TransContainer's total operating expenses grew by RUR 3,721 million, or 14.4%, to RUR 29,472 million for the year ended 31 December 2012 from RUR 25,751 million in 2011, primarily due to an increase in the cost of integrated freight forwarding and logistics services.

As a percentage of the total revenue, total operating expenses decreased from 83.4% for the year ended 31 December 2011 to 81.0% for the year ended 31 December 2012, primarily due to an increase in total revenue exceeding an increase in operating expenses. As a percentage of total revenue, costs related to freight and transportation services decreased from 15.0% in 2011 to 13.5% in 2012; cost of integrated freight forwarding and logistics services increased from 26.5% in 2011 to 29.6% in 2012; share of costs for materials, repair and maintenance remained flat at 7.7% as a percentage of total revenue.

COST OF INTEGRATED FREIGHT FORWARDING AND LOGISTICS SERVICES

Costs of integrated freight forwarding and logistics services increased by 31.5%, to RUR 10,752 million for the year ended 31 December 2012 from RUR 8,175 million for the same period of 2011, driven by a number of factors set out below: 1) a 17.7% increase in container transportation volumes under integrated logistics contracts from 419 thousand TEU in 2011 to 493 thousand TEU in 2012; 2) an increase of share of the cost of integrated freight forwarding and logistics services in the end price of service due to change in the structure of service to a more complex one; 3) an increase in infrastructure tariffs (including the tariffs paid to Russian Railways and JSC «National Company «Kazakhstan Temir Zholy»).

COMPANY'S OPERATING EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

RUR mln	2012	2011	Period on period change, RUR mln	Period on period change, %
Cost of integrated freight forwarding and logistics services	10,752	8,175	2,577	31.5%
Freight and transportation services	4,920	4,624	296	6.4%
Payroll and related charges	5,106	4,728	378	8.0%
Depreciation and amortisation	2,740	2,577	163	6.3%
Materials, repair and maintenance	2,806	2,363	443	18.7%
Taxes other than income tax	591	995	-404	-40.6%
Rent	540	411	129	31.4%
Other expenses	2,017	1,878	139	7.4%
Total operating expenses	29,472	25,751	3,721	14.4%

COMPANY'S OPERATING EXPENSES AS A PERCENTAGE OF OPERATING EXPENSES AND REVENUE FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

	2012			2011		
	RUR mln	% of operating expenses	% of total revenue	RUR mln	% of operating expenses	% of total revenue
Cost of integrated freight forwarding and logistics services	10,752	36.5%	29.5%	8,175	31.7%	26.5%
Freight and transportation services	4,920	16.7%	13.5%	4,624	18.0%	15.0%
Payroll and related charges	5,106	17.3%	14.0%	4,728	18.4%	15.3%
Depreciation and amortisation	2,740	9.3%	7.5%	2,577	10.0%	8.3%
Materials, repair and maintenance	2,806	9.5%	7.7%	2,363	9.2%	7.7%
Taxes other than income tax	591	2.0%	1.6%	995	3.9%	3.2%
Rent	540	1.8%	1.5%	411	1.6%	1.3%
Other expenses	2,017	6.8%	5.5%	1,878	7.3%	6.1%
Total operating expenses	29,472	100.0%	81.0%	25,751	100.0%	83.4%

ADJUSTED OPERATING EXPENSES

Adjusted operating expenses, as defined above, increased by a moderate 6.5% to RUR 18,720 million for the year ended 31 December 2012 from RUR 17,576 million for 2011, primarily due to the cost of materials, repair and maintenance; payroll and related charges; and freight and transportation services expenses. The effect of these factors was partially offset by a decrease in taxes other than income tax.

There were no substantial changes in the structure of adjusted operating expenses. Freight and transportation services as a percentage of adjusted operating expenses remained at 26% for the year ended 31 December 2012; the share of other expenses was approximately 11% in 2012, the same as in 2011; whilst payroll and related charges changed marginally, increasing from 26.9% to 27.3%; and share of taxes other than income tax decreased from 5.7% to 3.2%.

PAYROLL AND RELATED CHARGES

Payroll and related charges increased by RUR 378 million, or 8.0%, to RUR 5,106 million for the year ended 31 December 2012 from RUR 4,728 million for 2011. This increase was a result of several factors set out below: i) wage indexing and an increase in performance-linked payments to employees due to an improvement in the Company's performance; ii) a decrease in the average headcount of 4.1% in TransContainer; iii) provisions created in respect of different payments to the Company's personnel; iv) partial release of provisions related to the Company's stock option programme due to partial vesting of its first tranche; v) the consolidation of JSC Kedentransservice on 18 March 2011.

FREIGHT AND TRANSPORTATION SERVICES

Expenses relating to freight and transportation services increased by RUR 296 million, or 6.4%, to RUR 4,920 million for the year ended 31 December 2012. This increase was mainly due to a number of factors set out below: i) an increase in empty run ratio of containers from 34.4% in 2011 to 35.9% in 2012; ii) an increase in rail-based transportation by the Company's own containers by 3.3% from 933 thousand TEU in 2011 to 963 thousand TEU in 2012; iii) a 6% increase in tariffs charged for empty runs by Russian Railways; iv) costs of JSC Kedentransservice for empty runs as a result of a launch of rail container transportation business in Central Asia. These factors were partially offset by a decrease in flatcar empty run ratio and a reduction in outsourced trucking costs.

COMPANY'S ADJUSTED OPERATING EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

RUR mln	2012	2011	Period on period change	Period on period change, %
Total operating expenses	29,472	25,751	3,721	14.4%
Cost of integrated freight forwarding and logistics services	10,752	8,175	2,577	31.5%
Adjusted operating expenses	18,720	17,576	1,144	6.5%

COMPANY'S ADJUSTED OPERATING EXPENSES FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

	2012		2011		Period on Period change	
	RUR mln	% of adjusted operating expenses	RUR mln	% of adjusted operating expenses	RUR mln	Change, %
Freight and transportation services	4,920	26.3%	4,624	26.3%	296	6.4%
Payroll and related charges	5,106	27.3%	4,728	26.9%	378	8.0%
Depreciation and amortisation	2,740	14.6%	2,577	14.7%	163	6.3%
Materials, repair and maintenance	2,806	15.0%	2,363	13.4%	443	18.7%
Taxes other than income tax	591	3.2%	995	5.7%	-404	-40.6%
Rent	540	2.9%	411	2.3%	129	31.4%
Other expenses	2,017	10.8%	1,878	10.7%	139	7.4%
Adjusted operating expenses	18,720	100.0%	17,576	100.0%	1,144	6.5%

DEPRECIATION AND AMORTISATION

Depreciation and amortisation increased by 6.3% to RUR 2,740 million in 2012 from RUR 2,577 million in 2011. The increase was primarily due to the acquisition of new rolling stock and containers, lifting equipment and other fixed assets, as well as the consolidation of JSC Kedentransservice.

EXPENSES RELATED TO MATERIALS, REPAIR AND MAINTENANCE

Expenses related to materials, repair and maintenance increased by 18.7%, to RUR 2,806 million in 2012 from RUR 2,363 million in 2011, primarily due to an average increase of prices for repairs of flatcars by 28.9% partially offset by a reduction in the number of repairs and a decrease in expenses related to the repair of buildings. Consolidation of JSC Kedentransservice also contributed to the cost item.

TAXES OTHER THAN INCOME TAX

Taxes other than income tax reduced by 40.6% to RUR 591 million in 2012 from RUR 995 million in 2011. This was primarily due to VAT settlements that significantly exceeded an increase in corporate property tax and other taxes.

RENT

Rent expenses grew by RUR 129 million, or by 31.4% to RUR 540 million in the reporting period from RUR 411 million in the same period of 2011, primarily due to consolidation of JSC Kedentransservice.

OTHER EXPENSES

Other expenses are an aggregate of various expense items such as security, consulting expenses, fuel and energy, licences and software, communication services, provisions for impairment etc. Other expenses increased by 7.4% to RUR 2,017 million in 2012 from RUR 1,878 million in 2011, primarily due to an increase in expenses related to charity, security, fuel and energy, payments for license and software, partly offset by a decrease in expenses for consulting services.

OPERATING PROFIT

Operating profit increased by RUR 1,606 million, or 28.0%, to RUR 7,341 million in 2012 from RUR 5,735 million in the same period of 2011, as a result of the factors discussed above.

INTEREST EXPENSE

Interest expenses increased by RUR 44 million, or 5.2%, to RUR 885 million in 2012 from RUR 841 million in 2011 due to an increase in total debt throughout 2011 when the Company obtained loans from OJSC Alfa Bank for RUR 1,822 million to finance the acquisition of JSC Kedentransservice and from LLC Trust Union Asset Management for RUR 514 million to finance the Company's management stock option programme. These factors were partially offset by a reduction in bond expenses due to the redemption of bonds of JSC Kedentransservice in April 2012 and redemption of the financial lease obligations in 2012.

INTEREST INCOME

Interest income increased by RUR 148 million to RUR 212 million in 2012 from RUR 64 million in 2011 due to an increase in cash balances in deposit accounts resulting from an increase in cash inflows from operating activities in 2012 as well as an accumulation of cash in anticipation of dividend payments in July 2012 and redemption of series 01 bond of JSC TransContainer at the beginning of 2013.

PROFIT BEFORE INCOME TAX

Profit before income tax increased by RUR 1,689 million, or by 33.6%, from RUR 5,030 million for year ended 31 December 2011 to RUR 6,719 million for the year ended 31 December 2012. This increase was due to the factors discussed above.

INCOME TAX EXPENSES

Income tax expenses increased by RUR 381 million, or 32.1%, to RUR 1,568 million in 2012 from RUR 1,187 million in 2011 primarily due to an increase in profit before income tax. The effective tax rate in the reporting period remained flat at 23.3% in 2012 compared to 23.6% in 2011.

PROFIT AND TOTAL COMPREHENSIVE INCOME FOR THE PERIOD

As a result of the factors discussed above the profit for the year ended 31 December 2012 increased by RUR 1,308 million, or 34.0% and reached RUR 5,151 million as compared with RUR 3,843 million for the year ended 31 December 2011. Taking into account the exchange differences in translating foreign operations, the total comprehensive income for the year ended 31 December 2012 totaled RUR 4,943 million compared to RUR 4,115 million for the year ended 31 December 2011.

LIQUIDITY AND CAPITAL RESOURCES

As of 31 December 2012 the Company's net cash and cash equivalents amounted to RUR 1,365 million and the Company's current liabilities exceeded current assets by RUR 2,036 million.

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 its lifting equipment and truck fleet. During 2012 the Company's operations and its capital expenditures were financed from internally generated cash flows.

CASH FLOWS

CASH FLOW GENERATED BY OPERATING ACTIVITIES

Cash flow generated by operating activities increased by RUR 1,467 million, or 25.4%, to RUR 7,246 million in 2012 from RUR 5,779 million in 2011. This was primarily due to an increase in operating profit before working capital changes of RUR 1,896 million from RUR 8,290 million in 2011 to RUR 10,186 million in 2012. The cash flow generated by operating activities were negatively affected by changes in working capital as well as income tax payments.

CASH FLOW USED IN INVESTING ACTIVITIES

Cash flow used in investing activities decreased by RUR 102 million, or 1.7% to RUR 6,061 million in 2012 from RUR 6,163 million in 2011. This decrease was primarily due to changes in payments for the acquisition of a stake in JSC Kedentransservice (RUR 103 million in 2012 as compared to RUR 1,551 million in 2011) as well as an increase of interest received by RUR 129 million. This decrease was partially offset by an increase in the purchase of property, plant and equipment by 34.1%, or RUR 1,447 million.

CASH FLOW GENERATED BY FINANCING ACTIVITIES

Cash flow generated by financing activities turned to negative RUR 2,067 million in 2012 from positive RUR 1,287 million in 2011, primarily due to dividend payments of RUR 1,228 million, as well as no loans taken in 2012 as compared to RUR 2,336 million of loans the Company obtained in 2011.

PRINCIPAL COMPONENTS OF THE COMPANY'S CONSOLIDATED CASH FLOWS FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

	2012	2011
Net cash provided by operating activities	7,246	5,779
Net cash used in investing activities	-6,061	-6,163
Net cash provided by financing activities	-2,067	1,287
Net increase in cash and cash equivalents	-882	903
Net cash and cash equivalents at the end of the period	1,365	2,300

CAPITAL EXPENDITURE

Capital expenditure increased by RUR 1,447 million, or 34.1%, to RUR 5,691 million in 2012 from RUR 4,244 million in 2011. The majority of the capital expenditure was a result of the acquisition of flatcars and ISO containers. During 2012 the Company acquired 813 units of 80 foot flatcars and 450 units of 40 foot flatcars.

In 2012 the Company's capital expenditure included primarily construction, repair and modernisation of terminals, the purchase of buildings and the purchase of lifting equipment and trucks.

PLANNED CAPITAL EXPENDITURE FOR 2013

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 and optimising its asset structure and key operational metrics.

The total capital expenditure in 2013 is estimated at RUR 9.1 billion (excluding VAT), subject to market conditions, of which up to RUR 4.4 billion may be spent on the acquisition of new flatcars (including leasing); up to RUR 1.7 billion on the upgrade and modernisation of the Company's key rail-side terminals; up to RUR 1.2 billion on the acquisition of containers and up to RUR 1.8 billion on other capital expenditure items such as lifting equipment, trucks and other equipment.

CAPITAL RESOURCES

The Company's operations and capital expenditures have historically been financed primarily from internally generated cash flow and proceeds from issuing domestic debt. As of 31 December 2012, the Company's financial indebtedness consisted of two outstanding bond issues, bank loans, financial lease obligations and other borrowings in an aggregate amount of RUR 9,188 million compared to RUR 9,348 million as of 31 December 2011. As of 31 December 2012, the Company's net debt was RUR 6,484 million.

As of 31 December 2012, 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 lease assets. The Company's indebtedness is denominated in Russian Roubles and fixed-rated.

RUR BONDS SERIES 1

On 4 March 2008, the Company issued non-convertible five-year bonds for a total amount of RUR 3,000 million at a par value of RUR 1,000 each. The coupon rate set for 2011 and 2012 was 9.5% per annum. The carrying value of the bonds as of 31 December 2012 amounted to RUR 3,000 million (RUR 3,000 million as of 31 December 2011). The amount of accrued interest was RUR 98 million as at 31 December 2012 (RUR 96 million as at 31 December 2011).

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.

RUR BONDS SERIES 2

On 10 June 2010, the Company issued non-convertible five-year amortising bonds for a total amount of RUR 3,000 million at a par value of RUR 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUR 2,975 million. 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 installments during the fourth and fifth year. As a result, these bonds are classified as long-term borrowings as at the reporting date.

The carrying value of the bonds as at 31 December 2012 amounted to RUR 2,982 million (RUR 2,978 million at 31 December 2011). The carrying value of these bonds is classified as RUR 2,232 million of long-term debt and RUR 750 million of short-term debt in the consolidated statement of financial position. The amount of accrued interest is RUR 22 million (RUR 21 million as at 31 December 2011), and has been included as short-term debt in the consolidated statement of financial position.

KAZAKH TENGE-DENOMINATED BONDS

Due to the acquisition of the subsidiary, the Company accepted obligations on bonds issued on 3 March 2006 amounting to 1,694,320 coupon bonds at a par value of Kazakh Tenge (KZT) 1,000 each without any security. The bonds were redeemed on 3 April 2012 and as of 31 December 2012 were not included 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 Alfa Bank for the total principal amount of RUR 1,822 million at interest rates varying from 9.5% to 9.75% per annum. The amount of accrued interest is RUR 3 million and has been included as short-term debt in the consolidated statement of financial position. These loans were drawn down to finance the acquisition of JSC Kedentransservice. The loans are unsecured and have a seven year maturity. The Group is obliged to observe a Debt/EBITDA ratio and a minimum level of quarterly cash turnover with Alfa Bank. As of 31 December 2012, the Group was in compliance with the covenants. These loans were pre-paid in full in February 2013.

On 23 May 2011, the Company borrowed funds from LLC Trust Union AM for the principal amount of RUR 514 million 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 2012 was RUR 499 million (RUR 501 million as of 31 December 2011).

As of 31 December 2011 the Company also recognised financial obligations under the repurchase of previously sold shares for the amount of RUR 63 million in accordance with repurchase agreements between LLC Prostor Invest Group, a subsidiary of JSC TransContainer, and CJSC Investment company Troika Dialog.

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 2012.

Working capital decreased by RUR 3,833 million to negative RUR 2,036 million in 2012 from positive RUR 1,797 million at the beginning of the reporting period. This decrease was primarily due to an increase of RUR 5,142 million in short-term debt reclassified as debt falling due within 12 months from the reporting date within current liabilities. Such debt includes TransContainer series 1 bond issue, first installment of series 2 issue and bank loans prepaid in February 2013 from the proceeds from the issuance of TransContainer series 4 bonds.

KEY COMPONENTS OF TRANSCONTAINER'S WORKING CAPITAL FOR THE YEARS ENDED 31 DECEMBER 2012 AND 31 DECEMBER 2011 RESPECTIVELY

	31 December 2012	31 December 2011
Current assets		
Inventory	334	278
Trade and other receivables	1,284	1,152
Prepayments and other current assets	4,435	3,702
Prepaid income tax	132	193
Short-term investments	1,339	941
Cash and cash equivalents	1,365	2,300
Non-current assets classified as held for sale	0	0
Total current assets	8,889	8,566
Current liabilities		
Trade and other payables	3,788	4,593
Short-term debt	5,695	553
Income tax payable	169	134
Taxes other than income tax payable	367	303
Provisions	10	5
Finance lease obligations current maturities	94	479
Dividends payable	0	0
Accrued and other current liabilities	802	689
Deferred income	0	13
Total current liabilities	10,925	6,769
Working capital	-2,036	1,797

At TransContainer, risk management is integrated into the overall management process as a continuous cycle of decision-making and implementation.

Margarita Fedoseeva
Finance Director

OUR RISK MANAGEMENT APPROACH

Building an efficient risk management system is the Company's strategic focal point, helping to ensure complete security for its business. TransContainer's Risk Management Policy defines our key risk management principles:

1. Manage all types of risk on all levels using a unified methodology.
2. Maintain a balance between the costs of risk management and the losses accompanying a potentially-negative event.
3. Allocate responsibilities of control over the risk management system to the Board of Directors, Audit Committee, and CEO.
4. Promote close integration between risk management and internal controls.

Risk management means developing and implementing management decisions focused on:

1. Risk prevention
2. Mitigating measures that do not alter risk probability
3. Risk retention
4. Risk transfer

In 2012, Ernst & Young (CIS) B.V. ran diagnostics on the Company's risk management system to check its components for competency and compliance with best practices, labelling the current level of TransContainer's risk management as "basic."

OUR CORPORATE RISKS MAP

In 2012, the Company approved a Corporate Risks Map developed in line with the COSO ERM principles. The Corporate Risks Map is a structured list outlining the Company's risks along with their causes and implications. The Risks Map is updated every year based on changes in the impact of both external and internal factors.

The Risks Map identifies the following key risk groups:

– Strategic risks (corporate governance, strategy, capex project management, asset mergers, acquisitions and spin-offs, the macroeconomic environment, corporate communications)
– Operational risks (procurement, transportation management, sales, marketing, repair and maintenance, personnel, information technology, economic security, industrial safety, workflow management, threats of force majeure)
– Regulatory risks (legal aspects of operations, industry regulation)
– Financial risks (capital market and liquidity, management accounting and reporting, financial accounting and reporting).

Risks included in the Corporate Risks Map are ranked by severity (critical, acceptable, and negligible) based on the probable damage amount.

Critical risks are subject to quarterly review by the Board of Directors, and acceptable risks by the Audit Committee.

RISK MANAGEMENT PROCESS

01 RISK IDENTIFICATION
Identification of risks that influence the company's business and operating results. Risk identification is carried out on an annual basis, the results being used to build a risks map for the next year.

02 RISK PROBABILITY AND IMPACT EVALUATION
Probability evaluation of the identified risks and their influence on the Company's performance and strategic targets as defined in the Development Strategy, risk prioritisation, and risk severity ranking, coupled with an evaluation of potential damage.

03 RISK MANAGEMENT MEASURES
Development and implementation of risk management measures. Risk owners develop a preventive action plan for each risk included in the Risks Map.

