

FOR IMMEDIATE RELEASE

28 November 2018

PJSC TransContainer

Results for the third quarter and nine months ended 30 September 2018

PJSC "TransContainer" ("TransContainer" or the "Company" together with its consolidated subsidiaries) today publishes its management report together with the unaudited interim condensed consolidated financial statements for the third quarter and nine months ended 30 September 2018. The financial statements presented in this announcement have been prepared in accordance with the International Financial Reporting Standards ("IFRS").

Operating and financial review

Summary

TransContainer is the leading intermodal container transportation company in Russia. As at 30 September 2018, the Company accounted for approximately 43% of Russia's rail container transportation market. It owned and leased 25,903 flatcars and 67,852 ISO containers, respectively, as at the end of the reporting period. TransContainer also owns a network of rail-side container terminals, located at 40 railway stations across Russia. The Company also owns and operates through its subsidiaries one terminal in Russia and one in Slovakia. One of the Company's joint ventures (JV), LLC FVKS, operates one terminal in Russia, while the other JV, JSC KedenTransService ("KedenTransService", or "KDTS"), operates 19 inland rail-side terminals in Kazakhstan. TransContainer's sales network comprises 98 sales outlets in Russia, along with additional outlets across the CIS, Europe and Asia.

In the third quarter of 2018, Russia's container market continued to demonstrate a strong growth of 16.4% year-on-year. This was mainly driven by a 24.2% year-on-year increase in international transportation, with all segments demonstrating solid growth.

For the nine months of 2018, the Russian rail container market grew by 13.6% year-on-year to 3,217 thousand TEU. In terms of segment breakdown for the nine month period, domestic transportation volumes increased by 4.5% year-on-year and export by 18.5% year-on-year, while import transportation volumes surged by 21.2% year-on-year and transit by 30.7% year-on-year.

Amid the favorable market environment, the Company's revenue-generating^[1] transportation volumes increased by 6.8% year-on-year to 401 thousand TEU in the third quarter and by 6.5% year-on-year to 1,125 thousand TEU for the nine months of the reporting year. As a result, the Company's adjusted revenue increased by 12.5% year-on-year in the third quarter and by 9.7% year-on-year for the nine months of 2018.

Transportation volumes by the Company's flatcar and container fleet grew by 7.6% year-on-year and 5.1% year-on-year in the third quarter and for the nine months of 2018, respectively. Key expense items such as empty run costs, salaries and administrative expenses, were kept under control, reflecting the Company's improved fleet management, as well as the optimisation measures taken at its terminals.

The continuing market growth combined with the Company's business optimisation measures were the key factors contributing to the improvements of TransContainer's financial performance during the reporting period, as presented in the table below:

9M2018	9M2017	Year-on-year change	3Q 2018	3Q 2017	Year-on-year change
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RUB million		RUB mln	Percent		RUB mln	Percent		
Total revenue	55,720	48,242	+7,478	+15.5%	20,389	17,569	+2,820	+16.1%
Adjusted revenue ¹	22,414	20,427	+1,987	+9.7%	8,373	7,442	+931	+12.5%
Adjusted operating expenses ²	15,040	14,697	+343	+2.3%	5,040	4,878	+162	+3.3%
EBITDA ³	11,210	8,936	+2,274	+25.4%	5,322	3,744	+1,578	+42.1%
Adjusted EBITDA margin ⁴	50.0%	43.7%			63.6%	50.3%		
Profit for the period	6,643	5,186	+1,457	+28.1%	3,452	2,333	+1,119	+48.0%
Net income margin	29.6%	25.4%			41.2%	31.6%		
Total debt	11,073	6,267	+4,806	+76.7%	11,073	6,267	+4,806	+76.7%
Net debt ⁵	2,037	1,217	+820	+67.4%	2,037	1,217	+820	+67.4%
LTM EBITDA ⁶	13,748	10,737	+3,011	+28.0%	5,322	8,936	-3,614	-40.4%
Net debt / LTM EBITDA	15%	11%			38%	14%		

¹Adjusted Revenue is calculated as total revenue less the third-party charges related to principal activities.

²Adjusted Operating Expenses are calculated as operating expenses less the third-party charges related to principal activities.

³EBITDA is defined as profit for the period before income tax, interest expense and depreciation and amortisation.

⁴Adjusted EBITDA Margin is defined as EBITDA divided by Adjusted Revenue.

⁵Net 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.

⁶LTM EBITDA is calculated as EBITDA for the last twelve month period

In the reporting quarter, the Company's EBITDA increased by 42.1% year-on-year to RUB 5,322 million from RUB 3,744 million in the third quarter of 2017. For the nine months ended 30 September of 2018, TransContainer's EBITDA was up 25.4% year-on-year to RUB 11,210 million compared to RUB 8,936 for the corresponding period of 2017. The net profit increased by 48.0% year-on-year to RUB 3,452 million in the third quarter, and by 28.1% year-on-year to 6,643 for the nine months of 2018.

Adjusted EBITDA margin increased to 63.6% in the third quarter and to 50.0% for the nine months of 2018, while the net profit margin improved to 41.2% and 29.6%, respectively.

In January 2018, the Company issued the five-year amortising RUB-denominated bonds in the amount of RUB 6 billion at a coupon rate of 7.5% to refinance a portion of the existing debt and to finance the capital expenditures for 2018. As a result, the Company's total debt was RUB 11,073 million with net debt of only RUB 2,037 million as at 30 September 2018.

Capital expenditure for the nine months ended 30 September 2018 increased by