04 RISK STATUS MONITORING
Risk management measures and each particular risk are monitored on a quarterly basis.

RISK[1]	DESCRIPTION	MITIGATING MEASURES
STRATEGIC RISKS (CRITICAL)		
Reduced competitiveness due to the Company's inability to respond in a timely manner to changes in the structure of customers, customer needs, or demand intensity.	Structural changes in the economic environment and technology, seasonality in demand, and capacity limitations /obsolescence may result in a loss of business and reduction in revenues.	The Company's Development Strategy through to 2020 determines the target flatcar and container sizes as well as growth opportunities for the terminal network which are based on the existing and projected cargo structure. The fleet and terminal equipment structure is monitored on a regular basis. The Company works towards growing its customer base, continually monitoring market conditions, and making the required alterations to its pricing policy.
Inability to effectively integrate newly-acquired companies.	Ineffective integration of newly-acquired companies may lead to lower business efficiency due to increased intragroup transactions and higher operating and integration expenses.	The Company has a dedicated integration team. TransContainer's representatives serve in the management bodies of all subsidiaries; planning and budgeting processes are coordinated at the Group level.
OPERATIONAL RISKS (CRITICAL)		
Inefficient transportation organisation.	Unbalanced container traffic and a shortage of rolling stock for certain destinations may result in higher empty run rates and transportation costs, lower transportation volumes, and delayed deliveries.	Monitoring of container and car turnover, along with ongoing traffic control, is among the Company's regular tasks. Orders are handled based on fleet availability, special carriage conditions, loading and unloading capacity of railway stations, conventional restrictions, seasonal factors, and the capacity of border terminals and ports. The Company also has a permanent carriage conditions optimisation team.
Industrial accidents.	Non-observance of occupational safety requirements by employees, non-compliance with equipment safety requirements, or disregarding staff handbooks may result in personal injury, death, property loss, or reputational damage.	The Company has an ongoing labour safety training programme, a three-step labour safety system control framework, and a workplace assessment programme in place. A permit system is used for special job types.
REGULATORY RISKS (ACCEPTABLE)		
Non-compliance with tax laws.	Ambiguous interpretation of tax law provisions may result in additional tax liabilities, fines, penalties, and other additional expenses.	The Company monitors changes in Russian and foreign tax law, has the requisite in-house expertise, and cooperates with leading professional tax advisors.
Legal risks related to entering into agreements that involve operations in foreign jurisdictions.	Ambiguous interpretation of, or changes in foreign laws and regulations may result in restrictions on the Company's international operations.	The legal team is being further educated with respect to foreign laws, while lawyers and advisors with specific expertise are also being engaged.
FINANCIAL RISKS (ACCEPTABLE)		
Insolvency of counterparties; violation of obligations.	Deterioration of a counterparty's financial condition or adverse economic climate may result in a decline in the Company's financial performance.	If a customer requests a deferral of payment, the Company carries out solvency analysis based on the counterparty's financial statements.
Increased cost of debt.	Deterioration of the economic environment, rating downgrades, changes in market interest rates, deterioration of the Company's financial condition, or errors in the implementation of debt policy may result in cash shortages and impaired financial performance.	All borrowings are raised at a fixed interest rate and are rouble-denominated. Market conditions are under continuous review.

1. This section contains examples of risks that may have a material impact on the Company's operations. The Annual Report does not include an exhaustive description of such risks, as the Company discloses its information only to the extent required by the existing laws of the Russian Federation.

BOARD OF DIRECTORS

PAVEL ILYICHEV
CHAIRMAN OF THE BOARD

Year of birth:
1974
Education:
St. Petersburg State Academy of Aerospace Instrumentation (degree in Research Engineering), Higher School of Economics at St. Petersburg State University of Economics and Finance (degree in Economics).

Work experience:
2003–2009: Treasurer and Finance Director, Eurosib
2009 to present: Deputy Head of Corporate Finance, Russian Railways
Chairman of the Board of Directors of Russkaya Troyka; member of the Board of Directors of KIT Finance Investment Bank, RZD Logistics, Zheldorremmash, Vagonremmash, TransCreditBank, SKB-Bank, and TLC Bely Rast

YURI GILTS
DEPUTY CHAIRMAN

Year of birth:
1968
Education:
St. Petersburg University of Management and Economics (degree in Economics).

Work experience:
2003–2008: First Deputy General Director for Finance and Economics, Far East Shipping Company (FESCO)
2008 to present: Vice President for Finance, FESCO Transportation Group
2009 to present: Director, M-Port LLC
2012 – March 2013: Board Member, FESCO
2012 to present: President, Chairman of the Executive Board, and Member of the Board of Directors, FESCO
2012 to present: President and Chairman of the Executive Board, FESCO Transportation Group
Board member of FESCO Lines Australia Pty. Ltd.; FESCO Lines Hong Kong Ltd.; FESCO Agency Lines HK Ltd.; FESCO Marine Ltd.; FESCO Agencies N.A., Inc.; FESCO Lines China Co., Ltd.; Maritime and Intermodal Logistics Systems, Inc.; FESCO Lines Management Ltd.; Maritime Bank; Transsiberian Intermodal Service (Shanghai) Co., Ltd.; member of the Supervisory Board of the Commercial Port of Vladivostok.

PETR BASKAKOV
CEO

Year of birth:
1961
Education:
Moscow Institute of Railway Engineers (degree in Railway Transportation Management), Ph.D. in Engineering.

Work experience:
2007 to present: CEO, TransContainer
2009: Member of the Supervisory Board, TransContainer Slovakia, a.s.
2010–2012: Presidium member of the Council of Rolling Stock Operators Member of the Supervisory Board of GEFCO S.A.; board member of Kedentransservice and Oy ContainerTrans Scandinavia, Ltd.; member of the Shareholders' Committee of Trans Eurasia Logistics GmbH; chairman of the board of RZD Logistics; board member of the Freight Forwarders Association of Russia, All-Russian Association of Rail Transport Employers, TransSoyuz Charity Foundation, and the Russian Union of Industrialists and Entrepreneurs.

VLADIMIR ANDRIENKO
INDEPENDENT DIRECTOR

Year of birth:
1954
Education:
Moscow State University (Journalism), USSR Foreign Trade Academy, Harvard University (MBA).

Work experience:
1998 to present: Managing Director of Russia Partners Management, LLC.

DAVID HEXTER
INDEPENDENT DIRECTOR

Year of birth:
1949
Education:
University of Oxford (Philosophy, Politics and Economics), Cranfield School of Management (MBA), University of London (Philosophy), University College London (Law and Political Theory).

Work experience:
2004–2007: Board member, KMB Small Business Bank
2005–2010: Advisor, Denholm Hall Investment Management
2006 to present: Chairman of the Advisory Board, Private Equity New Markets
2009–2010: Lecturer at the University of London
2011 to present: International advisor, XENON Capital Partners
Board member of Kaspi Bank (Caspian Bank), TransTeleCom (Kazakhstan); chairman of the Supervisory Board of Private Equity New Markets; member the Supervisory Board at Bank Zachodni WBK, member of the Strategy Committee of INTER RAO, member of the Audit and Risk committees at Bank Zachodni WBK.

IRINA SHYTKINA
INDEPENDENT DIRECTOR

Year of birth:
1965
Education:
Moscow State University (Law), Moscow State University (Doctor of Law, Professor of Business Law).

Work experience:
2005–2009: Deputy CEO for Personnel and Legal Affairs, Elinar Holding Company
2009–2011: Deputy CEO for Corporate Governance, Elinar Holding Company
2010–2011: Member of the Supervisory Board, Vladimir Film Materials Plant
2011 to present: Advisor to the CEO at Elinar Holding Company; Chairman of the Supervisory Boards of Elinar Holding Company and JSC Elinar; Chairman of the Board of Narpromrazvitiye; Member of the Supervisory Board of Elinar Electrical Insulation Materials Plant; Board Member of Elinar Broiler, Zheldorremmash, and VRK-1.

ALEXEI GROM
BOARD MEMBER

Year of birth:
1971
Education:
Moscow State University of Railway Engineering (degree in Railway Engineering), Stockholm School of Economics (Executive MBA)

Work experience:
2007–2008: Managing Director, Transgarant
2008 to present: Managing Director, FESCO Transportation Group
2009–2011: Vice President of the Railway Division, FESCO Transportation Group
2012: Vice President of the Railway Division, FESCO
2012 to present: Member of the Management Board and First Vice President of FESCO, Member of the Management Board of FESCO Transportation Group, CEO of FESCO Rail, Member of the Board of Directors of Russkaya Troyka.

ALEXEI DAVYDOV
BOARD MEMBER

Year of birth:
1971
Education:
St. Petersburg Engineering and Economics Institute (Engineering and Economics), St. Petersburg University (Law).

Work experience:
2006–2010: Head of Treasury Department, Russian Railways
2008–2009: Board Member, Vagonremmash
2009–2010: Board Member, Remputmash Kaluga Plant, Deputy Chairman of the Board, Zarubezhstroytekhnologiya
2010–2011: Board Member, RasonConTrans JV
2010–2012: Board Member, Zheldorremmash and FPK
2010 to present: Head of Subsidiaries and Affiliates Management Department, Russian Railways
Chairman of the board of VRK-1; board member of RZDstroy, BetElTrans, Federal Freight, ELTEZA, TD RZD, Freight One, Transmashholding, and Roszheldorproject.

DMITRY MUKHIN
BOARD MEMBER

Year of birth:
1968
Education:
St. Petersburg State Electrotechnical University, Moscow State University of Railway Transport

Work experience:
2003–2011: First Deputy Head of Investment Department, Russian Railways
2011 to present: Head of Investment Department, Russian Railways
.

YURI NOVOZHILOV
BOARD MEMBER

Year of birth:
1974
Education:
St. Petersburg State University (Theoretical Economics).

Work experience:
2004–2009: First Deputy Head of the Corporate Finance Department, Russian Railways
2007–2010: Member of the Board of Directors, TransContainer
2009–2012: President and Chairman of the Executive Board, TransCreditBank
2012 to present: Executive Director of Blagosostoyanie National Pension Fund; Board Member, Russkaya Troyka.
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VIACHESLAV PETRENKO
BOARD MEMBER

Year of birth:
1964
Education:
Leningrad Institute of Railway Engineers (degree in Railway Transportation Control), Ph.D. in Engineering.

Work experience:
2005–2008: Deputy CEO for Marketing and Tariffs, Corporate Transport Service Centre (structural unit of Russian Railways)
2006–2012: Chairman, Refservice
2008–2012: Head of Freight Marketing and Tariff Policy Department, Russian Railways
2012 to present: Director of the Rail Transport Policy Department, Russian Ministry of Transport.

CORPORATE GOVERNANCE
OUR APPROACH TO CORPORATE GOVERNANCE

Corporate governance is a key element of TransContainer's policy. The Company's corporate governance system is continuously improved and developed in line with both national and international best practices.

Yulia Gelfer
Acting Director of Corporate Governance

Corporate governance is a key element of TransContainer's policy. The Company's corporate governance system is integrated into its business management system, and is one of the major factors driving operational efficiency and firm value.

Recognising the importance of corporate governance to sustainable success, the Company seeks to continuously improve its corporate governance system in line with both national and international best practices. In all its activities the Company follows the recommendations of the Russian Governance Code as well as certain rules and principles of the UK Combined Code. The Company's corporate governance principles are aimed at building trust in matters related to the management of the Company and providing a basis for all standards and rules that govern corporate relations. These include:

FAIR AND EQUITABLE TREATMENT OF SHAREHOLDERS
The Company seeks to maintain a constructive dialogue with its shareholders based on respect for their rights and legal interests. This is achieved by maintaining a high level of confidence between the shareholders and the Company on matters relating to the management of the Company.

TransContainer treats its shareholders fairly, refraining from showing any preference to the interests of any group of shareholders to the detriment of the others.

The Company adheres to the principle of equal treatment for all shareholders, whatever their share.

ACCOUNTABILITY
The CEO of the Company is accountable to the General Meeting of Shareholders and the Board of Directors, and submits regular reports on their activities from which the Company's performance and results can be assessed. The Board of Directors, in turn, is accountable to the General Meeting of Shareholders.

TRANSPARENCY
TransContainer provides timely, regular, full, and accurate disclosure of its activities.

SOCIAL RESPONSIBILITY
The Company seeks to achieve long-term, sustainable profitability for its business while at the same time striking a balance between its economic interests and the social, economic, and environmental obligations that it has taken on.

OUR APPROACH TO INFORMATION DISCLOSURE
The Company regularly, fully, and in a timely manner discloses accurate information about all important matters. These include its financial and operational results, shareholding structure, lists of affiliated persons/entities, statements of material facts and other information required by Russian and UK law.

The Company does not show any preference for the interests of any one recipient (or group of recipients) over others.

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

Information about the Company and its activities is disclosed in accordance with the amended Regulations on Information Disclosure as approved by the Board of Directors resolution dated 19 September 2012[1], by way of:
– publication in the news feeds of an information agency duly authorised to carry out information disclosure activities in the securities market;
– publication of information required by the laws of the United Kingdom through an authorised UK disclosure service (Regulatory News Service);
– posting information on an Internet page provided by an agency authorised by Russia's Federal Financial Markets Service to carry out information disclosure activities in the securities market[2], and on the Company's web page at http://www.trcont.ru/;
– providing information to Russia's Federal Financial Markets Service;
– publication in the mass media, brochures and booklets;
– holding press conferences and meetings with shareholders and other stakeholders;
– granting shareholders and other stakeholders access to information/documents, providing them with copies upon request in compliance with Russian law.

The Company does not limit the scope of disclosure to those mandated by Russian and UK laws, and additionally discloses other information that may affect the value of the Company's securities. This further contributes to the Company's high degree of transparency.

In 2012, our efforts towards transparency and open policies received recognition of the professional community. TransContainer was rated best at the XV Annual report competition held by Moscow Exchange to represent "Best Information Disclosure for companies with capitalisation of 10–100 bln roubles".

The Company also benefits from an overwhelming victory (first place in four categories) in a similar competition for companies of the transportation sector called "Novaya versta" (new milestone).

CORPORATE GOVERNANCE RATINGS HISTORY

	2008	2009	2010	2011	2012
GAMMA Rating (Standard & Poor's)	5+	6	6	6	–
National Corporate Governance Rating	6	6+	7	7+	7+

OUR 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 and simultaneously withdrawn as a result of Standard & Poor's decision to cease providing corporate governance scores using the GAMMA methodology.

In August 2012, TransContainer's National Corporate Governance Rating was confirmed at 7+: "Developed Corporate Governance Practice." The Company adheres to Russian corporate governance regulations. It also follows the majority of recommendations in the Russian Corporate Governance Code and a selected number of best international practices, and bears a relatively low owners' loss risk thanks to its corporate governance quality.

OUR DIVIDEND POLICY AND DIVIDEND HISTORY
In February 2013, TransContainer approved the revised Dividend Policy Regulations[3], under which the target level of the Company's net profit payable in the form of dividends is 25%, calculated in accordance with Russian accounting standards (excluding any gains from revaluation of financial investments). However, the actual share of the Company's net profit payable in the form of dividends may be more or less than 25% depending on the Company's financial and business plans and the recommendations of the Board of Directors.

The Company's dividend policy is based on the following principles:
– If there is a net profit, the Company uses a part of the profit to pay dividends on an annual basis and uses most of the retained profit to implement its investment programme 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 shareholders' rights in accordance with Russian law and the best corporate governance practices
– The Company uses transparent procedures for determining the amount of dividends and their payment.

DIVIDENDS ACCRUED AND PAID BY THE COMPANY BETWEEN 2008 AND 2012

Dividends	2008 (for 2007)	2009 (for 2008)	2010 (for 2009)	2011 (for 2010)	2012 (for 2011)
Total amount of dividends, RUR million	153.3	268.0	2.2	40,434	1,218.3
Dividend per share, RUR	11.03	19.29	0.16	2.91	87.68
Dividends as percentage of net profit	10%	10%	10%	10%	35,0%
Announcement date	20.06.2008	23.06.2009	23.06.2010	28.06.2011	26.06.2012
Actual payment date	22.08.2008	20.08.2009	10.08.2010	18.08.2011	25.07.2012

1. The Regulations are published on the Company's website at http://www.trcont.ru/investor-relations/charter-and-bylaws/bylaws/
2. The Company's Authorised Disclosure Agent is Interfax. See the Company's page on the Interfax website at http://www.e-disclosure.ru/portal/company.aspx?id=11194
3. The Regulations are published on the Company's website at http://www.trcont.ru/investor-relations/charter-and-bylaws/bylaws/. The Company also publishes on its website resolutions of the General Meeting of Shareholders to pay dividends, information on the amount, time, and form of dividend payments, and information about the declaration and payment of dividends, in the form of statements of material facts.

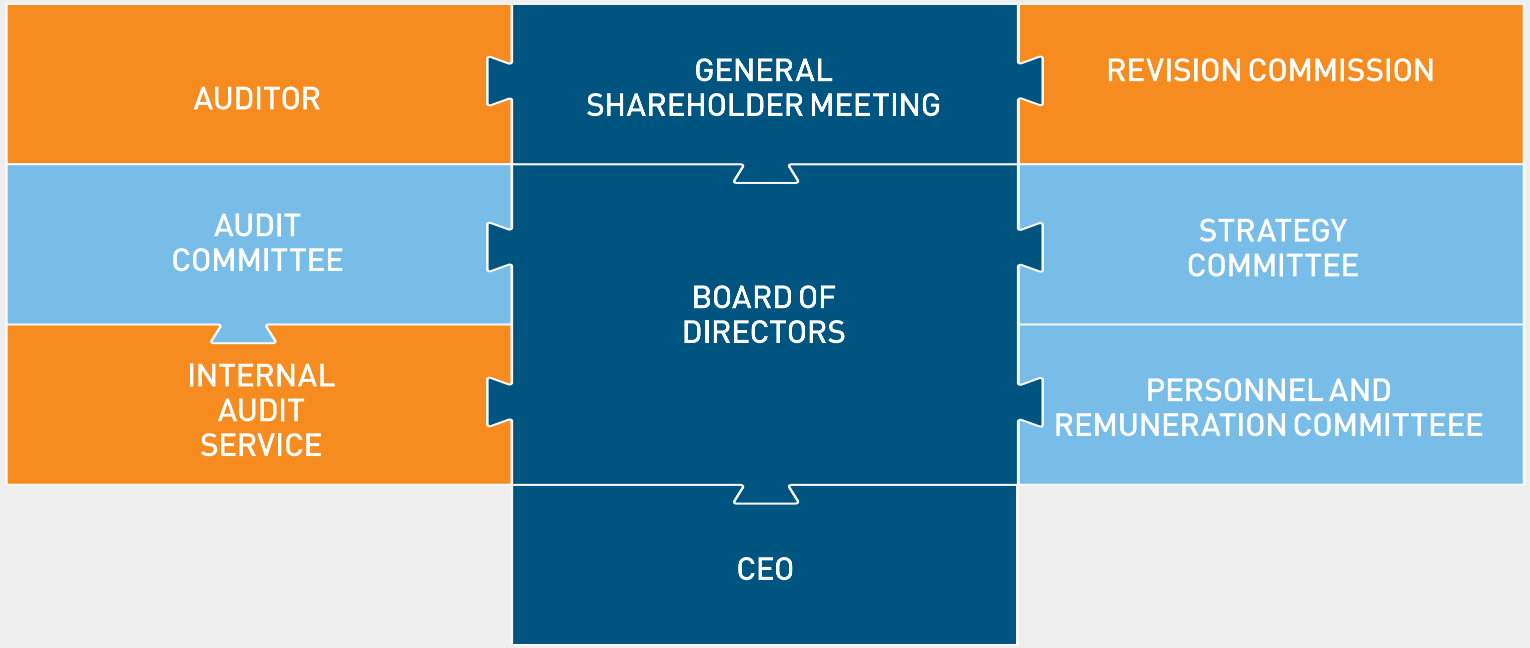
CORPORATE GOVERNANCE MANAGEMENT SYSTEM

THE COMPANY'S MANAGEMENT AND INTERNAL CONTROL SYSTEM

The Company's management and internal control system is comprised of:

– General Meeting of Shareholders;
– Board of Directors;
– CEO;
– Revision Commission;
– Internal Audit Service

CORPORATE GOVERNANCE STRUCTURE CHART



GENERAL MEETING OF SHAREHOLDERS

The General Meeting of Shareholders is the supreme management body of the Company.

Two General Meetings were held during 2012. At the Annual General Meeting held on 26 June 2012 the Company's annual report and accounts (including the profit and loss statement) for 2011 and the distribution of profit and losses for FY2011 were approved. At the same meeting, members of the Company's Board of Directors and Revision Commission were elected and the Company's Auditor and membership with the German-Russian Forum were approved. Amendments to the following were also approved: the Company Charter, Regulations for the General Meeting of Shareholders, Regulations for Remuneration and Compensation Payable to Members of the Revision Commission, and Regulations for Remuneration and Compensation Payable to Members of the Board of Directors. A resolution to pay remuneration to members of the Board of Directors and the Revision Commission was also adopted; and some interested party transactions were approved.

On 31 October 2012, an Extraordinary General Meeting of Shareholders was held to approve the D&O liability insurance transaction between the Company and AlfaStrakhovanie, which covers director, officer, and company liability, and constitutes an interested party transaction.

REGISTRAR

In order to ensure the reliable protection of the shareholders' entitlement to shares, an independent party acts as Registrar of Company Shareholders.

Since October 2010, STATUS Registrar Company (STATUS ZAO) has acted as Registrar for the Company.

In addition, the Company's Registrar performs the functions of the Counting Committee at the General Meeting of Shareholders. This ensures the integrity of voting results and the protection of the shareholders' right to participate in the General Meeting.

ROLE AND EFFECTIVENESS OF THE BOARD OF DIRECTORS

The Board of Directors is a core element of our corporate governance system, having 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 responsible for the overall direction of its operations. The Board determines the Company's strategy, oversees the activity of its executive bodies. It also monitors the Company's internal controls and risk management system. The powers of the Board are delineated in the Charter and carefully segregated from those of the CEO.

The Board of Directors is an actively functioning management body. Board meetings are convened on a regular basis in line with the annual work plan and meeting schedule approved at the first Board meeting of the year. A total of twelve Board meetings were held in 2012. Most meetings are held in person. This helps facilitate balanced and efficient decision-making based on constructive dialogue and the 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 Board's terms of reference.

A balanced set of skills, experience, independence, and knowledge of the Company allows the Board of Directors to exercise its powers effectively.

The Board is made up of eleven members, as is standard with European companies. This Board size is sufficient to meet the demands of the business and ensure the required range of expertise and continuity in case of a change in the Board's composition.

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

The Board members have the necessary knowledge and expertise to go along 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. Each Board member makes a significant contribution to the Company's overall performance.

The Board of Directors is composed of people of different ages, sexes, and ethnic backgrounds. Diversity is seen as a key driver of the Board's effectiveness.

The Board members exercise their rights and fulfil their responsibilities to the Company in a reasonable manner and in good faith, acting for the benefit of the Company and taking into account the interests of its shareholders, employees, and other stakeholders. All Board members contribute sufficient time for the fulfilment of their duties.

In order to improve the effectiveness of the Board and its members, the activities of the Board and its committees are reviewed on a regular basis, including by third-party advisors. Based on the results of such reviews, the Company identifies areas of improvement for the Board and its committees.

KEY RESOLUTIONS OF THE BOARD OF DIRECTORS IN 2012:

1. The Board elected Petr Baskakov as the CEO of TransContainer for another three-year term.

The Board of Directors re-elected Petr Baskakov as the Company's CEO and negotiated the terms of his new employment contract.

2. The Board approved the Regulations on Arrangements for Transportation Security in TransContainer.

The purpose of the Regulations is to facilitate reliable and stable work at rail transport facilities and implement an integrated approach to avoiding illegal activity. The document identifies the main responsibilities and regulates the relationships between administrative subdivisions, branches, and other business units throughout the Company's transport security activities.

3. The Board approved the amended Regulations on Information Disclosure.

The Regulations reflect the major regulatory changes in disclosures on the securities market and contain changes aimed at improving security issuers' transparency, as well as the accessibility and clarity of information disclosed to shareholders, investors, and other parties concerned[1].

4. The Board approved the Regulations on TransContainer's Investment Project Assessment and Approval.

The Regulations were developed as part of the risk management system and aim to mitigate strategic risks inherent in the Company's business.

The Regulations introduce a prioritisation of investment projects in accordance with the Company's Development Strategy and core business areas. They also establish basic criteria for the preliminary assessment of investment projects, regulate the processes of origination, the review and approval of investment projects, and provide tools for monitoring project implementation effectiveness both at the investment stage and during commercial operation.

5. The Board approved TransContainer's Budget for 2013–2015.

The Budget is based on a financial model with assumptions on fleet size and turnover, demand and market environment forecast, and price inflation for main services.

6. The Board approved target key performance indicators (KPIs) for the CEO for 2012 and 2013.

In accordance with the KPI system approved by the Board of Directors in October 2011, the CEO's performance is evaluated using three KPIs:
– Net Profit;
– EBITDA; and
– The Company's share price performance.

The CEO's target KPI values are set by the Board of Directors each year.

7. The Board approved TransContainer's Credit Policy for 2013–2015.

The Regulations follow the credit policy for 2010–2012. The new Regulations set Debt Structure Limits, Debt Coverage Limits, Interest Coverage Limits, and Capital Structure Limits. They also determine the assessment procedure for the Company's financial stability and creditworthiness, determination of a maximum debt position, monitoring of limits, and management's actions when the limits are exceeded.

1. See section "Our approach to information disclosure"

AT THE ANNUAL GENERAL MEETING OF SHAREHOLDERS HELD ON 26 JUNE 2012, THE FOLLOWING PERSONS WERE ELECTED TO THE BOARD OF DIRECTORS:

Name	Status in BoD	Audit Committee membership	Strategy Committee membership	Personnel and Remuneration Committee membership
Pavel Ilyichev	Chairman			
Yuri Gilts	Deputy Chairman	Committee Member		
Vladimir Andrienko	Board Member		Deputy Committee Chair	
Petr Baskakov	Board Member, CEO		Committee Member	
Alexei Grom	Board Member		Committee Member	Committee Member
Alexei Davydov	Board Member		Committee Chair	
Dmitry Mukhin	Board Member	Deputy Committee Chair		
Yuri Novozhilov	Board Member			
Viacheslav Petrenko	Board Member			Committee Member
David Hexter	Independent Director	Committee Chair		
Irina Shytkina	Independent Director			Committee Chair

BOARD OF DIRECTORS IN 2012

During the period from January to June 2012, in line with the resolution of the Annual General Meeting of Shareholders dated 28 June 2011, the Board of Directors included the following persons:
1. Alexei Averin
2. Petr Baskakov
3. Sergei Generalov
4. Alexei Davydov
5. Pavel Ilyichev
6. Dmitry Mukhin
7. Viacheslav Petrenko
8. Kirill Rubinsky
9. Zhanar Rymzhanova
10. David Hexter
11. Irina Shytkina

This Board of Directors held six meetings in person during the said period.

This Board of Directors acted from July to December 2012 and held five meetings in person and one meeting in the form of a letter ballot.

STATISTICS ON BOARD MEETINGS

In 2012, the Board of Directors held twelve meetings, of which eleven were held in person and one by letter ballot. The Board discussed 134 matters and approved more than 121 interested party transactions.

CHAIRMAN OF THE BOARD

Pavel Ilyichev has served as Chairman of the Board of Directors since 20 April 2011.

The Chairman of the Board is responsible for the organisation and proper functioning of the Board of Directors.

The Chairman:
– convenes meetings of the Board of Directors and presides over them;
– represents the Board at General Meetings of Shareholders and to third parties;
– presides over annual and extraordinary General Meetings of Shareholders;
– arranges for the Board members to receive timely information on matters relating to Board meeting agendas;
– ensures the required leadership, open and appropriate discussion of matters broached in a meeting, and due consideration of the opinions of all Board members during the decision-making process. He also summarises the discussions, and formulates the decisions to be taken;
– arranges for recording minutes at Board meetings;
– controls implementation of resolutions of the Board of Directors and the General Meeting of Shareholders;
– signs the employment contract with the CEO on behalf of the Company;
– ensures the effectiveness of the BoD committees' work; and
– is personally responsible to the General Meeting for organising the Board's work.

INDEPENDENT DIRECTORS

In September 2012, the Board of Directors reviewed director independence criteria and decided that BoD members Vladimir Andrienko, David Hexter, and Irina Shytkina are qualified as independent directors.

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

Independent Directors chair the BoD committees: David Hexter chairs the Audit Committee and Irina Shytkina chairs the Personnel and Remuneration Committee. Vladimir Andrienko is Deputy Chairman of the Strategy Committee.

Independent Directors make a significant contribution to the work of the Board and its committees, demonstrating 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 a balance between various stakeholder groups and improves the quality of managerial decisions.

CORPORATE GOVERNANCE
BOARD OF DIRECTORS COMMITTEES

BOARD OF DIRECTORS COMMITTEES

The BoD committees were established in order to give preliminary consideration to the most important matters within the terms of reference of the Board of Directors and to develop recommendations for the Board.

The Board committees are made up of individuals with extensive experience and expertise in the relevant areas. This is expected to improve the effectiveness and quality of the Board's work. The Company aims to form the BoD committees using Independent Directors and representatives of minority shareholders.

The Company has the following committees:
– Strategy Committee;
– Audit Committee; and
– Personnel and Remuneration Committee.

During the reporting period, the committees did considerable work to develop the strategic management process and internal control and risk management systems, as well as the incentive system for the Board of Directors and management team.

Alexei Davydov
Strategy Committee Chair

In 2012, the Strategy Committee focused on drafting TransContainer's Development Strategy through to 2020. The Strategy was approved by the Board in early 2013.

STRATEGY COMMITTEE

During the period from January to June 2012, the Strategy Committee was comprised of the following:	During the period from July to December 2012, the Strategy Committee was comprised of the following:
Alexei Davydov – Chair	Alexei Davydov – Chair
Sergei Generalov – Deputy Chair	Vladimir Andrienko – Deputy Chair
Petr Baskakov	Petr Baskakov
Zhanar Rymzhanova	Alexei Grom
Yulia Gelfer – Secretary	Kristina Galkina – Secretary
The Strategy Committee held six meetings in person.	The Strategy Committee held four meetings in person.

Main task

To support the effectiveness of the Board of Directors' work through preliminary consideration and preparation of recommendations on matters within the terms of reference of the Board of Directors with respect to setting priority areas for the Company, and developing the Company's strategy. They also propose how this strategy is to be implemented and monitored.

Key matters discussed by the Strategy Committee in 2012

– TransContainer's Development Strategy through 2020
– Target indicators and key parameters of the Company's investment programme for 2013
– TransContainer's budget for 2013–2015
– Target KPIs for the CEO in 2012 and 2013
– CEO's report on TransContainer's operating results for 2011 (business plan implementation, fulfilment of contracts, HR policy, social programmes, insurance coverage, implementation of BoD resolutions)
– TransContainer's innovation projects for 2012–2013
– Corporate actions required to achieve the target shareholding structure in Kedentransservice and conclude the deal
– Regulations on TransContainer's Investment Project Assessment and Approval

David Hexter
Audit Committee Chair

In 2012, the Audit Committee worked on maintaining accuracy and completeness of the Company's financial accounts and developing our risk management system.

AUDIT COMMITTEE

During the period from January to June 2012, the Audit Committee was comprised of the following:	On 18 July 2012, the Audit Committee members were re-elected as follows:
David Hexter – Chair	David Hexter – Chair
Dmitry Mukhin – Deputy Chair	Dmitry Mukhin – Deputy Chair
Kirill Rubinsky	Yuri Gilts
Olga Miller – Secretary	Yulia Gelfer – Secretary
The Audit Committee held four meetings in person.	The Audit Committee held five meetings in person.

Main task

To support the effectiveness of the Board of Directors' work through preliminary consideration and preparation of recommendations on matters within the terms of reference of the Board of Directors in terms of the Company's interaction with the external auditor. Also, monitoring the accuracy and completeness of the Company's financial statements, including the execution of the Company's business plans and budget, and evaluating how effectively the internal controls and risk management systems are operated.

Key matters discussed by the Audit Committee in 2012

– Review of TransContainer's 2011 annual accounts prepared in accordance with Russian accounting standards, TransContainer's 2011 consolidated IFRS financial statements, and TransContainer's annual report for 2011
– Auditor's opinion of TransContainer's 2011 annual accounts
– Results of the audit of TransContainer's operations in 2011
– TransContainer's Auditor for 2012
– Auditor's fees in 2012
– Auditor's opinion on TransContainer Group's interim consolidated IFRS financial statements for 1H 2012
– The Company's accounting policy for 2013
– TransContainer's Risk Map (Risk Register) for 2012 and 2013
– TransContainer's risk management in 2013
– The Internal Audit Service's work plan for 2013
– The Internal Audit Service's report on the results of its activities in 4Q 2011 and 1–3Q 2012
– Implementation of the Critical and Acceptable Risk Action Plan for 4Q 2011 and 1–3Q 2012
– Procedure for placement of orders for goods and services required for the Company's core business

Irina Shytkina
Personnel and Remuneration Committee Chair

In 2012, the Personnel and Remuneration Committee dedicated its time to reviewing the incentive plans in place for members of the Board of Directors and the Revision Commission. In 2013, the Committee will conduct a review of long-term management incentives.

PERSONNEL AND REMUNERATION COMMITTEE

During the period from January to June 2012, the Personnel and Remuneration Committee was comprised of the following members:	On 18 July 2012, the Personnel and Remuneration Committee members were re-elected as follows:
Irina Shytkina – Chair	Irina Shytkina – Chair
Irina Kostenets[1] – Deputy Chair	Irina Kostenets[2] – Deputy Chair
Sergei Generalov	Alexei Grom
Viacheslav Petrenko	Viacheslav Petrenko
Yulia Gelfer – Secretary	Yulia Gelfer – Secretary
The Personnel and Remuneration Committee held seven meetings in person.	The Personnel and Remuneration Committee held four meetings in person.

Main task	Key matters discussed by the Audit Committee in 2012
Provide for the Board of Directors' effective performance through preliminary consideration and preparation of recommendations on issues within the terms of reference of the Board of Directors regarding priorities for the Company's human resources and management remuneration policies, development of the Company's policies and standards concerning nomination of the Company's management with a view toward attracting skilled professionals and implementing the required incentives	– Terms of the new employment contract with the CEO of TransContainer – Target KPIs for the CEO in 2012 and 2013 – The amended Regulations on Remuneration and Compensation Payable to Members of the Board of Directors – The amended Regulations on Remuneration and Compensation Payable to Members of the Revision Commission – Bonuses for the CEO – Independent directors (conformity of newly-elected BoD members with independence criteria) – Monitoring of TransContainer's existing remuneration systems for the CEO and management team, including the long-term employee incentive programme – Nomination of independent directors to the Board

1. Head of the Department for Administrative and Personnel Issues, Russian Railways (not a BoD member).
2. Head of the Economics Department, Russian Railways (not a BoD member).

MEMBER PARTICIPATION IN BOARD AND COMMITTEE MEETINGS:

Name	Board of Directors	Audit Committee	Strategy Committee	Personnel and Remuneration Committee
Pavel Ilyichev	12/12			
Yuri Gilts	5/6	5/5		
Petr Baskakov	12/12		10/10	
Alexei Grom	6/6		4/4	4/4
Vladimir Andrienko	5/6		4/4	
Alexei Davydov	12/12		9/10	
Irina Shytkina	12/12			11/11
David Hexter	12/12	9/9		
Dmitry Mukhin	12/12	9/9		
Viacheslav Petrenko	8/12			6/11
Yuri Novozhilov	6/6			
Alexei Averin	6/6			
Sergei Generalov	5/6		4/6	4/7
Kirill Rubinsky	5/6	3/4		
Zhanar Rymzhanova	6/6		4/6	

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

The Company's CEO Petr Baskakov purchased 1,700 shares in TransContainer in 2010. The number of ordinary shares held by Petr Baskakov remained unchanged in 2012, comprising 0.012% of the Company's authorised capital.

PERFORMANCE EVALUATION OF THE BOARD OF DIRECTORS AND ITS COMMITTEES

The Board of Directors evaluates its performance and the performance of its committees on an annual basis. It identifies areas to improve by questioning the members and discussing the evaluation results in person during a Board meeting.

In accordance with the UK Corporate Governance Code, the Company evaluates the Board's performance at least once every three years, using the services of a third-party advisor to ensure independent and neutral findings.

In November 2012, the evaluation of the 2011–2012 performance of the Board and its committees was performed by Board Solutions, which engaged the UK-based Institute of Directors (IoD).

The Board evaluation was based on the following IoD UK / Board Solutions methodology:

1. Evaluation of the Board and committees using questionnaires
2. Interviews with eight Board members (David Hexter, Irina Shytkina, Pavel Ilyichev, Alexei Davydov, Petr Baskakov, Vladimir Andrienko, Alexei Grom, and Yuri Gilts) and key managers
3. Review of the Board's key documents
4. Review of the Board's key processes and procedures
5. Discussion of the draft report during a meeting of the Personnel and Remuneration Committee; presentation of the final report during a Board meeting

The evaluation of the Board identified opportunities where its activities could be improved.

LIABILITY INSURANCE

Since February 2009, the Company has had annual liability insurance agreements in place to provide liability insurance for BoD members and the management team (D&O policy).

CORPORATE GOVERNANCE
REMUNERATION OF BOD AND BOD COMMITTEE MEMBERS

REMUNERATION OF BOD MEMBERS
Remuneration and compensation payments to BoD members were carried out until June 2012 in accordance with the Regulations on Remuneration and Compensation Payable to Members of the Board of Directors as approved by the Annual General Meeting of Shareholders on 28 June 2011 and, starting from July 2012, in accordance with the amended Regulations approved by the Annual General Meeting of Shareholders on 26 June 2012 (the Regulations)[1].

Pursuant to the Regulations, remuneration of BoD members consists of both fees for their participation in the work of the Board of Directors and annual remuneration.

1. For participation in the work of the Board of Directors, a member of the Board of Directors is paid a fee of:
– RUR 30,000 for attending a BoD meeting in person
– RUR 15,000 if the BoD member participated in the meeting by letter ballot or produced a written opinion.

The participation fee is paid within a month of the Board meeting taking place.

The total amount of participation fees paid to BoD members in 2012 amounted to **RUR 3,671,250**.

2. Annual remuneration of BoD members consists of fixed and variable elements.

2.1. The fixed annual remuneration of a member of the Board of Directors is calculated as follows:

S_{fix} = 1,800,000 * K, where

S_{fix} is fixed annual remuneration of a member of the Board of Directors;

RUR 1,800,000 is the base for calculating the total annual remuneration; and

K = Number of meetings attended by the Board member divided by the total number of Board meetings held over the reporting period.

The reporting period refers to the elapsed corporate year (the period between the date of the Annual General Meeting of Shareholders and the next).

2.2. The variable annual remuneration is based on meeting targets for EBITDA, net profit, and share price performance over the respective period. It is calculated as follows:

$S = (0.45*K_{ebitda}+0.45*K_{np}+0.1*K_{spp})*B_{fix}*K$, where

K_{ebitda} is a ratio that reflects achievement of the EBITDA target as per the approved budget for the respective period. Its maximum value is 2.

K_{np} is a ratio that reflects achievement of the net profit target as per the approved budget for the respective period. Its maximum value is 2.

K_{spp} is a ratio showing the Company's share price performance.

B_{fix} is the base for calculating the fixed annual remuneration and is equal to RUR 1,800,000.

K = Number of meetings attended by the Board member divided by the total number of Board meetings held over the reporting period.

The variable annual remuneration element is not paid to any Executive Directors serving on the Board.

The total amount of annual remuneration paid to BoD members in 2012 was **RUR 46,543,125**.

Annual remuneration is paid to members of the Board of Directors within one month after the Annual General Meeting of Shareholders.

Annual remuneration of a member of the Board of Directors is not paid:
– If the Annual General Meeting of Shareholders resolves not to pay remuneration to members of the Board.
– If the Company posts a net loss for the reporting period.

The above fees are increased by 50% when paid to the Chairman of the Board of Directors.

The above fees are increased by 25% when paid to the Deputy Chairman of the Board of Directors.

In the event of any changes in the Board's composition during the corporate year, the annual remuneration of a member of the Board of Directors is calculated pro rata, in relation to the number of Board meetings attended by the member over that corporate year.

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

REMUNERATION OF MEMBERS OF BOD COMMITTEES
In accordance with the Company's regulations on payments to members of the BoD committees[2], committee members receive fees for participation in the work of the committees and annual remuneration.

For participation in each committee meeting, a BoD committee member is paid:
– RUR 20,000 if the committee member participated in the meeting in person
– RUR 12,000 if the committee member participated in the meeting by letter ballot or produced a written opinion.

The total amount of participation fees paid to members of BoD committees in 2012 was **RUR 2,192,000**.

If approved by the Annual General Meeting of Shareholders, a Committee member may be paid annual remuneration.

The above fees are increased by 25% when paid to the Committee Chair or Deputy Chair.

The total amount of annual remuneration paid to committee members in 2012 was **RUR 4,720,000**.

REIMBURSEMENT OF COSTS RELATED TO PARTICIPATION IN BOARD AND COMMITTEE MEETINGS
Members of the Board of Directors and the Board committees are reimbursed for documented costs related to their participation in Board and committee meetings.

Reimbursements are made by the Company within a month of receiving documents evidencing the costs incurred.

Remuneration and reimbursement to members of the Board of Directors and BoD committees are made in cash.

The total amount of reimbursement paid in 2012 was **RUR 3,231,629.68**.

Remuneration and compensation are paid from Miscellaneous Expenses for the Company's financial reporting purposes, which are not deducted from the income tax base.

CORPORATE SECRETARY
The Company's Corporate Secretary reports to the Chairman of the Board of Directors.

The Corporate Secretary's key tasks are to ensure compliance of the Company's bodies and officers with legal provisions and the Company's Charter and bylaws relating to shareholder rights. In addition to this, they are also responsible for compliance with procedures for the preparation and conduct of General Meetings of Shareholders and Board meetings, and with procedures for the disclosure of information about the Company, and to improve the Company's corporate governance practices.

The Corporate Secretary's key functions are:
– Providing organisational and information support to the Board of Directors and its committees
– Preparing and conducting General Meetings of Shareholders
– Interacting with BoD members and advising BoD members on corporate governance matters
– Arranging interactions between the Company and its shareholders
– Arranging storage of the Company's documents pertaining to corporate governance matters
– Providing for due disclosure of information about the Company.

The Corporate Secretary's duties and responsibilities are outlined by the Company's Regulations for the Corporate Secretary[3].

From January to June 2012, the duties of the Corporate Secretary were performed by Olga Miller, the Company's Corporate Governance Director, who was succeeded by Yulia Gelfer, Deputy Corporate Governance Director, effective 18 July 2012.

CEO
The CEO is the Company's sole executive, elected by the Board of Directors and reports to the General Meeting of Shareholders and the Board of Directors.

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

The CEO acts unilaterally on behalf of the Company, but observes restrictions as set forth in the existing laws of the Russian Federation, the Charter, and BoD resolutions.

Petr Baskakov has been TransContainer's CEO since 2006[4].

The total remuneration paid to the Company's CEO and ten key managers in 2012 (including mandatory social insurance before Personal Income Tax deductions) totalled **RUR 228,368,071.51**.

2. The regulations are published on the Company's website at http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/
3. The Regulations are published on the Company's website at http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/
4. In January 2012, Petr Baskakov was re-elected as the Company's CEO for a new term.

AUDITOR

In order to ensure independent auditing of its financial statements, the Company has approved a policy of external auditor rotation and its engagement to provide non-audit services[1] (the External Auditor Rotation Policy).

The external auditor of TransContainer's financial statements under the RAS and IFRS is approved by the General Meeting of Shareholders upon recommendations from the Company's Board of Directors following a competitive selection conducted by the Audit Committee among the Big Four audit firms 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.

The Audit Committee evaluates the performance of the External Auditor and its compliance with the independence criteria on an annual basis.

In June 2012, the Annual General Meeting appointed PricewaterhouseCoopers as the Company's Auditor under the RAS and IFRS for 2012.

In September 2012, the Board of Directors set the amount of consideration payable to PricewaterhouseCoopers Audit for a review of the interim condensed consolidated financial statements under IFRS for 1H 2012, an audit of 2012 financial statements under the RAS, and an audit of IFRS consolidated financial statements, at RUR 14,180,000 excluding VAT and any out-of-pocket expenses. The consideration is 10% above the 2011 level. This reflects the growth of the Consumer Price Index and the Group's larger reporting perimeter.

Pursuant to the External Auditor Rotation Policy, in order to ensure the independence of the External Auditor, the amount of consideration payable to the Auditor for their non-audit services may not exceed 10% of the fee for auditing the Company's financial statements.

In 2012, 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 2012:

TYPE OF SERVICE	REMUNERATION (VAT INCLUDED), RUR
Audit of the RAS accounts for FY2011	4,089,880.00
Audit of the IFRS consolidated financial statements for FY2011	7,259,832.00
Review of the interim condensed consolidated financial statements under the IFRS for 1H 2012	4,932,400.00
Advisory services in preparing a prospectus for a new issue of the Company's securities	1,958,800.00
TOTAL	18,240,912.00

INTERNAL AUDIT SERVICE

The Internal Audit Service was established by the Board of Directors in 2009 in order to improve internal controls and risk management, provide the management bodies with accurate and complete information about the Company's operations, and identify and prevent violations and abuse.

The Internal Audit Service is accountable to the Board of Directors' Audit Committee. The annual scope of the Internal Audit Service is approved by the Board of Directors based on recommendations from the Audit Committee. The Internal Audit Service reports to the Audit Committee on a quarterly and annual basis.

To attain its objectives, the Internal Audit Service performs the following functions:

- Checking the Company's operational and financial activities
- Participating in optimisation of the Company's organisational and management structure and business processes to ensure their effectiveness and alignment with the Company's approved strategic targets
- Preparing reports (opinions) for the Audit Committee and the CEO on the results of scheduled audits
- Preparing proposals to eliminate and prevent deficiencies identified in the Company's operational and financial activities and proposals to take disciplinary and other punitive and compensatory action allowed by applicable laws and the Company's bylaws, and submitting them to the CEO for consideration
- Identifying and preventing financial, operational and other risks inherent in the Company's activities and evaluating the likelihood of risks being realised and the losses likely to result from their realisation; taking part in the development of a risk management programme covering the identified risks, and presenting relevant proposals to the Audit Committee and the CEO; evaluating the adequacy and effectiveness of risk management and internal control processes
- Within the scope of its reference, interacting with the Company's External Auditor
- Within the scope of its reference, carrying out assignments given by the Audit Committee, the Board of Directors, and the CEO.

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. It exists 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 is accountable to the General Meeting of Shareholders. It is independent of the Company's officers, its members not being officers or employees of the Company.

On 26 June 2012, the following members were elected to the Revision Commission at the Annual General Meeting of Shareholders:

- Oleg Ivanov as Chair of the Revision Commission
- Lyudmila Bulgakova
- Sergey Davydov
- Natalya Lem
- Elena Yudina.

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 Commission[2]. The annual remuneration paid to the Revision Commission in 2012 totalled **RUR 720,610**.

1. The Policy is published on the Company's website at http://www.trcont.ru/ru/investoram/ustav-i-vnutrennie-dokumenty/vnutrennie-dokumenty/

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

CORPORATE GOVERNANCE
STOCKHOLDERS' EQUITY

2012 saw the Company's stock rank among the best performers in the Russian transportation sector and the leaders of the Russian securities market in general.

Andrey Zhemchugov
Director for Capital Markets and Investor Relations

SHARE CAPITAL
TransContainer's shares trade on the MICEX Stock Exchange, part of Moscow Exchange. The Company's Depositary Receipts are listed on the Main Market of the London Stock Exchange (LSE).

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

GLOBAL DEPOSITARY RECEIPTS (GDRs)
Global Depositary Receipts have been issued for TransContainer's shares at a rate of 10 GDR per share. The depositary bank is The Bank of New York Mellon.

As of 31 December 2012, the maximum permitted issue of depositary receipts was 20.4% of the Company's authorised capital.The number of securities traded on stock exchanges is not constant as GDR holders may convert their securities into shares and vice versa.

STOCK EXCHANGES
As of 31 December 2012, the Company's shares are traded on MICEX Stock Exchange's Quotation List B.

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

COMPANY'S SHAREHOLDER CAPITAL[1]

- Russian Railways 50.00%
- The Bank of New York International Nominees (GDR issuer) 18.70%
- European Bank for Reconstruction and Development (EBRD) 9.25%
- TRANSFINGROUP Asset Management 8.58%
- NATIXIS 5.97%
- Individuals and legal entities 7.50%

1. As per JSC TransContainer's shareholder register as of 21 February 2013.

SHARE CAPITAL STRUCTURE[2]

HOLDER	NUMBER OF SHARES	PER CENT OF AUTHORISED CAPITAL
Russian Railways	6,947,391	50.00001
The Bank of New York International Nominees (GDR issuer)	2,597,950	18.69731
European Bank for Reconstruction and Development (EBRD)	1,284,574	9.24501
TRANSFINGROUP Asset Management	1,192,343	8.58123
NATIXIS	829,757	5.97172
Other individuals and legal entities	1,042,763	7.50471
Total	13,894,778	100

2. As per JSC TransContainer's shareholder register as of 21 February 2013.

INFORMATION ON EACH CATEGORY/TYPE OF SHARES

Type and category of shares	Ordinary registered shares
Type and category of shares	Uncertificated
Issued amount, number	13,894,778
Par value of one (1) share (RUR)	1,000
Information on state registration of the issue	1-01-55194-E of 11 May 2006

SHARE AND GDR PRICE PERFORMANCE
In 2012, TransContainer's shares and depositary receipts were among the fastest growing Russian stocks. According to a report by Sberbank CIB Research dated 24 December 2012, the Company's depositary receipts were the best performing Russian GDRs that year. Based on the stock price both on the Moscow Exchange and foreign venues, TransContainer was a top-three Russian issuer by market cap growth in 2012 (according to RBC Daily as of 22 January 2013).

The total stockholder return for 2012 was 86.9%[3].

Throughout 2012, the LSE price of Global Depositary Receipts issued for the Company's shares consistently outperformed market indices. The Company's GDR price grew 82.7% over 2012, while RTS Index added 10.5%.

The performance of the Company's shares on the MICEX Stock Exchange was generally in line with that of the depositary receipts. By the end of 2012, the Company's share price had grown by 58.0% YoY, while the MICEX index was up 5.1% over the same period.

SHAREHOLDER AND INVESTOR RELATIONS
Full and timely disclosure of relevant information to our shareholders, investors, and the 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 Services Authority, and all 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 up by conference calls with research analysts and investors.

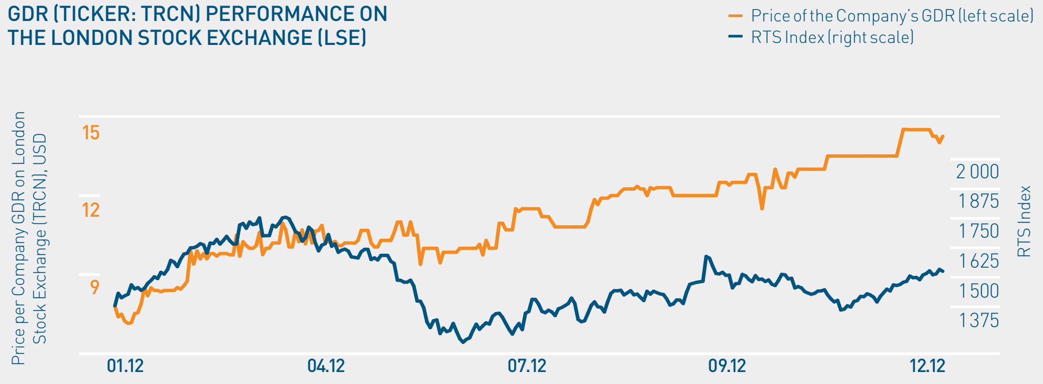
The Company uses electronic disclosure systems in Russia (www.e-disclosure.ru) and the UK (www.hemscott.com/nsm.do). In addition, corporate information is distributed through our website (www.trcont.ru), including investor presentations and news releases on operating and financial results and important corporate events. The Company provides regular updates on its business. Our new corporate website, launched in June 2012, offers additional insights for investors and opportunities to reach out to all stakeholders.

Along with transparency, the Company is focused on maintaining an ongoing dialogue with institutional investors and research analysts so as to obtain feedback from the investment community. In 2012, our key managers took part in nine investor conferences in Russia, the UK and the US, and held a series of one-on-one meetings with institutional investors in Russia and Continental Europe.

In 2012, the Company's stock was covered by 15 international and Russian investment banks.

3. Based on the closing price of TRCN on the London Stock Exchange; calculated in USD.

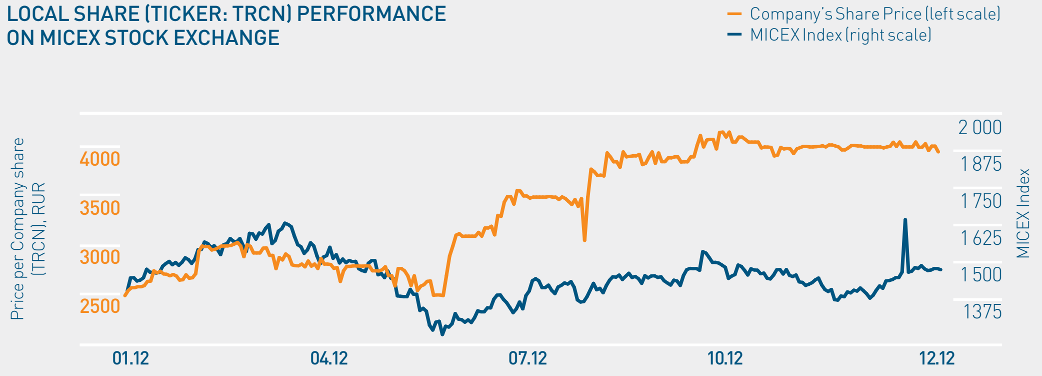
GDR (TICKER: TRCN) PERFORMANCE ON THE LONDON STOCK EXCHANGE (LSE)



LONDON STOCK EXCHANGE (LSE)

Price at year start (30-Dec-2011)	7.80
Year's low (06-Jan-2012)	7.15
Year's high (10-Dec-2012)	14.51
Price at year end (28-Dec-2012)	14.25

LOCAL SHARE (TICKER: TRCN) PERFORMANCE ON MICEX STOCK EXCHANGE



MICEX STOCK EXCHANGE

Price at year start (30-Dec-2011)	2,500.00
Year's low (18-May-2012)	2,318.60
Year's high (14-Sep-2012)	4,300.10
Price at year end (28-Dec-2012)	3,950.00

CORPORATE GOVERNANCE CODE ADHERENCE REPORT

№	ESSENTIALS OF THE CORPORATE GOVERNANCE CODE OF JSC TRANSCONTAINER	OBSERVED/ NOT OBSERVED	COMMENTS [1]
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 Association and internal documents.	Observed	The Company has approved Regulations on the Procedure for the Preparation and 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 2012 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.

№	ESSENTIALS OF THE CORPORATE GOVERNANCE CODE OF JSC TRANSCONTAINER	OBSERVED/ NOT OBSERVED	COMMENTS [1]
Board of Directors (Continued)			
12	The Board of Directors annually evaluates the compliance of BoD members using criteria/requirements that are specifically set for independent directors.	Observed	On 19 September, 2012, the Board of Directors reviewed the criteria concerning director independence and decided that BoD members V.I. Andrienko, 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	
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 2011 to 2012, the activities of the Board of Directors and BoD Committees were evaluated by an independent company. The results of the evaluation were reviewed at a BoD meeting held in April 2013.
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	The Chairs of the Audit Committee and the Personnel and Remuneration are independent directors. There is also an independent director in the Strategy Committee.
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	

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/

CORPORATE GOVERNANCE CODE ADHERENCE REPORT

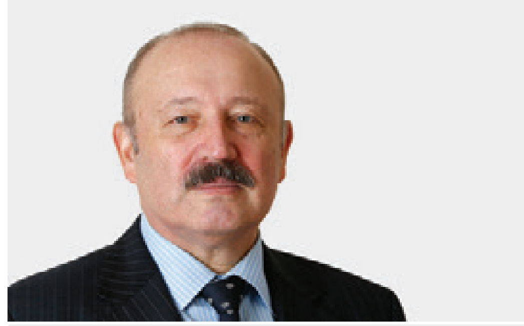
№	ESSENTIALS OF THE CORPORATE GOVERNANCE CODE OF JSC TRANSCONTAINER	OBSERVED/ NOT OBSERVED	COMMENTS
Stakeholders' roles (Continued)			
24	The Company efficiently addresses public expectations by way of, inter alia, identifying and analysing such expectations and responding to them.	Observed	
25	In order 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	
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 information 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 № 58.

№	ESSENTIALS OF THE CORPORATE GOVERNANCE CODE OF JSC TRANSCONTAINER	OBSERVED/ NOT OBSERVED	COMMENTS
Disclosure of information (Continued)			
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	
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. The Internal Audit Service is accountable to the BoD Audit Committee.	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's 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

№	ESSENTIALS OF THE CORPORATE GOVERNANCE CODE OF JSC TRANSCONTAINER	OBSERVED/ NOT OBSERVED	COMMENTS
Dividends (Continued)			
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.	Observed	
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.
Corporate conflicts (Continued)			
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.	Observed	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.

CORPORATE SOCIAL RESPONSIBILITY

We aim to maintain a sustainable balance between the Company's economic interests and commitments in the areas of social welfare and environmental protection that are required.



Nikolay Averkov
Deputy General Director for Social and Personnel Policy

OUR APPROACH

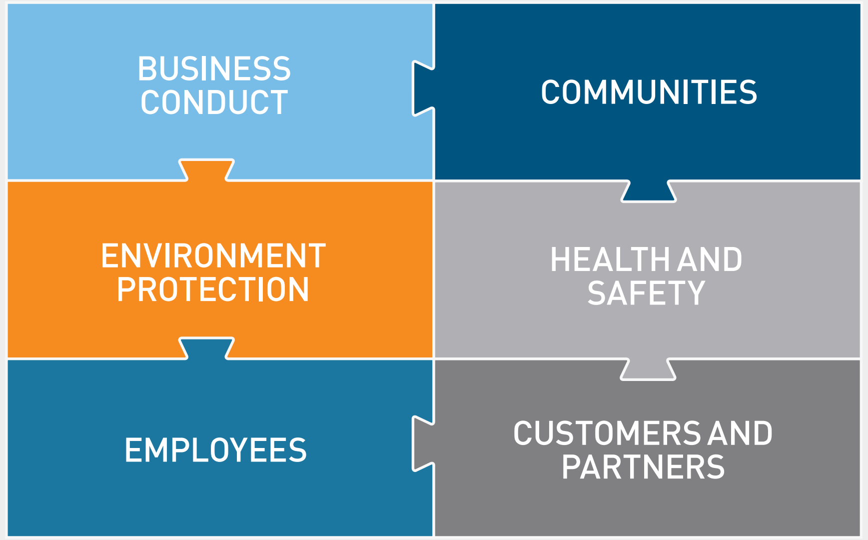
We aim to maintain a sustainable balance between the Company's economic interests and the commitments corporate responsibility entails in the areas of social welfare and protection of the environment.

Our key values are:
- Fostering the confidence invested in us by our clients and partners
- Respecting the individual rights of each of our employees
- Facilitating the professional development of each member of our team

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 PRINCIPLES



BUSINESS RELATIONS FRAMEWORK

Our relations with our customers and partners stay true to the following basic principles:
- HONESTY AND INTEGRITY: This is the principle which is the foundation for building long-term relationships. By observing this principle 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 SERVICES WE PROVIDE: We are committed to providing a high level of service and taking an individual approach to each customer.
- OBSERVANCE OF CONTRACTUAL OBLIGATIONS: Before we enter into an obligation, we assess our capacity and capabilities. Once an obligation is undertaken, we feel bound to honour it in full 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 are committed 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. In the event of a dispute not being settled amicably, it is resolved through the due process of law.

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

COMMUNITIES

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 align itself with any political movements or organisations.

Striving to improve the quality of life in the regions where we have presence, we carry out extensive charity work. Our priority categories for charitable activities include:
- Assistance in mother and child welfare and promoting the importance of families in the community
- Social support and protection of low-income persons, social rehabilitation of the disabled and other people who need assistance
- Promotion of physical fitness and popular sports
- Promotion of education, science, culture, the arts, and intellectual development
- Support for industry-wide charity programmes with national significance.

The Company donated RUR 140.9 mln to charitable spending in 2012. 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.

KEY CHARITABLE CONTRIBUTIONS IN 2012

ACTIVITY	AMOUNTS, RUR MLN
Publishing illustrated books for blind children	0.3
Building a multi-sport playground for Saltykovsky Orphanage	0.6
Buying holiday camp vouchers for children of deceased militarymen	0.2
Providing assistance to Krymsk flood victims, including the purchase of a bus for the Krymsk Children's Centre	2.9*
Purchasing special equipment for Beryozka home for mentally-challenged children in Sergiyev Posad	1.7
Purchasing medical equipment for Malakhovka Children's Tuberculosis Sanatorium	0.3
Providing assistance to the Transsoyuz Charity Foundation as part of the Book of Good Deeds programme	87
Sponsoring the Moscow Paramusical Festival	0.3
Helping Locomotive Hockey Club in Yaroslavl support younger hockey players	30
Purchasing medical supplies for the Podsolnukh Charity Foundation for Children with Immune Disorders	0.5
Purchasing medical supplies for the Romashka Children's Cancer Recovery Foundation	4
Providing assistance to Company employees, their family members, and retired employees	5.6
Providing assistance to the Spread Your Wings Charity Foundation in the arrangement of Christmas festivities for orphaned children	4

* and donation of 100 medium-duty containers

CORPORATE SOCIAL RESPONSIBILITY

Our primary asset is our personnel. Each employee's personal performance and contribution to the common cause are inseparable from the overall success achieved by the Company.

EMPLOYEES

In its relations with its employees, the Company adheres to the following basic principles:

- PERFORMANCE MOTIVATION: The Company makes efforts to develop and put into place efficient financial and non-economic incentives to align the interests of employees with those of shareholders.
- SOCIAL SECURITY: The Company guarantees favourable and safe working conditions for its employees and provides social and healthcare benefits in line with the collective bargaining agreement and approved social insurance programmes.
- ENCOURAGING PROFESSIONAL DEVELOPMENT: The Company cares about its employees' onboarding and professional development, offering equal opportunities for training, skill development, and career growth.
- NON-DISCRIMINATION: The Company provides equal rights and opportunities to each employee regardless of their position, ethnicity, sex, age, religious views, or attitude.
- SIGNIFICANCE OF EACH EMPLOYEE'S CONTRIBUTION: The Company views each employee's work as a contribution to its overall performance. The successful development of the Company directly depends on how efficiently each employee performs their duties.
- PROMOTION OF SOCIAL ATMOSPHERE AND TEAM SPIRIT: The Company creates a favourable working climate to support team spirit and a friendly environment.
- ENCOURAGING HEALTHY LIFESTYLES: The Company provides facilities for sports and fitness and welcomes healthy lifestyles.

RECRUITMENT

To cover the need for skilled personnel, the Company recruited a total of 517 employees in 2012, including 276 (53.4%) under 30 and 260 (50.3%) with a degree.

The onboarding initiatives carried out in line with TransContainer's Onboarding Policy resulted in a 2.1% reduction of the employee turnover rate to 7.5% in 2012.

Headcount optimisation efforts in 2012 were mainly focused on reducing the staff size to fit the workload by natural attrition. During the year, 380 people left for personal reasons, 118 people retired, and 52 people were made redundant.

To increase the quality of its personnel, the Company undertook a large-scale performance appraisal in 2012. This proved to be a powerful incentive for employees to raise their expertise and skill level and increase the quality and efficiency of their work. The appraisal demonstrated that most employees were highly skilled. 32.8% of our staff were awarded the highest rating as "qualified for the current position with potential for professional growth." A total of 250 employees were promoted during the year, including 211 (84.4%) employees from the pre-selected candidate pool.

INCENTIVES

One-time payments made in 2012 in line with the Company's Loyalty Policy approved by the Board in November 2011 were an important driver of employee motivation. In addition, year-end bonuses were paid to employees who made notable contributions to the Company's growth in various areas.

The Company extensively uses non-economic incentives as well. The main types of non-economic incentives are inclusion in the corporate Wall of Fame or the Book of Honour, skill contests among our core professions, and ceremonies for the winners.

HEADCOUNT AND PAYROLL

	2010	2011	2012
Year-end headcount	5,370	5,194	5,048
Average headcount[1]	5,150	4,991	4,794
Employee turnover, %	9.2	9.6	7.5
Average monthly pay, RUR	36,143	44,792	50,772

1. Excluding representative offices abroad and subsidiaries

SUPPLEMENTARY SOCIAL BENEFITS

BENEFITS UNDER THE COLLECTIVE BARGAINING AGREEMENT

Common social benefits provided to Company employees are set out in the 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
- Full or partial reimbursement of rail fares for work or vacation travel
- Summer vacations for employees' children
- Recreation for employees and their families at certain resorts at discount rates or partial reimbursement of travel packages bought
- Partial refunds for pre-school fees
- Refunds and benefits in line with the Company's Recent Graduate Hiring Policy approved by the Board of Directors in October 2006

OTHER SOCIAL BENEFITS

Additional social programmes are in place to attract and retain employees:

THE HOUSING PROGRAMME

Includes:

- Subsidies to employees to contribute to their mortgage interest;
- Corporate support for home purchase/construction.

To date, 81 staff members have taken advantage of the programme to improve their housing conditions.

THE HEALTH PROGRAMME

The health programme is designed to improve Company employees' health by encouraging physical exercise and sports. The Company leases facilities for various sports and fitness activities and has created a sports committee to coordinate sporting events. As well as a corporate football club, employees also have access to volleyball, basketball, futsal, and tennis facilities.

THE PENSION PLAN

The pension plan is another way to motivate Company employees. The plan is based on our agreement with Blagosostoyanie Private Pension Fund and implemented in compliance with TransContainer's Private Pension Policy. Any Company employee may join this retirement savings scheme on a fifty-fifty basis. The final amount saved depends on the size of contributions, duration of employment with the Company, and the last two years' average monthly salary. A total of 1,398 Company employees (27.6%) have joined the scheme, including 44 people in 2012. 48 employees who retired in 2012 were awarded corporate pensions, the average amount of which was RUR 7,689 per month.

PROFESSIONAL DEVELOPMENT EXPENDITURE

	2010	2011	2012
Number of participants	942	1,291	2,139
Expenditure, RUR mln	14.6	12.6	19

PERSONNEL DEVELOPMENT

The Company is committed to ensuring adequate training and professional development for active, promising, and talented employees, encouraging them to realise their creative potential to add value to the Company.

We now have a mature internal regulatory framework for personnel training, development, and postgraduate education. However, some of its components need regular updates to keep up with the transportation sector labour market.

Each year's training requirement is identified during the second half of the previous year pursuant to the 07.001 Standard.

The main training programmes are:

- MBA courses (at the Higher School of Economics, the Academy of National Economy, and other schools);
- Accounting and financial reporting update courses;
- Transportation logistics problems in the context of the Company's business;
- Updates on relevant provisions of tax, customs, transport, corporate, and other legal branches;
- English language courses;
- Additional training at relevant schools for our employer-sponsored full-time students;
- Various on-the-job training seminars, including those focused on industrial safety;
- Updates on IT solutions.

The Company conducts staff training and development for all levels of personnel (top executives, key staff, managerial and administrative staff, branch staff, workers) in two main ways:

- Requalification;
- Skills development.

A total of 2,139 employees took part in training and development programmes in 2012, with the Company spending RUR 19 mln.

Another important initiative is employer-sponsored college studies for our potential employees.

A total of 59 college students are currently being trained under full-time employer-sponsored education contracts and 10 students under paid education contracts, each becoming a Company employee when they graduate. 23 of these students major in Logistics Systems and Cargo Delivery Technology.

In 2012, we started to develop our corporate network of organisation and methodology training centres. The first of them is the Training Centre at Kleschikha station, TransContainer's West Siberian Branch.

CORPORATE SOCIAL RESPONSIBILITY

Creating and maintaining safe working conditions is among our top priorities, and so we are focused on strictly observing regulatory health and safety requirements. The Company has also developed the necessary internal regulations for occupational, industrial, and fire safety.

Igor Obrubov
Chief Engineer

HEALTH AND SAFETY

The Company has developed and implemented a three-tier working conditions monitoring system, which includes:
– Supervision during each shift
– Monthly checks by heads of operating units
– Quarterly checks by heads of business units

We conduct workplace compliance assessments and staff safety training sessions at regular intervals.

Key health and safety risks are identified and included in the Corporate Risks Map. Monitoring occupational injury risk is classified as critical and therefore the relevant H&S metrics are subject to quarterly review by the Board.

Three industrial injuries occurred in 2012, the same as that of the previous year.

Since our market entry, no incident has occurred that could be classified as having an adverse environmental impact.

ENVIRONMENT PROTECTION

TransContainer cares about the natural environment in the regions where we operate. Since our market entry, there have been no incidents which could be classified as having an adverse environmental impact. We pay the requisite pollution charges on time and in full.

The Company prepares annual environmental action plans. The 2012 Action Plan was implemented in full:

1. Our branches drafted their maximum permissible emissions (MPE) as the previous regulations were nearing expiry.
2. We obtained stationary-source emission allowances to minimise anthropogenic air pollution. Company branches applied air treatment solutions such as filter units, dry filters, sack filters, and air cleaning installations for metal machining shops.
3. 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.
4. The Company signed hazardous waste disposal contracts with specialist companies licensed to collect and recycle mercury lamps, household waste, scrap metal, and oily rags.
5. The Company performed asphalt coat repair to protect soil from contaminated rainwater at our St. Petersburg Vitebsky Station, Bryansk, and Zabaikalsk sites.
6. The Moscow Branch's Likhobory Container Repair Depot purchased a RUR 1.12 mln airless paint sprayer for the painting and drying chamber to stop air emissions.
7. 2,000 cubic metres of lignin were removed and dumped during the renovation of the Bazaikha container terminal at a total cost of RUR 15 mln.
8. Storm water drainage at the Kleschikha container terminal was reconstructed at a total cost of RUR 16.2 mln.

ENERGY EFFICIENCY

In 2012, in order to implement Russian Railways' Energy Efficiency Programme and meet the requirements of Federal Law 261-FZ dated 23 November 2009 (On Energy Saving and Energy Efficiency Improvements and Amendments to Certain Federal Statutes), the Company approved an energy saving action plan. The Company's facilities were inspected for energy efficiency (as recognised in Consumer's Energy Performance Certificate no. 048-001-04-019-036).

In 2012, the Company continued replacing conventional lighting fixtures with energy-saving alternatives. The related purchase and installation costs totalled RUR 512,600. Another RUR 1,717,000 was spent on the introduction of modern truck fuelling equipment, and RUR 1,405,500, on preventive maintenance and heating equipment repairs.

HISTORICAL ENVIRONMENTAL EXPENDITURE

	2008	2009	2010	2011	2012
Amount, RUR mln	14.3	14.9	15.6	126.8	43.0

SAVINGS ACHIEVED UNDER THE 2012 ACTION PLAN

Energy resource	Savings in physical terms	Savings in money terms, RUR'000
Electricity, total, '000 kWh	358.9	1,283.2
Diesel fuel, tonnes	163.3	3,579.7
Petrol, tonnes	7.3	132.9
Natural gas, TCM	5.1	22.0

ENERGY RESOURCES CONSUMED IN 2012

Energy resource	Physical amount	Cost, RUR'000
Electricity, total, '000 kWh	17,685.4	54,376.4
Diesel fuel, tonnes	6,973.5	149,745.8
Petrol, tonnes	440.7	16,144.8
Natural gas, TCM	154	1,278.2

STATEMENT OF MANAGEMENT'S RESPONSIBILITIES FOR THE PREPARATION AND APPROVAL OF THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012

Last year the Company carried on the task of reducing the time needed to prepare interim and annual financial statements under the IFRS and Russian GAAP. Our aim is to publish our IFRS financial statements within the same terms as Russian market bellwethers listed on international stock exchanges.

Konstantin Kalmykov
Chief Accountant

Management is responsible for the preparation of consolidated financial statements that present fairly the financial position of OJSC TransContainer (the "Company"), its joint ventures and subsidiaries (the "Group") as at 31 December 2012 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 2012 were approved on 23 April 2013 by:

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

INDEPENDENT AUDITOR'S REPORT

pwc

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 2012 and the consolidated statements of comprehensive income, changes in equity and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of 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 these consolidated financial statements based on our audit. We conducted our audit in accordance with International Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Group as at 31 December 2012, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

ZAO PricewaterhouseCoopers Audit

24 April 2013
Moscow, Russian Federation

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

	Notes	2012	2011
ASSETS			
Non-current assets			
Property, plant and equipment	7	34,234	29,216
Advances for acquisition of non-current assets	7	358	2,205
Trade receivables	11	452	728
Intangible assets other than goodwill	9	592	653
Goodwill	8	216	216
Investments in associates	10	11	55
Other non-current assets		97	103
Deferred tax asset	26	1	4
Total non-current assets		35,961	33,180
Current assets			
Inventory		334	278
Trade and other receivables	11	1,284	1,152
Prepayments and other current assets	12	4,435	3,702
Prepaid income tax		132	193
Short-term investments	13	1,339	941
Cash and cash equivalents	14	1,365	2,300
Total current assets		8,889	8,566
TOTAL ASSETS		44,850	41,746
EQUITY AND LIABILITIES			
Capital and reserves			
Share capital	15	13,895	13,895
Treasury shares	19	(490)	(514)
Reserve fund	15	478	304
Translation reserve		49	193
Equity-settled employee benefits reserve	19	188	148
Other reserves		(2,221)	(2,221)
Retained earnings		14,884	11,161
Total equity attributable to equity holders of the parent		26,783	22,966
Non-controlling interest		937	962
Total equity		27,720	23,928
Non-current liabilities			
Long-term debt	16	2,731	8,301
Finance lease obligations, net of current maturities	17	668	15
Employee benefit liability	18	1,093	990
Deferred tax liability	26	1,713	1,742
Other non-current liabilities		–	1
Total non-current liabilities		6,205	11,049

These notes are an integral part of the consolidated financial statements.

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

	Notes	2012	2011
Current liabilities			
Trade and other payables	20	3,788	4,593
Short-term debt	16	5,695	553
Income tax payable		169	134
Taxes other than income tax payable	21	367	303
Provisions		10	5
Finance lease obligations, current maturities	17	94	479
Accrued and other current liabilities	22	802	689
Deferred income		–	13
Total current liabilities		10,925	6,769
TOTAL EQUITY AND LIABILITIES		44,850	41,746

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

23 April 2013

These notes are an integral part of the consolidated financial statements.

OJSC TRANSCONTAINER CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 31 DECEMBER 2012 (AMOUNTS IN MILLIONS OF RUSSIAN ROUBLES, UNLESS OTHERWISE STATED BELOW)

	Notes	2012	2011
Revenue	23	36,396	30,876
Other operating income		417	610
Operating expenses	24	(29,472)	(25,751)
Operating profit		7,341	5,735
Interest expense	25	(885)	(841)
Interest income		212	64
Foreign exchange (loss)/gain, net		(2)	119
Share of result of associates	10	(19)	(47)
Gain from disposal of associate	10	72	–
Profit before income tax		6,719	5,030
Income tax expense	26	(1,568)	(1,187)
Profit for the year		5,151	3,843
Attributable to:			
Equity holders of the parent		5,102	3,810
Non-controlling interest		49	33
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(208)	272
Total comprehensive income for the year		4,943	4,115
Attributable to:			
Equity holders of the parent		4,958	3,996
Non-controlling interest		(15)	119
Earnings per share, basic and diluted (Russian Roubles)		368	276
Weighted average number of shares outstanding		13,863,408	13,828,618

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

23 April 2013

These notes are an integral part of the consolidated financial statements.

OJSC TRANSCONTAINER CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012 (AMOUNTS IN MILLIONS OF RUSSIAN ROUBLES)

	Notes	2012	2011
Cash flows from operating activities:			
Profit before income tax		6,719	5,030
Adjustments for:			
Depreciation and amortisation	24	2,740	2,577
Change in provision for impairment of receivables	24	(11)	116
Loss/(gain) on disposal of property, plant and equipment		27	(288)
(Reversal)/loss on impairment of property, plant and equipment	7	1	(1)
Share of result of associates	10	19	47
Gain from disposal of associate	10	(72)	–
Interest expense, net		673	777
Equity-settled employee benefits reserve	19	87	148
Foreign exchange loss/(gain), net		2	(119)
Change in provisions		5	3
Other		(4)	–
Operating profit before working capital changes		10,186	8,290
Decrease in inventory		22	62
Decrease/(increase) in trade and other receivables		180	(370)
Increase in prepayments and other current assets		(530)	(909)
(Decrease)/increase in trade and other payables		(694)	726
Increase/(decrease) in taxes other than income tax		65	(488)
Increase in accrued expenses and other current liabilities		216	342
Increase in employee benefit liabilities	18	102	313
Net cash from operating activities before income tax		9,547	7,966
Interest paid		(834)	(830)
Income tax paid		(1,467)	(1,357)
Net cash provided by operating activities		7,246	5,779
Cash flows from investing activities:			
Purchases of property, plant and equipment		(5,691)	(4,244)
Proceeds from disposal of property, plant and equipment		6	554
Acquisition of subsidiary, net of cash acquired		(103)	(1,551)
Sale of short-term investments		1,541	–
Sale of long-term investments		16	2
Purchases of short-term investments		(1,939)	(941)
Purchases of long-term investments		(3)	–
Purchases of intangible assets		(82)	(48)
Interest received		194	65
Net cash used in investing activities		(6,061)	(6,163)

These notes are an integral part of the consolidated financial statements.

OJSC TRANSCONTAINER CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 DECEMBER 2012
(AMOUNTS IN MILLIONS OF RUSSIAN ROUBLES)

	Notes	2012	2011
Cash flows from financing activities:			
Proceeds from long-term borrowings		–	2,336
Repayments of finance lease obligations		(491)	(467)
Acquisition of treasury shares	19	–	(514)
Dividends		(1,228)	(53)
Principal payments on long-term borrowings		(2)	(13)
Principal payments on short-term borrowings		–	(2)
Principal payments on short-term bonds		(346)	–
Net cash (used in) / provided by financing activities		(2,067)	1,287
Net (derease) / increase in cash and cash equivalents		(882)	903
Cash and cash equivalents at beginning of the year		2,300	1,291
Foreign exchange effect on cash and cash equivalents		(53)	106
Net cash and cash equivalents at end of the year		1,365	2,300

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

23 April 2013

These notes are an integral part of the consolidated 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 benefits reserve	Other reserves	Retained earnings	Non- Total	controlling interest	Total equity
Balance at 1 January 2011		13,895	–	284	7	–	(2,221)	7,411	19,376	–	19,376
Profit for the year		–	–	–	–	–	–	3,810	3,810	33	3,843
Other comprehensive income for the year		–	–	–	186	–	–	–	186	86	272
Total comprehensive income for the year		–	–	–	186	–	–	3,810	3,996	119	4,115
Acquisition of subsidiary		–	–	–	–	–	–	–	–	856	856
Acquisition of treasury shares		–	(514)	–	–	–	–	–	(514)	–	(514)
Equity-settled employee benefits reserve		–	–	–	–	148	–	–	148	–	148
Dividends		–	–	–	–	–	–	(40)	(40)	(13)	(53)
Transfer to reserve fund		–	–	20	–	–	–	(20)	–	–	–
Equity-settled employee benefits reserve		–	–	–	–	–	–	–	–	–	–
Balance at 31 December 2011		13,895	(514)	304	193	148	(2,221)	11,161	22,966	962	23,928
Profit for the year		–	–	–	–	–	–	5,102	5,102	49	5,151
Other comprehensive income for the year		–	–	–	(144)	–	–	–	(144)	(64)	(208)
Total comprehensive income for the year		–	–	–	(144)	–	–	5,102	4,958	(15)	4,943
Equity-settled employee benefits reserve	19	–	–	–	–	87	–	–	87	–	87
Exercised options under option plan	19	–	24	–	–	(47)	–	13	(10)	–	(10)
Dividends	15	–	–	–	–	–	–	(1,218)	(1,218)	(10)	(1,228)
Transfer to reserve fund		–	–	174	–	–	–	(174)	–	–	–
Balance at 31 December 2012		13,895	(490)	478	49	188	(2,221)	14,884	26,783	937	27,720

P. V. Baskakov
General Director

K. S. Kalmykov
Chief Accountant

23 April 2013

These notes are an integral part of the consolidated financial statements.

OJSC TRANSCONTAINER
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS FOR THE YEAR ENDED 31 DECEMBER 2012
(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 owns and operates 46 container terminals along the Russian railway network. As at 31 December 2012, the Company operated 17 branches in Russia. The Company's registered address is 12 Novoryazanskaya Street, Moscow, 107228, Russian Federation. Its principal place of business is 19 Oruzheiniy pereulok, Moscow, 125047, Russian Federation.

The Company has ownership in the following entities:

				Interest held, %		Voting rights, %	
Name of Entity	Type	Country	Activity	2012	2011	2012	2011
Oy ContainerTrans Scandinavia Ltd.	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.	Joint venture	China	Container shipments	49	49	50	50
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	Associate	Germany	Container shipments	20	20	20	20
Far East Land Bridge Ltd. (Note 10)	Associate	Cyprus	Container shipments	–	10	–	25
LLC Prostor Invest Group (Note 19)	Subsidiary	Russia	Share option programme operator	100	100	100	100
JSC Kedentransservice	Subsidiary	Kazakhstan	Handling	67	67	67	67
Helme's Development Company Ltd.	Subsidiary	British Virgin Isles	Investment activity	–	100	–	100
Helme's Operation UK Limited	Subsidiary	Great Britain	Investment activity	100	100	100	100
Logistic Investment SARL	Subsidiary	Luxemburg	Investment activity	100	100	100	100
Logistic System Management B.V.	Subsidiary	Netherlands	Investment activity	100	100	100	100

LIQUIDATION OF HELME'S DEVELOPMENT COMPANY LIMITED – In May 2012 the company Helme's Development Company Limited was liquidated. As a result on 24 May 2012 1 share of Helme's Operation UK Limited, which owns 46.9% of shares of JSC Kedentransservice, was transferred by Helme's Development Company Limited to the Company.

In December 2012 the Company transferred 100% of shares of Helme's Operation UK Limited to Logistic Investment SARL.

The consolidated financial statements of OJSC TransContainer, its subsidiaries and its joint ventures (the "Group") as at 31 December 2012 and for the year then ended were authorised for issue by the General Director of the Company on 23 April 2013.

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, its joint ventures and 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.

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.

GOING CONCERN – These consolidated financial statements have been prepared on the assumption that the Group will continue as a going concern in the foreseeable future, which implies the realisation of assets and settlement of liabilities in the normal course of business. As at 31 December 2012 the Group's current liabilities exceeded its current assets by RUR 2,035m. The Group's current liabilities as at 31 December 2012 included Rouble bonds issued by the Company for a total amount of RUR 3,000m and loans from OJSC Alfa Bank for the total amount of RUR 1,822m. In February 2013 the Company placed five-year RUR bonds series 4 for a total amount of RUR 5,000m and redeemed its obligations on previously obtained loans and bonds (Note 16, 31). This resulted in a reduction of the current liabilities by approximately RUR 4,822m, and a corresponding increase in the Group's working capital position. The Group continues to monitor its existing liquidity needs. Although the current economic environment (Note 29) might affect the profitability of the Group's operations in the near term, management believes that the Group will have sufficient operating cash flows and borrowing capacity to continue as a going concern.

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 companies and other entities (including special purpose entities) in which the Group, directly or indirectly, has an interest of more than one half of the voting rights or otherwise has power to govern the financial and operating policies so as to obtain benefits. The existence and effect of potential voting rights that are either presently exercisable or presently convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date on which control is transferred to the Group (acquisition date) and are deconsolidated from the date that 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

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.

INTERESTS IN JOINT VENTURES – A joint venture is a contractual arrangement whereby the Group and other parties undertake an economic activity that is subject to joint control i.e. the strategic financial and operating policy decisions relating to the activities of the joint venture require the unanimous consent of the parties sharing control.

The Company's interests in jointly controlled entities is recognised using proportional consolidation whereby the Company's share of the assets, liabilities, income and expenses of jointly controlled entities are combined with the equivalent items in the consolidated financial statements on a line-by-line basis. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

The Group discontinues the use of proportionate consolidation from the date on which it ceases to have joint control over an entity.

INVESTMENTS IN ASSOCIATES – 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 are accounted for by the equity method of accounting and are initially recognised at cost. Dividends received from associates reduce the carrying value of the investment in associates. Other post-acquisition changes in the Group's share of an associate's net assets are recognised as follows: (i) the Group's share of profits or losses of associates is recorded in the consolidated profit or loss for the period as the share of result of associates, (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 are recognised in profit or loss within the share of result of associates.

When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates; unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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.

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	20-80
Constructions	5-45
Containers	10-15
Flatcars	28-32
Cranes and loaders	5-15
Vehicles	3-10
Other equipment	2-25

The assets' useful lives and amortisation methods are reviewed and adjusted as appropriate, at each financial year end.

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.

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. The lease rights are identified as an intangible asset that is 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.

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 and held-to-maturity investments.

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.

HELD-TO-MATURITY INVESTMENTS
Investments in non-derivative financial assets with fixed or determinable payments and fixed maturity that the Group has the positive intent and ability to hold to maturity, other than loans and receivables, are classified as held-to-maturity investments. Held-to-maturity investments are recorded at amortized cost using the effective interest method less any impairment, with revenue recognized on an effective yield basis. Management determines the classification of interest-bearing deposits with more than three months original maturity and no advanced payments allowed as held to maturity investment at their initial recognition and reassesses the appropriateness of that classification at the end of each reporting period.

IMPAIRMENT OF FINANCIAL ASSETS CARRIED AT AMORTISED COST - Impairment losses are recognised in 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 profit or loss for the year.

EFFECTIVE INTEREST METHOD –The 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.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

POST-EMPLOYMENT BENEFITS
1) DEFINED BENEFIT PLANS
The Group operates two partially funded 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. Actuarial gains and losses are recognised as income or expense in full as they arise.

In addition, the Group provides certain other post-employment and other long-term benefits to its employees. These benefits are not funded.

Upon introduction of a new plan or improvement of an existing plan, past service costs are recognised on a straight-line basis over the average period until the amended benefits become vested. To the extent that the benefits are already vested, past service cost is immediately expensed.

2) 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.

OTHER LONG-TERM BENEFITS
Other long-term employee benefits include loyalty bonuses. The obligation and cost of benefits are determined using the projected unit credit method. Actuarial gains and losses are recognised as income or expense in full as they arise. Past service cost with regard to these benefits was recognised in the income statement immediately.

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 each 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.

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 effecitve 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 measured at the fair value of the consideration received or receivable and represents amounts receivable for goods and services provided in the normal course of business, net of 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 reinvoiced 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 gross in the corresponding revenue line items. Revenues from integrated freight forwarding and logistics services are recognised 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.

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 on a gross basis in the accounting period in which the services are rendered.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 on a gross basis in the accounting period in which the services are rendered.

DIVIDEND AND INTEREST INCOME
(i) Dividends from investments are recognised in 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 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.

SALE AND LEASEBACK
A sale and leaseback transaction involves the sale of an asset and then leasing the same asset back. If a sale and leaseback transaction results in a finance lease, any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term.

3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

If a sale and leaseback transaction results in an operating lease and the transaction is established at fair value any profit or loss is recognised immediately. If the sale price is below fair value any profit or loss will be recognised immediately except that, if the loss is compensated for by future lease payments at below market price, it is deferred and amortised in proportion to the lease payments over the period for which the asset is expected to be used. If the sale price is above fair value, the excess over fair value is deferred and amortised over the period for which the asset is expected to be used.

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 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 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 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 utilized. 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.

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3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 before or on the balance sheet date by the shareholders at a general meeting. Dividends are disclosed when they are proposed before the balance sheet date or proposed or declared after the balance sheet date but before the 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.

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 2012. 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:

The Group has elect to early adopt IAS 1 "Presentation of Financial Statements" – 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".

4. NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (CONTINUED)

IFRS AND IFRIC INTERPRETATIONS NOT YET EFFECTIVE

At the date of authorisation of these consolidated financial statements, the following standards and interpretations have been published that are mandatory for the Group's accounting periods beginning on or after 1 January 2013 or later periods and which the entity has not early adopted:

Standards and Interpretations	Effective for annual periods beginning on or after
IAS 19 "Employee Benefits" (amended)	1 January 2013
IAS 28 "Investments in Associates and Joint Ventures" (revised)	1 January 2013
IAS 32 "Financial instruments: presentation" (amended)	1 January 2014
IFRS 7 "Financial instruments: disclosures" (amended)	1 January 2013
IFRS 9 "Financial instruments"	1 January 2015
IFRS 10 "Consolidated Financial Statements"	1 January 2013
IFRS 11 "Joint Arrangements"	1 January 2013
IFRS 12 "Disclosure of Interest in Other Entities"	1 January 2013
IFRS 13 "Fair value measurement"	1 January 2013

Also a number of standards and interpretations were amended with Annual Improvements to IFRS. These amendments consist of a mixture of substantive changes, clarifications, and changes in terminology in different standards. These amendments are mandatory for adoption in the annual periods beginning on or after 1 January 2013.

The impact of adoption of these standards and interpretations in the preparation of the consolidated financial statements in future periods is currently being assessed by management. The new and revised standards which are likely to have an effect on measurement, presentation of disclosure in the financial statements of the Group are described in more detail below:

- IAS 19 "Employee Benefits" – makes significant changes to the recognition and measurement of defined benefit pension expense and termination benefits, and to the disclosures for all employee benefits. The standard requires recognition of all changes in the net defined benefit liability (asset) when they occur, as follows: (i) service cost and net interest in profit or loss; and (ii) remeasurements in other comprehensive income.
- 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.
- IFRS 9 "Financial instruments" – incorporates new procedure for classification and measurement of financial assets and liabilities and includes the existing IAS 39 requirements for derecognition of financial assets and financial liabilities.
- IFRS 10 "Consolidated Financial Statements" – 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.
- IFRS 11 "Joint Arrangements" – 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 existing 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 will be accounted using equity method. Management considers the change in the method of accounting of joint ventures will not have significant impact on the consolidated financial statements.
- IFRS 12 "Disclosure of Interest in Other Entities" – 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.
- IFRS 13 "Fair value measurement" - 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 IFRS.

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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 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 2012 and 2011, the provision for impairment of receivables was recognised in the amount of RUR 184m and RUR 283m, 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. 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.

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 (Note 8).

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, expected rate of return on plan assets, etc.). In the event that further changes in the key assumptions are required, the future amounts of the pension benefit costs may be materially affected (Note 18).

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.

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 and 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 10,752m for the year ended 31 December 2012 (RUR 8,175m for the year ended 31 December 2011).

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 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. PROPERTY, PLANT AND EQUIPMENT

	Land, buildings and constructions	Locomotives, containers and flatcars	Cranes and loaders	Vehicles and other equipment	in-progress Construction	Total
Cost						
1 January 2011	4,896	24,425	1,290	1,924	1,332	33,867
Additions	176	2,416	152	279	843	3,866
Acquisition through business combination	1,448	396	132	334	26	2,336
Transfers	895	128	91	161	(1,275)	–
Capitalised borrowing costs	–	–	–	–	43	43
Disposals	(236)	(377)	(167)	(112)	(31)	(923)
Exchange difference	153		3917	41	3	253
31 December 2011	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)	(63)	(1)	(432)
Exchange difference	(119)	(33)	(13)	(31)	(3)	(199)
31 December 2012	10,464	30,229	1,680	2,918	1,482	46,773

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7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Land, buildings and constructions	Locomotives, containers and flatcars	Cranes and loaders	Vehicles and other equipment	in-progress Construction	Total
Accumulated depreciation						
1 January 2011	(1,146)	(5,447)	(673)	(954)	(3)	(8,223)
Depreciation charge for the year	(322)	(1,639)	(181)	(364)	–	(2,506)
Reversal of impairment / (impairment)	2	–	–	–	(1)	1
Disposals	27	320	87	91	–	525
Exchange difference	(8)	(9)	(3)	(3)	–	(23)
31 December 2011	(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)
Net book value						
31 December 2011	5,885	20,252	745	1,397	937	29,216
31 December 2012	8,673	21,974	748	1,361	1,478	34,234

Included under land, buildings and constructions are the amounts of RUR 701m and RUR 744m, which represent the value of land plots owned by the Group as at 31 December 2012 and 2011, respectively.

During the year ended 31 December 2012 the Group acquired the non-residential premises in a Moscow office building. The total acquisition cost was RUR 2,574m. A part of the building at the cost of RUR 1,816m was acquired under a sale and purchase agreement, the remaining part of the building at the cost of RUR 758m was acquired under a finance lease agreement (Note 17).

The vehicles and other equipment category includes motor transport used for terminal services and truck deliveries with gross carrying amount of RUR 1,105m and RUR 1,011m as at 31 December 2012 and 2011, respectively.The gross carrying amount of fully depreciated property, plant and equipment that is still in use amounted to RUR 1,930m and RUR 1,329m as at 31 December 2012 and 2011, respectively.

The carrying amount of temporarily idle property, plant and equipment as at 31 December 2012 and 2011 comprised the following:

	2012	2011
Cost	431	396
Accumulated deprecation	(191)	(158)
Net book value	240	238

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.

7. PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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 2012 was RUR 45m at a rate of capitalisation of 9.52% and RUR 43m capitalised for the year ended 31 December 2011 at a rate of capitalisation of 9.84%.

Leased assets as at 31 December 2012 and 2011, for which the Group is a lessee under finance leases, comprised the following:

	2012	2011
Cost	778	1,759
Accumulated depreciation	(8)	(398)
Net book value	770	1,361

See Note 17 for further details regarding finance leases.

ADVANCES FOR ACQUISITION OF NON-CURRENT ASSETS
As at 31 December 2012 and 2011, advances for the acquisition of non-current assets consisted of advances for the acquisition of rolling stock (RUR 59m and RUR 140m, respectively), advances for the acquisition of power hoisting equipment (RUR 146m and RUR 4m, respectively) and advances for the acquisition of other PPE (RUR 153m and RUR 119m, respectively).

As at 31 December 2011 advances for the acquisition of non-current assets also included the security deposits paid in accordance with a preliminary purchase-and-sale agreement with LLC Ladya River for the acquisition of premises in a Moscow office building in the amount of RUR 1,942m.

8. GOODWILL

The carrying value of goodwill which arose from the acquisition of subsidiary JSC Kedentransservice amounted to RUR 216m as at 31 December 2012 and 2011.

Goodwill is allocated to cash-generating units, which represent the lowest level within the Group at which the goodwill is monitored by management and which are not larger than an operating segment.

As at the reporting date the Group estimated the recoverable amount of goodwill of JSC Kedentransservice. The recoverable amount was determined based on value-in-use calculations.

The following assumptions were used in the impairment test:

– The Group estimated the fair value of JSC Kedentransservice through nominal future cash flows for the period from 2013 to 2020 and an estimation of terminal value under Gordon formula.
– The discounting rate used in the calculation was 16%. This rate is an estimation value of the weighted average cost of capital for JSC Kedentransservice.
– The rate of corporate income tax is used according to the Kazakhstan Republic Tax Code at the level of 20%.

As the result of value-in-use calculation no impairment loss was recognised.

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9. INTANGIBLE ASSETS OTHER THAN GOODWILL

	Lease agreements	Software	Total
Cost			
1 January 2011	–	151	151
Additions	–	27	27
Acquisition through business combination	545	–	545
Exchange difference	73	–	73
31 December 2011	618	178	796
Additions	–	25	25
Disposals	–	(34)	(34)
Exchange difference	(5)	–	(5)
31 December 2012	613	169	782
Accumulated amortisation			
1 January 2011	–	(66)	(66)
Amortisation charge for the year	(33)	(38)	(71)
Exchange difference	(6)	–	(6)
31 December 2011	(39)	(104)	(143)
Disposals	–	34	34
Amortisation charge for the year	(45)	(40)	(85)
Exchange difference	4	–	4
31 December 2012	(80)	(110)	(190)
Net book value			
31 December 2011	579	74	653
31 December 2012	533	59	592

On 1 January 2011 JSC Kedentransservice entered into five lease agreements with the lessor JSC National Company "Kazakhstan Temir Zholy" ("KTZ"), the second shareholder of JSC Kedentransservice. According to these agreements the company leases five loading platforms at Dostyk Station.

The rent under these agreements is several times lower than market indicator and also is preferential owing to the fact that JSC Kedentransservice and the lessor are related parties that leads to annual economy of expenses for the Group during the period of agreement validity (15 years).

10. INVESTMENTS IN ASSOCIATES

	Investment		Share in the profit / (loss)	
Name of Entity	2012	2011	2012	2011
Far East Land Bridge Ltd. (FELB)	–	47	(22)	(50)
Trans-Eurasia Logistics GmbH	11	8	3	3
Total	11	55	(19)	(47)

In June 2008 the Group acquired a 20% share in the associate Trans-Eurasia Logistics GmbH (Note 1). This entity was formed in order to arrange the rail-based container traffic between Western Europe and Russia. The associate transactions were immaterial as at 31 December 2012 and for the year then ended.

During the year ended 31 December 2012 the Group sold a 10% share in Far East Land Bridge Ltd. to OJSC RZD Logistics – a subsidiary of OJSC Russian Railways (Note 27). The amount of the sale transaction was USD 3m (RUR 97m).This transaction has resulted in the recognition by the Group of the following gain in the consolidated statement of profit or loss and other comprehensive income:

Proceeds of disposal	97
Less carrying amount of Group's interest on the date of loss of significant influence	(25)
Gain recognised	72

11. TRADE AND OTHER RECEIVABLES

	Outstanding balance, gross	Provision for impairment	Outstanding balance, net
31 December 2012			
Trade receivables	1,250	(87)	1,163
Other receivables	137	(16)	121
Total trade and other receivables	1,387	(103)	1,284
31 December 2011			
Trade receivables	1,221	(157)	1,064
Other receivables	104	(16)	88
Total trade and other receivables	1,325	(173)	1,152

The average credit period on the Group's sales (other than for sales carried out on a prepayment basis) is 31 days as at 31 December 2012 (31 December 2011: 35 days).

Included in the Group's total trade and other receivables are debtors with a carrying amount of RUR 293m and RUR 289m as at 31 December 2012 and 2011, 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.

In July 2012 the Company, OJSC RZD Logistics and FELB signed an agreement on the transfer of FELB's debt. As a result accounts receivable from FELB in the amount of USD 22.5m (RUR 732m at the Central Bank of Russia exchange rate as at the date of agreement) were transferred to OJSC RZD Logistics and in accordance with a debt repayment schedule will be fully repaid in June 2016. A discounting rate of 8.6 % has been used for the fair value determination. As at 31 December 2012 the fair value of impaired long-term trade accounts receivable of OJSC RZD Logistics (transferred from FELB) amounted to RUR 452m. As at 31 December 2011 the fair value of impaired long-term trade accounts receivable of FELB amounted to RUR 728m. During the year ended 31 December 2012 trade receivables in the amount of RUR 131m were reclassified in short-term trade receivables.

The ageing of past due but not impaired trade and other receivables is as follows:

	2012	2011
Less than 90 days	141	61
90-180 days	20	75
More than 180 days	132	153
Total past due but not impaired	293	289

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11. TRADE AND OTHER RECEIVABLES (CONTINUED)

Movement in the impairment provision for accounts receivable is as follows:

	2012	2011
Balance at beginning of the year	(283)	(84)
Additional provision, recognised in the current year	(22)	(137)
Release of provision	33	21
Utilisation of provision	80	31
Acquisition of JSC Kedentransservice	–	(104)
Exchange differences on translating foreign operations	8	(10)
Balance at end of the year	(184)	(283)

As at 31 December 2012 and 2011 provision for impairment of accounts receivable was recognised in respect of trade and other receivables balances (RUR 104m and RUR 173m, respectively), advances to suppliers (RUR 65m and RUR 81m, respectively), advances for acquisition of non-current assets (RUR 11m and RUR 21m, respectively) and other non-current assets (RUR 4m and RUR 8m, respectively).

12. PREPAYMENTS AND OTHER CURRENT ASSETS

	2012	2011
VAT receivable	2,577	1,255
Advances to suppliers	1,674	2,216
Other current assets	184	231
Total prepayments and other current assets	4,435	3,702

13. SHORT-TERM INVESTMENTS

	2012	2011
Russian Rouble denominated bank deposits	1,293	811
Foreign currency denominated bank deposits	46	130
Total short-term investments	1,339	941

As at 31 December 2012 short-term investments of the Group are presented by following investments in the Russian banks with an initial maturity over three months:

- 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 27). 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 (Note 27). 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 27). 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 27). 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

	2012	2011
Cash and Russian Rouble denominated current accounts with banks	770	248
Foreign currency denominated current accounts with banks	480	718
Russian Rouble denominated bank deposits	–	1,334
Foreign currency denominated bank deposits	112	–
Russian Rouble denominated letter of credit	3	–
Total cash and cash equivalents	1,365	2,300

USD-denominated short-term bank deposit in the amount of USD 3,679m (RUR 112m at the Central Bank of Russia exchange rate as at 31 December 2012) bearing interest at annual rate of 0.25% was placed by the Group with JSC Nurbank, as at 31 December 2012. The deposit matured on 8 January 2013.

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 2012 and 2011:

	2012			2011		
	Bank balances payable on demand	Term deposits	Letter of credit	Bank balances payable on demand	Term deposits	Letter of credit
Neither past due nor impaired	–	–	–	–	–	–
– A- to A+ rated	92	–		29	–	–
– BBB to A- rated	1,043	–	3	937	1,334	–
– Lower than BBB rated	115	112	–	–	–	–
Total	1,250	112	3	966	1,334	–

15. EQUITY

SHARE CAPITAL

Authorised and issued capital as at 31 December 2012 and 2011 comprises:

	Number of outstanding 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.

OTHER RESERVES

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 of RUR 2,255m was recorded as other reserves.

In addition, any differences arising on transactions with shareholders are treated as equity transactions.

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 the Regulations on Accounting and Reporting of the Russian Federation. The Company had RUR 11,570m and RUR 8,145m of undistributed and unreserved earnings as at 31 December 2012 and 2011, 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.

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15. EQUITY (CONTINUED)

Dividends of RUR 2.91 per share (RUR 40m in total) were approved at the annual shareholders' meeting of the Company on 28 June 2011 relating to the Group's results for the year ended 31 December 2010. As at 31 December 2011, 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 Kedentransservice JSC National Company Kazakh Temir Zholy (share of ownership 33%). In August 2012 the dividends have been fully paid.

Dividends of KZT 168.12 per share were approved at the annual shareholders' meeting of JSC Kedentransservice on 4 July 2011 relating to the results for the year ended 31 December 2010. Dividends for the total amount of KZT 70m (RUR 13m at the Central Bank of Russia exchange rate as at 4 July 2011) were accrued to the shareholder of Kedentransservice JSC National Company Kazakh Temir Zholy. In October 2011 the dividends have been fully paid.

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 regulations. 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 2012 and 2011 the Company's reserve fund is RUR 478m and RUR 304m, respectively.

16. LONG-TERM AND SHORT-TERM DEBT

LONG-TERM DEBT

	Effective interest rate	2012	2011
Bonds	8.8%	2,232	5,978
Bank loans	9.75-9.5%	499	2,323
Total		2,731	8,301

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 501m to finance the acquisition of ordinary nominal 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 2012 the amount of loan was RUR 499m.

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 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 2012 short-term portion of long-term bonds equals 750m and this amount has been included as short-term debt in the consolidated statement of financial position.

As at 31 December 2012 the carrying value of the bonds amounted to RUR 2,232m (RUR 2,978m as at 31 December 2011). The amount of accrued interest is RUR 22m (RUR 21m at 31 December 2011), and has been included as short-term debt in the consolidated statement of financial position.

16. LONG-TERM AND SHORT-TERM DEBT (CONTINUED)

SHORT-TERM DEBT

	Effective interest rate	2012	2011
Bonds	9.5-8.9%	3,098	371
Short-term portion of long-term bonds	–	772	117
Sale and repurchase agreements	–	–	63
Bank loans	9.5%	1,825	2
Total		5,695	553

Short-term borrowings of the Group denominated in:

	2012	2011
– Kazakh Tenge	–	371
– Russian Roubles	5,695	119
– US Dollars	–	63
Total	5,695	553

The Group obtained loans from OJSC Alfa Bank for the total amount of RUR 1,822m during the year ended 31 December 2011 to finance the acquisition of JSC Kedentransservice. The amount of accrued interest is RUR 3m, and has been included as short-term debt in the consolidated statement of financial position as at 31 December 2012. The loans mature in seven years. As at 31 December 2012 the total amount of loans was RUR 1,822m.

The loans were repaid in February 2013 (Note 31), and therefore have been included as short-term debt in the consolidated statement of financial position as at 31 December 2012.

Under the loan terms, the Group is subject to certain financial and non-financial covenants, including compliance with a specific Debt/EBITDA ratio, which is calculated on the basis of annual and interim (as at 30 June) financial statements, prepared in accordance with IFRS. For calculation purposes, debt includes all short- and long-term borrowings, finance lease obligations and interest expenses for the 12-month period ending on the reporting date. EBITDA includes income before interest expense, income tax, depreciation and amortisation. In the event of non-compliance with the specified requirements, the bank may increase the annual interest rate by 3%. In addition, the bank may require early loan repayment if non-compliance with the financial covenants is not remediated within 30 calendar days.

As at 31 December 2012 the Group is in compliance with the covenants.

FIVE-YEAR RUR BONDS, SERIES 1 – On 4 March 2008, 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. The coupon rate for the year ended 31 December 2012 is 9.5% per annum (9.5% per annum for the year ended 31 December 2011).

As these bonds were redeemed in February 2013 (Note 31) they are classified as short-term debt in the consolidated statement of financial position as at 31 December 2012.

The carrying value of the bonds as at 31 December 2012 and 2011 amounted to RUR 3,000m. The amount of accrued interest is RUR 98m and RUR 96m as at 31 December 2012 and 2011, respectively, and has been included as short-term debt in the consolidated statement of financial position.

FOREIGN CURRENCY–denominated bonds. In April 2012 the Group redeemed its obligations on 1,694,320 coupon bonds at a par value of KZT 1,000 each without any security.

As at 31 December 2012 the Group redeemed financial obligation under the repurchase of previously sold shares for the amount of RUR 63m in accordance with repurchase agreements between LLC Prostor Invest Group and CJSC Investment company Troika Dialog (Note 19).

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17. FINANCE LEASE OBLIGATIONS

	Minimum lease payments		Present value of minimum lease payments	
	2012	2011	2012	2011
Due within one year	99	534	94	479
Due after one year but not more than five years	369	17	279	15
More than five years	659	–	389	–
	1,127	551	762	494
Less future finance charges	(365)	(57)	–	–
Present value of minimum lease payments	**762**	**494**	**762**	**494**

During the year ended 31 December 2012 the Group repurchased railway flatcars acquired under the finance lease agreement with CJSC Sberbank Leasing in 2008.

During the year ended 31 December 2012 the Group repurchased trucks acquired under the financial leaseback agreement with CJSC Gorodskaya Innovacionno-Lizingovaya Kompaniya in 2009.

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%. In accordance with the lease agreement if the Group does not use the right to acquire the leased premises in 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 615m at the end of lease period.

All leases are denominated in Russian Roubles and Kazakh Tenge. 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 Company 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 Company also provides supplementary defined benefit and defined contribution retirement benefit plans covering 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 Company's employees that retired before the defined benefit plans provided though the Fund Blagosostoyanie were introduced.

Benefits accrued though Fund Blagosostoyanie are partially funded, whilst benefits administered by the Fund Pochet are not funded. In addition, the Company 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 and certain other requirements. These benefits are not funded.

18. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

In 2011, an additional program of long-term employee benefits, providing a benefit for dedication to the company was introduced. In accordance with the terms of this program the benefits are paid after three, five, ten, and then every five years of service. Payments started from 2012. The size of each benefit is equal to approximately one month's salary for each year of service of the employee since the previous payment.

DEFINED CONTRIBUTION PLANS

The total amount recognised as an expense in respect of payments to defined contribution plans for the years ended 31 December 2012 and 2011 consisted of the following:

	2012	2011
Pension Fund of the Russian Federation	558	488
Defined contribution plan "Blagosostoyanie"	19	15
Total expense for defined contribution plans	**577**	**503**

DEFINED BENEFIT PLANS

There were 5,037 employees eligible for some part of the supplementary post-employment and post-retirement benefit program of the Group as at 31 December 2012 (2011: 5,189 employees), of which 372 employees (2011: 461) were considered active participants of the defined benefit pension plan. An active participant is a person making contributions to the pension plan at his/her own expense. Such contributions are matched by the Group. In addition, there were 88 and 94 retired employees eligible for the post-retirement benefit program of the Company through Fund Pochet as at 31 December 2012 and 2011, respectively.

The most recent actuarial valuation of the defined benefit obligation was carried out as at 31 December 2012 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 profit or loss for the year ended 31 December 2012 and 2011 in respect of these defined benefit plans, which are included in Payroll and related charges, are as follows:

	2012	2011
Current service cost	144	37
Interest on obligation	85	56
Expected return on plan assets	(3)	(2)
Actuarial losses recognised in the year	22	90
Amortisation of past service cost	3	2
Introduction of other employee benefits	–	208
Net losses arising on transfer of employees (i)	3	19
Net expense recognised in the consolidated profit or loss	**254**	**410**

(iii) 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 amounts recognised in the consolidated statement of financial position as at 31 December 2012 and 2011 in respect of these defined benefit plans are as follows:

	2012	2011
Present value of funded defined benefit obligation	428	418
Fair value of plan assets	(58)	(47)
	370	371
Present value of unfunded defined benefit obligation	725	624
Deficit	1,095	995
Unrecognised past service cost	(2)	(5)
Net employee benefit liability	**1,093**	**990**

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18. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

DEFINED BENEFIT PLANS (CONTINUED)
Movements in the present value of defined benefit obligation are as follows:

	2012	2011
Present value of defined benefit obligation as at 1 January	1,041	720
Current service cost	144	37
Interest on obligation	85	56
Benefits paid	(149)	(90)
Actuarial losses recognised in the year	21	91
Introduction of other employee benefits	–	208
Losses arising on transfer of employees (i)	11	19
Present value of defined benefit obligation as at 31 December	1,153	1,041

Movements in the fair value of defined benefit pension plan assets are as follows:

	2012	2011
Fair value of plan assets as at 1 January	47	36
Expected return on plan assets	3	2
Actuarial (loss)/gains	(1)	1
Contributions from the employer	150	98
Benefits paid	(149)	(90)
Assets arising on transfer of employees (i)	8	–
Fair value of plan assets as at 31 December	58	47

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	
	2012	2011
Corporate bonds and stock of Russian legal entities	45%	44%
Shares in closed investment funds	33%	34%
Bank deposits	16%	18%
Sovereign and regional government bonds	–	1%
Other	6%	3%
	100%	100%

The principal assumptions used for the purposes of the actuarial valuations were as follows:

	2012	2011
Discount rate	7.2%	8.2%
Rate used for calculation of annuity value	4%	4%
Average remaining working life, years	17.2	17.3
Expected return on plan assets	7.0%	7.0%
Mortality tables	year 2011	year 2009

18. EMPLOYEE BENEFIT LIABILITY (CONTINUED)

DEFINED BENEFIT PLANS (CONTINUED)
As at 31 December 2012 the Group assumed that salary growth rate will be equal to 9.5%, 9.4% and 7.9% in 2013, 2014 and 2015 respectively, and in future the salary will increase in line with the inflation rate.

The change in the discount rate, in the assumptions for salary growth and in the assumption for the contributions to the Pension Fund of the Russian Federation and other government social funds in general resulted in the recognition of an actuarial loss for the current period.

The overall expected rate of return on assets is a weighted average of the expected returns of the various categories of plan assets held. Assessment of the expected returns by management is based on historical return trends and analysts' predictions of the market for the asset in the next twelve months.

The actual return on plan assets was RUR 2m and RUR 3m for the years ended 31 December 2012 and 2011, respectively.

The Group expects to make a contribution of RUR 200m to the defined benefit plans during the next financial year.

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, LLC Prostor Invest Group, 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 Prostor Invest Group.

In December 2011 LLC Prostor Invest Group concluded a repurchase agreements with CJSC Investment company Troika Dialog. Under these agreements LLC Prostor Invest Group has transferred 50,000 of the Company's treasury shares with the subsequent obligation on their return in January, 2012. All the risks and rewards related to ownership of transferred shares, remain with LLC Prostor Invest Group. In January 2012 the arrangement was terminated and the shares were returned.

The following number of share options is outstanding:

	2012	2011
Options outstanding at 1 January	208,421	–
Options granted during the year	–	208,421
Options exercised during the year	(36,548)	–
Options outstanding at 31 December	171,873	208,421

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19. EMPLOYEE SHARE OPTION PLAN (CONTINUED)

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 annualized 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).

During the year ended 31 December 2012, the Group recognised expenses of RUR 87m related to the options. These expenses were included into payroll. Also during the year ended 31 December 2012 36,548 options in respect of shares were exercised, the weighted average exercise price was RUR 2,562, the weighted average share price at the date of exercise was RUR 3,680.

Movements in the reserve held for Share-based option plan during the year:

	2012	2011
Reserve as at 1 January	**148**	**–**
Expense recognised for the year	87	148
Exercised options under option plan during the year	(47)	–
Reserve as at 31 December	**188**	**148**

20. TRADE AND OTHER PAYABLES

	2012	2011
Trade payables	616	656
Amounts payable for the acquisition of property, plant and equipment	153	246
Liabilities to customers	3,019	3,691
Total trade and other payables	**3,788**	**4,593**

21. TAXES OTHER THAN INCOME TAX PAYABLE

	2012	2011
VAT	40	43
Property tax	144	116
Social insurance contribution	144	105
Personal income tax	29	32
Other taxes	10	7
Total taxes other than income tax payable	**367**	**303**

22. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

	2012	2011
Settlements with employees	704	501
Payable for acquisition of Kedentransservice's shares	–	113
Other liabilities	98	75
Total accrued expenses and other current liabilities	**802**	**689**

Settlements with employees as at 31 December 2012 and 2011 comprised accrued salaries and bonuses of RUR 516m and RUR 352m, respectively, and accruals for unused vacation of RUR 188m and RUR 149m, 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.

Analysis of revenue by category	2012	2011
Integrated freight forwarding and logistics services	19,277	14,894
Rail-based container shipping services	10,014	9,312
Terminal services and agency fees	4,031	3,426
Truck deliveries	1,631	1,710
Other freight forwarding services	833	1,025
Bonded warehousing services	388	383
Other	222	126
Total revenue	**36,396**	**30,876**

Analysis of revenue by location of customers	2012	2011
Revenue from external customers		
Russia	28,992	25,896
Kazakhstan	2,641	1,547
Korea	1,493	955
Germany	954	816
China	579	650
Estonia	521	89
Uzbekistan	319	55
Cyprus	227	224
Switzerland	194	226
Other	476	418
Total revenue	**36,396**	**30,876**

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. During the year ended 31 December 2011, OJSC "RZD" and its subsidiaries accounted for RUR 3,095m or 10% of the Group's total revenue.

More than 90% of the Group's non-current assets are located in Russia, approximately 8% of non-current assets (mainly represented by property plant and equipment and intangible assets other than goodwill) are owned by JSC Kedentransservice and are located in Kazakhstan.

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24. OPERATING EXPENSES

	2012	2011
Cost of integrated freight forwarding and logistics services	10,752	8,175
Payroll and related charges	5,106	4,728
Freight and transportation services	4,920	4,624
Materials, repair and maintenance	2,806	2,363
Depreciation and amortisation	2,740	2,577
Taxes other than income tax	591	995
Rent	540	411
Security	293	273
Fuel costs	200	179
Consulting services	178	301
Charity	144	23
License and software	140	135
Communication costs	99	97
Change in provision for impairment of receivables	–	116
Other expenses	963	754
Total operating expenses	29,472	25,751

25. INTEREST EXPENSE

	2012	2011
Interest expense on RUR bonds	509	540
Interest expense on finance lease obligations	78	105
Interest expense on bank loans and borrowings	236	159
Discounting of accounts receivables	62	37
Total interest expense	885	841

26. INCOME TAX

	2012	2011
Current income tax charge	(1,564)	(1,330)
Deferred income tax (expense) / benefit	(4)	143
Income tax	(1,568)	(1,187)

The statutory tax rate effective in the Russian Federation was 20% for the years ended 31 December 2012 and 2011.

26. INCOME TAX (CONTINUED)

Profit before income tax for financial reporting purposes is reconciled to income tax expense for as follows:

	2012	2011
Profit before income tax	6,719	5,030
Theoretical tax charge at statutory rate of 20%	(1,344)	(1,006)
Tax effect of items which are not deductible or assessable for taxation purposes:		
Benefits in-kind and other non-deductible payments to employees	(39)	(74)
Non-deductible post-employment benefits	(17)	(22)
Non-deductible charitable donations	(28)	(4)
Income tax adjustments for prior periods	–	31
Other non-deductible expenses	(140)	(123)
Changes in provision for tax risks – income tax	–	11
Income tax	(1,568)	(1,187)

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 2012	Charged to profit or loss	Exchange difference	31 December 2012
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	(115)	(12)	–	(127)
Trade and other receivables	(55)	10	–	(45)
Trade and other payables	(146)	3	–	(143)
Other	(42)	11	–	(31)
Total net deferred tax liability	1,742	1	(30)	1,713
Total net deferred tax asset	(4)	3	–	(1)

	1 January 2011	Business combination	Charged to profit or loss	Exchange difference	31 December 2011
Deferred income	(10)	–	7	–	(3)
Loans and borrowings	4	–	1	–	5
Intangible assets	17	107	(8)	10	126
Finance lease obligations	(187)	–	92	–	(95)
Property, plant and equipment	1,833	312	(109)	31	2,067
Employee benefits liability	(69)	–	(46)	–	(115)
Trade and other receivables	(22)	(8)	(25)	–	(55)
Trade and other payables	(86)	(4)	(56)	–	(146)
Investments					
Other	(42)	(1)	1	–	(42)
Total net deferred tax liability	1,438	406	(143)	41	1,742
Total net deferred tax asset	(4)	–	–	–	(4)

The Group did not recognise a deferred tax liability concerning temporary differences of RUR 180m (2011: RUR 172m) in respect of investments in subsidiaries, associates and joint ventures 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.

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UNLESS OTHERWISE STATED BELOW)

27. BALANCES AND TRANSACTIONS WITH RELATED PARTIES

In accordance with IAS 24 "Related party disclosures", parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial or 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 2012, are disclosed below:

Related party	Nature of relationship
OJSC Russian Railways (RZD)	Parent company
OJSC TransCreditBank	State-controlled entity
CJSC Sberbank Leasing	Subsidiary of Sberbank (state-controlled entity)
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
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 Gazprombank	State-controlled entity
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 TransCreditBank, 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 profir or loss.

27. 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:

	Total	Parent company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties
ASSETS						
Non-current assets						
Advances for acquisition of non-current assets	40	–	3	–	–	37
Trade receivables	453	–	453	–	–	–
	493	–	456	–	–	37
Current assets						
Short-term investments	1,293	–	–	–	–	1,293
Cash and cash equivalents	948	–	–	–	–	948
Trade receivables	593	210	358	11	12	2
Other receivables	91	7	81	–	–	3
Advances to suppliers	1,458	1,431	23	1	–	3
	4,383	1,648	462	12	12	2,249
Total assets	4,876	1,648	918	12	12	2,286
LIABILITIES						
Current liabilities						
Trade payables	104	52	7	2	16	27
Liabilities to customers	68	1	30	1	2	34
Other payables	44	1	–	–	–	43
Total liabilities	216	54	37	3	18	104
Revenue						
Rail-based container shipping services	554	225	158	100	5	66
Terminal services and agency fees	1,846	1,833	6	2	–	5
Integrated freight forwarding and logistics services	853	5	663	90	24	71
Other services	209	48	72	58	1	30
	3,462	2,111	899	250	30	172
Interest income on deposits	16	–	95	–	–	73
Other interest income	15	–	12	–	–	3
Gain recognised on disposal of interest in former associate	72	–	72	–	–	–
Other operating income	91	76	9	–	–	6
	346	76	188	–	–	82
Total income	3,808	2,187	1,087	250	30	254

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

27. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	Total	Parent company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties
Operating Expenses						
Freight and transportation services	3,471	3,461	3	2	–	5
Third-party charges relating to integrated freight forwarding and logistics services	7,143	7,061	6	37	6	33
Repair services	1,465	260	1,202	–	–	3
Rent of property and equipment	41	38	1	–	–	2
Other expenses	310	110	75	4	–	121
	12,430	10,930	1,287	43	6	164
Interest expense on finance lease obligations	29	–	–	–	–	29
Discounting of accounts receivables	98	–	98	–	–	–
	127	–	98	–	–	29
Total expenses	12,557	10,930	1,385	43	6	193
Acquisition of property, plant and equipment	209	–	166	–	–	43
Purchase of materials	2	–	–	–	–	2
Contributions to non-state pension funds	67	–	–	–	–	67
Total other transactions	278	–	166	–	–	112

27. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

Transactions and balances with related parties as at and for the year ended 31 December 2011 are shown below:

	Total	Parent company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties
ASSETS						
Non-current assets						
Advances for acquisition of non-current assets	5	–	5	–	–	–
Trade receivables	728	–	–	728	–	–
	733	–	5	728	–	–
Current assets						
Short-term investments	811	–	304	–	–	507
Cash and cash equivalents	1,657	–	1,657	–	–	–
Trade receivables	414	251	89	70	–	4
Other receivables	16	1	5	–	–	10
Advances to suppliers	1,815	1,752	60	–	–	3
	4,713	2,004	2,115	70	–	524
Total assets	5,446	2,004	2,120	798	–	524
LIABILITIES						
Current liabilities						
Trade payables	46	25	2	5	10	4
Liabilities to customers	102	34	21	–	25	22
Other payables	51	3	–	–	6	42
Finance lease obligations, current maturities	374	–	–	–	–	374
Total liabilities	573	62	23	5	41	442
Revenue						
Rail-based container shipping services	595	419	24	107	12	33
Terminal services and agency fees	1,828	1,816	2	6	–	4
Integrated freight forwarding and logistics services	1,178	7	751	156	232	32
Other services	203	36	39	87	3	38
	3,804	2,278	816	356	247	107
Interest income on deposits	38	–	31	–	–	7
Other interest income	12	–	12	–	–	–
Other operating income	75	9	63	–	1	2
	125	9	106	–	1	9
Total income	3,929	2,287	922	356	248	116

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

27. BALANCES AND TRANSACTIONS WITH RELATED PARTIES (CONTINUED)

	Total	Parent company (RZD)	Other RZD group entities	Group's associates	Group's joint ventures	Other related parties
Operating Expenses						
Freight and transportation services	3,059	2,990	9	57	1	2
Third-party charges relating to integrated freight forwarding and logistics services	6,092	5,875	15	145	57	–
Repair services	1,214	684	526	–	–	4
Rent of property and equipment	39	38	1	–	–	–
Other expenses	281	92	79	(2)	–	112
	10,685	9,679	630	200	58	118
Interest expense on finance lease obligations	76	–	9	–	–	67
Discounting of accounts receivables	37	–	–	37	–	–
	113	–	9	37	–	67
Total expenses	10,798	9,679	639	237	58	185
Acquisition of property, plant and equipment	652	26	603	–	–	23
Purchase of materials	11	–	–	–	–	11
Contributions to non-state pension funds	71	–	–	–	–	71
Acquisition of treasury shares	514	–	–	–	–	514
Total other transactions	1,248	26	603	–	–	619

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 2012 RUR 609m and RUR 257m of dividends were paid to RZD and HALIMEDA INTERNATIONAL LIMITED, accordingly (as at 31 December 2011 RUR 20m and RUR 5m, respectively) (Note 15).

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 2012 and 2011, respectively. Total gross compensation (including insurance contributions and before withholding of personal income tax) to key management personnel amounted to RUR 309m (including total insurance contributions of RUR 25m) and RUR 259m (including total insurance contributions of RUR 11m) for the years ended 31 December 2012 and 2011, respectively. This compensation is included under payroll and related charges in the consolidated profit and loss and comprises primarily short-term benefits.

As stated in Note 19, during the year ended 31 December 2012, the Group recognised expenses of RUR 87m (148m as at 31 December 2011) 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 46m (73m as at 31 December 2011).

As at 31 December 2012, the Group leases a loading platform at Dostyk Station in Kazakhstan and container terminal Dobra in Slovakia. The remaining period of agreements validity is 13 and 12 years, respectively.

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.

28. COMMITMENTS UNDER OPERATING LEASES

Future minimum lease payments under contracted operating leases are as follows:

	2012	2011
Within one year	359	236
Within two to five years	381	332
After five years	614	705
Total minimum lease payments	1,354	1,273

29. CONTINGENCIES, COMMITMENTS AND OPERATING RISKS

The Group's capital commitments as at 31 December 2012 and 2011 consisted of the following, including VAT:

	2012	2011
Acquisition of containers and flatcars	853	1,037
Construction of container terminal complexes and modernisation of existing assets	715	349
Acquisition of premisses in office building	–	204
Acquisition of lifting machines and other equipment	52	14
Total capital commitments	1,620	1,604

OPERATING ENVIRONMENT OF THE GROUP – The Russian Federation displays certain characteristics of an emerging market. Tax, currency and customs legislation is subject to varying interpretations and contributes to the challenges faced by companies operating in the Russian Federation.

The international sovereign debt crisis, stock market volatility and other risks could have a negative effect on the Russian financial and corporate sectors. Management determined impairment provisions by considering the economic situation and outlook at the end of the reporting period. Provisions for trade receivables are determined using the 'incurred loss' model required by the applicable accounting standards. These standards require recognition of impairment losses for receivables that arose from past events and prohibit recognition of impairment losses that could arise from future events, no matter how likely those future events are.

The future economic development of the Russian Federation is dependent upon external factors and internal measures undertaken by the government to sustain growth, and to change the tax, legal and regulatory environment. Management believes it is taking all necessary measures to support the sustainability and development of the Group's business in the current business and economic environment.

TRANSFER PRICING – Amendments to Russian transfer pricing legislation are effective from 1 January 2012. The new transfer pricing rules 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. The 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.

Tax liabilities arising from transactions between Group's 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 entity.

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. Compliance with covenants – As disclosed in Note 16, the Group is subject to certain covenants related to its borrowings. Non-compliance with such covenants may result in negative consequences for the Group, including claims for early repayment. As at 31 December 2012 the Group is in compliance with all covenants.

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.

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

30. 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 capital structure of the Group consists of bank loans, long-term and short-term bonds, finance lease obligations and equity, consisting 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.

MAJOR CATEGORIES OF FINANCIAL INSTRUMENTS

The Group's financial assets include trade and other receivables, long-term and short-term investments, cash and cash equivalents and other current assets. All financial assets, except for deposits with no advanced payments allowed fall into the loans and receivables category under IAS 39 "Financial instruments: recognition and measurement". Deposits with no advanced payments allowed are classified as held to maturity investment.

	2012	2011
Financial assets		
LOANS AND RECEIVABLES		
Cash and cash equivalents	1,365	2,300
Trade and other receivables	1,735	1,880
Short-term investments	758	941
Other current assets	–	63
Long-term investments	14	10
HELD-TO-MATURITY INVESTMENTS		
Short-term investments	581	–
Total financial assets	4,453	5,194

The Group's principal financial liabilities are trade and other payables, payables to employees (which form part of accrued expenses and other current liabilities), finance lease obligations, and debt (which includes bonds, short-term and long-term borrowings). All financial liabilities are carried at amortised cost.

	2012	2011
Financial liabilities		
Trade and other payables	770	902
Other liabilities	98	189
Payables to employees	704	501
Long-term borrowings	2,731	8,301
Short-term borrowings	5,695	553
Finance lease obligations	762	494
Total financial liabilities	10,760	10,940

30. RISK MANAGEMENT ACTIVITIES (CONTINUED)

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 (Note 31) therefore loans from OJSC Alfa Bank were repaid (Note 16,31) and classified as short-term as at 31 December 2012 which affect 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.

	Effective interest rate	Less than 1 month	1-3 months	3 months-1 year	1-5 years	More than 5 years	Total
2012							
Non-interest bearing liabilities		1,014	238	320	–	–	1,572
Long-term debt	9.5%	4	8	36	612	–	660
Bonds	8.8%-9.5%	–	3,142	1,013	2,448	–	6,603
Short-term debt	9.5%-9.75%	3	1,822	–	–	–	1,825
Finance lease liabilities	9.65% - 9.97%	8	15	77	369	659	1,128
Total		1,029	5,225	1,446	3,429	659	11,788
2011							
Non-interest bearing liabilities		915	555	122	–	–	1,592
Long-term debt	9.5%-9.75%	22	36	167	1,981	485	2,691
Bonds	8.8%-9.5%	–	142	788	6,603	–	7,533
Short-term debt		63	–	–	–	–	63
Finance lease liabilities	15.46%-28.3%	11	24	499	17	–	551
Total		1,011	757	1,576	8,601	485	12,430

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
2012						
LOANS AND RECEIVABLES						
Trade and other receivables		533	140	656	504	1,833
Short-term investments	8.22-8.5%	–	712	46	–	758
Long-term investments		–	–	–	14	14
HELD-TO-MATURITY INVESTMENTS						
Short-term investments	8.05-8.85%	311	270	–	–	581
Total		844	1,122	702	518	3,186
2011						
Trade and other receivables		799	207	146	765	1,917
Short-term investments	3.25-4.5%, 7.8-8%	811	87	43	–	941
Long-term investments		–	–	–	10	10
Other current assets		63	–	–	–	63
Total		1,673	294	189	775	2,931

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

30. RISK MANAGEMENT ACTIVITIES (CONTINUED)

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 2012 and 2011 the Group's financial assets denominated in foreign currency have exceeded its foreign currency financial liabilities. For the year ended 31 December 2012 the Russian Rouble appreciated against the US Dollar by 6%, and against EURO by 3% (depreciated against the US Dollar by 6% and against the EURO by 3% for the year ended 31 December 2011). 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	
	2012	2011	2012	2011	2012	2011
Assets						
Cash and cash equivalents	250	441	141	203	72	74
Trade and other receivables	219	911	193	111	5	9
Other current assets	–	63	–	–	–	–
Total assets	469	1,415	334	314	77	83
Liabilities						
Trade and other payables	169	255	46	66	2	2
Short-term borrowings	–	63	–	–	–	–
Total liabilities	169	318	46	66	2	2

The table below details the Group's sensitivity to strengthening of the Russian Rouble against the US Dollar and EURO by 10%, 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	
	2012	2011	2012	2011
Loss	(30)	(110)	(29)	(25)

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.

30. RISK MANAGEMENT ACTIVITIES (CONTINUED)

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 2012 the Group's borrowed funds consist of long-term and short-term bonds (Note 16), long-term and short-term debt (Note 16) and finance lease liabilities (Note 17).

With respect to RUR bonds series 1, issued in March 2008, the Group was exposed to interest rate risk during 2010, because in accordance with terms of the bond offering the coupon rate for these bonds was reset after the second (March 2009) and the fourth (March 2010) semi-annual coupon payment, respectively, due to the accompanying put options at these dates. In March 2010 the coupon rate was reset to 9.5%, and there are no further changes to interest rate for these bonds until their maturity in February 2013 (Note 16).

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%.

As at 31 December 2012, loans from Alfa Bank and LLC TrustUnion Asset Management were recognised by the Group. These borrowings were granted at fixed interest rates, therefore the Group did not have an additional interest risk.

In December 2011 the Group entered into the lease agreement of five wheel-mounted cranes with JSC Raiffeisen Leasing Kazakhstan for a three-year period with floating interest rate.

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 business is dependent on a few large key customers. As at 31 December 2012 74% of the total net amount of trade and other receivables related to the seven largest counterparties of the Group (31 December 2011: 75%).

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

30. RISK MANAGEMENT ACTIVITIES (CONTINUED)

Credit risk (continued)

The largest receivables outstanding as at the balance sheet date are as follows:

	2012 Outstanding balance, net
OJSC RZD Logistics	803
RZD	212
Far East Land Bridge Ltd.	93
LLC Volkswagen Group Rus	88
Schenker Rail Automotive GmbH	84
UNICO LOGISTICS	56
LLC Unico Logistics Rus	23
Total	1,359

	2011 Outstanding balance, net
Far East Land Bridge Ltd.	797
RZD	252
OJSC RZD Logistics	101
UNICO LOGISTICS	100
LLC Volkswagen Group Rus	82
LLC Unico Logistics Rus	42
LLC Sollers – Elabuga	28
Total	1,402

As at 31 December 2012 and 2011 no impairment of accounts receivable has been identified for all these customers, except for OJSC RZD Logistics as at 31 December 2012 and FELB as at 31 December 2011. Accounts receivable of FELB to the Company were transferred to OJSC RZD Logistics and discounted in accordance with confirmed schedule for the repayment of debts (Note 11).

Credit risk on liquid funds is limited because these funds are placed only with financial institutions well known to the Group. 69% of total cash and cash equivalents as at 31 December 2012 (2011: 72%), were held with one bank which is related to the Group.

31. SUBSEQUENT EVENTS

ISSUE OF BONDS – In February 2013 the Company placed five-year RUR bonds series 4 for a total amount of RUR 5,000m at a par value of RUR 1,000 each and annual coupon rate of 8.35%. The bonds will be redeemed in four equal semi-annual installments within the fourth and fifth years.

LOANS REDEMPTION – In February 2013 the Company repaid its loans of OJSC Alfa Bank for the sum of RUR 1,830m (Note 16).

BOND'S REDEMPTION – In February 2013 the Company redeemed its obligations on bonds series 1 for the sum of RUR 3,000m (Note 16).

REPORT OF THE REVISION COMMISSION ON THE RESULTS OF AUDITING THE FINANCIAL AND BUSINESS ACTIVITIES OF TRANSCONTAINER OJSC IN 2012

Moscow,
9 April 2013

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 16, 2012) – whose members consisted of Chair O.B. Ivanov as well as N.A. Lem, S.V. Davydov, E.V. Yudina, L.A. Bulgakova and outside experts – there was a scheduled inspection of the Company's financial and business operations in 2012.

The inspection took place at the Company Headquarters and at Company branches, from February 4, 2013 to April 9, 2013.

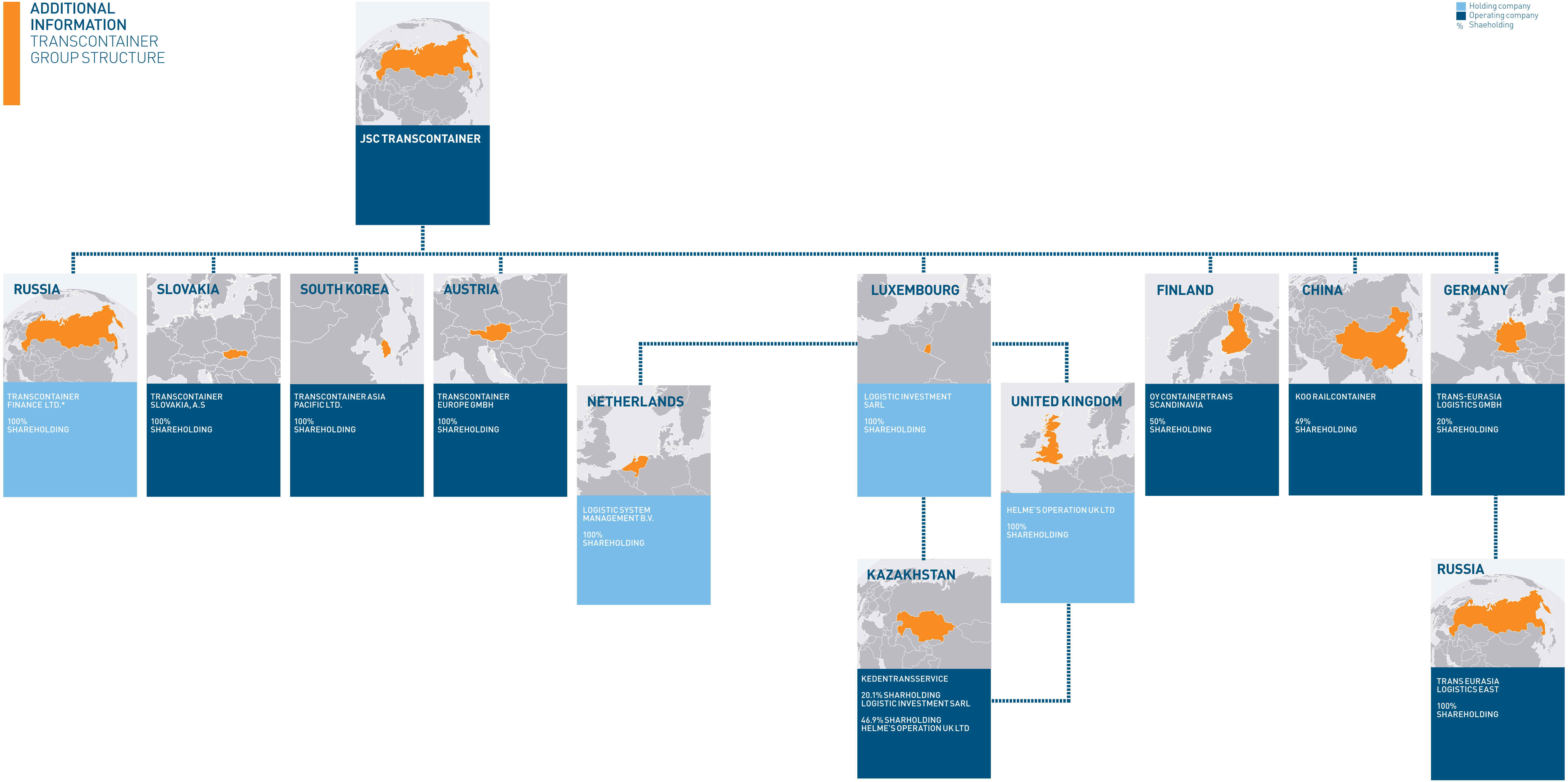
Information on the Company's financial and business operations was obtained from the following sources: financial and business documents, including financial reporting, primary accounting documents, bank documents, contracts, etc.

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 2012 of TransContainer OJSC.

O.B. Ivanov
JSC TransContainer
Revision Commission Chair

ADDITIONAL INFORMATION
TRANSCONTAINER GROUP STRUCTURE



*As of 31.12.2012 this Holding Company was called OJSC Prostor Invest Group

B

BULK CONTAINER
A container used to ship bulk loads without necessarily needing additional capacity, it has apertures for loading and unloading dry goods in bulk.

C

CARRIER
An individual or legal entity that has assumed the obligation, under a contract, of carriage by general-use rail transport, to deliver a passenger, cargo or luggage from the point of departure to the point of destination and to hand the cargo or luggage to a party authorized to receive it (the recipient).

CONSIGNOR
An individual or a legal entity that acts on its own behalf or on behalf of the owner of freight or luggage under a contract of carriage, as indicated in the shipping document.

CONSIGNEE
An individual or legal entity that is authorized to receive the freight or cargo.

CONTAINER
Transportation equipment for shipping cargo via various means of transport. Containers are durable enough for repeated use and can be stacked. Containers are divided into medium-duty (three- and five-tonne), which conform to former Soviet Union standards and are still used for shipments in Russia and the CIS, and ISO (20- and 40-foot) containers, which are used for Russian and international shipments. The universal standard unit TEU (twenty-foot equivalent unit) was introduced to measure transport flow volumes.

CONTAINERIZABLE CARGO
Cargo fit for transportation by container, or cargo for which containers are the best or only possible means of transportation.

CONTAINER TERMINAL
A place equipped for the transshipment and storage of containers. A container terminal typically includes one or more container yards. Rail-based container terminals are equipped with spur tracks for loading and unloading containers to/from flatcars.

CONTAINER TRAIN
A train consisting of flatcars loaded with containers belonging to the carrier or to third parties. A train's length and speed both comply with relevant legislation. A train is put together at its starting station and travels to its destination station without being divided en route and without any further re-consignment of the containers.

CONTAINER TURNOVER
The number of containers handled upon arrival and departure at a port or station over a certain period of time.

CROSSOVER BEND
An essential part of a container's design, a crossover bend is a standard mechanism for fixing containers to transportation vehicles or to other containers. Crossover bends are usually located in the lower and upper corners of a container. Twist locks or other equipment allow the container to be lifted, stacked or fixed in place.

Containers whose length is not divisible by 20 feet (such as 45-foot containers), apart from corner ones, also have an additional set of crossover bends whose lattice is the same as those of 20- and 40-foot containers. This enables the same transportation and loading equipment to be used.

D

DANGEROUS CARGO
A cargo that can cause damage to property, human health or life if handled improperly. The shipment of such cargo is undertaken in accordance with special terms of transportation.

DELIVERY PERIOD
A period of time within which a carrier must deliver goods to a consignee and for which the carrier is responsible to the cargo owners. The delivery period includes the time necessary to transport the goods from the departure point to the destination (including it s loading and unloading), to perform different associated operations and document execution. A delay in goods delivery against a set period incurs a fine payable by a carrier to a cargo owner, usually set as a percentage of carriage costs. A carrier is not required to pay a fine for delayed delivery in emergency and force majeure situations.

DOOR-TO-DOOR
An integrated logistics service for delivering freight directly from the warehouse of the consignor (the supplier of the goods) to the warehouse of the consignee (the recipient of the goods). As a rule, it includes not only transport by rail and delivery by road but also the handling of freight at a terminal and (if necessary) the customs clearance thereof and payment pursuant to INCOTERMS-2000. It appeared in response to freight-owners' desire for their orders to be handled by a single entity.

E

EMPTY RUN
Transporting an empty wagon, or an empty container on that wagon, along a set route.

F

FEEDER SERVICE
Short-distance sea freight between two or more ports to group or distribute cargo (usually containers) in one of the ports for onward sea shipment or after such a shipment.

FEEDER SHIP
Small ships capable of sailing in relatively shallow waters. These are used for collecting containers for the feeder ship's own route and then loading onto lead ships, or for unloading containers from lead ships for subsequently transporting containers from ocean liners on smaller routes.

FLEXI-TANK
A flexible polymer tank with a capacity of up to 24,000 liters that is designed to ship liquids in 20-foot containers.

FORWARDER
A party that carries out or organises transportation and forwarding services under a forwarding contract, such as organising cargo transportation, signing cargo transportation contracts, arranging loading and delivery, etc.

FREIGHT
A form of payment for sea transportation of cargo or the use of a ship for a certain period of time. Freight payment is determined by the volume of cargo delivered to the destination or by the volume of cargo loaded onto the ship.

FREIGHT SHIPMENT
Freight shipped under a delivery contract. The following kinds of rail shipment exist: by car, part load, container, piggyback, route and group consignment.

G

GANTRY CRANE
A gantry crane, whose bridge (superstructure) is fixed onto supports that move on rails with concrete foundations. Gantry cranes are usually used to service open (less often covered) warehouses, especially those for single cargos, containers and timber, assemble industrial and civil units, serve hydroelectric power stations, and assist in shipbuilding.

I

INTERMODAL TRANSPORTATION
The carriage of cargo in one format via several modes of transport, where one of the carriers undertakes to organise the entire carriage of cargo from door to door. This includes delivery to the consignee's warehouse, which can only be carried out by road.

INTERNATIONAL COMMERCIAL TERMS
International commercial terms are international rules acknowledged by government bodies, companies and businessmen throughout the world as an interpretation of the terms most fre-quently used in international trade.
As a rule, international commercial terms cover the sole rights and obligations of parties under an international purchase and sale agreement relating to the delivery of goods. Each term is a three-letter abbreviation.

ISOTHERMAL CONTAINER (THERMOS CONTAINER)
A special container with insulated walls, doors, floor and roof that make it possible to maintain a constant temperature inside when transporting (mainly food products).

L

LABELING
Signs, images and other identification marks with which containers are labeled. This helps link a cargo with its carriage documents, distinguishes one freight shipment from another, provides a means for tracking containers and describes safety measures during transportation.

LEAD SHIP
A ship that sails between certain ports. Such ships can hold containers destined for different ports.

LOGISTICS
The process of organising a chain of delivery and managing that chain in the broadest sense. This chain may encompass both deliveries of raw materials needed for production and management of material resources at an enterprise, delivery to warehouses and distribution centers, sorting, handling, and final distribution at the points of consumption. In the context of transportation services, the main service is that of delivering cargo across a delivery route.

ADDITIONAL INFORMATION
GLOSSARY

LOGISTICS CENTER
A territorial association of independent companies and organisations engaged in freight (transport agents, consignors, operators and customs bodies) that provides clients with related services (such as storage, maintenance and repair of containers) and has at least one terminal. The principal purpose of logistics centers in container freight logistics is to even out container flows at junctions of two or more modes of transport by grouping together containers traveling on the same route.

M

MEMORANDUM BILL
A bill that documents the dispatch and delivery of goods as well as freight transportation. It regulates relationships between consignor, carrier and consignee.

N

NETTING (INFRASTRUCTURE SERVICE)
Routing of empty cars or containers from their place of unloading to where they will be loaded next.

O

OPEN-TOP CONTAINER
A container loaded through the top that is used for various goods, such as heavy equipment or oversized loads

OPERATOR
A legal entity or individual entrepreneur owning wagons and containers, or possessing them on any other basis, that participates, pursuant to a contract with a carrier, in the carriage process using the aforementioned cars and containers.

P

PIGGYBACK TRANSPORTATION
Combined carriage by rail and road. In the AIRT system, piggyback carriage is understood to refer to carriage by rail of complete, loaded trailer trains, semi-trailers and detachable motor vehicle bodies.

R

RAILWAY JUNCTION
This is usually a large rail point that handles both cargo and passenger trains and is where cars are switched between different trains. A railway junction is a complex of technologically linked marshaling yards, freight and passenger stations with main and crossover roads, bypass routes and feeder lines with passenger depots, engine houses and its own sources of electricity. A railway junction differs from a normal railway station, which performs work obligatory at all stations, such as admission and departure of passengers. A railway junction transfers transit trains from one line to another, transfers cars from one station to another within the junction and between lines within that junction (there are usually at least three lines).

RAILWAY STATION
A stopping point for trains. Railway stations are called operation points because they divide the track into sections, or station-to-station blocks. Major modern stations house different equipment to help locomotives and cars function normally – engine houses, repair houses, car-washing equipment, and servicing points. Marshaling yards and loading stations equipped with loading and container sites, with weight-handling equipment and warehouses, are also involved in freight transportation.

REACH STACKER
A heavy-duty loading machine that is designed for working with small and medium-sized containers and can handle loads of up to 45 tonnes. They can process containers and trailers as well as perform loading and unloading in industrial conditions.

S

SCHEDULE
A schedule is the basis of a smooth train journey. It unites the operations of all railway departments on which freight and passenger deliveries depend. Schedules are used in all countries of the world in which freight trains operate and are created with the help of computers, which are used to control schedule fulfilment.

STACKING
Putting containers on top of each other before hauling or holding.

STEVEDORE
A company or an individual that loads and unloads ships. It is hired by a ship owner or a freighter.

T

TANK CONTAINER
A container that consists of two basic elements: one or more tanks and a frame manufactured to ISO 1496-3.

TEU (TWENTY-FOOT EQUIVALENT UNIT)
A unit to measure transportation flows, a TEU corresponds to the size of a 20-foot (6.1 m) ISO container. A standard 40-foot ISO container equals two TEUs.

3PL (THIRD-PARTY LOGISTICS)
This term is used when logistics services are purchased from a third party. A company that provides 3PL services assumes responsibility for all logistics and transportation operations, including interaction with suppliers and purchasing, allowing clients to significantly reduce, or even cease to require, their own logistics capacity.

THROUGH RATE
A single inclusive price for the door-to-door transportation and delivery of a container. The price is set for one container and fixed for a certain period upon agreement with a client, if the client undertakes to provide a certain minimum volume of traffic.

TRANSIT
Freight passing from one country to another through a third country. Whether cargo is permitted to transit a certain country and under what terms is subject to trade agreements and treaties between countries. Direct transit is when foreign goods are shipped under tariff protection, without holding at a customs warehouse; indirect transit is when goods arrive at customs warehouses and are then transported abroad.

U

UNIFIED CONTAINER TRANSPORT SYSTEM
Adopted in Russia and several other countries, this system means that cargo shipped in a container travels from sender to receiver via various means of transport with its integrity and security guaranteed. Several conditions must be met for the container transportation system to function. Most importantly, there must be a fleet of containers. Their size and construction must be uniform so they can be shipped in railway vehicles, in trucks and in ships' holds. In addition, they must be compatible for transfer from one means of transport to another and they must have special attachments so that cranes can load them.

ADDITIONAL INFORMATION
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ABBREVIATED NAME:
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DATE OF INCORPORATION:
4 March 2006

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TAX REGISTRATION REASON CODE (KPP):
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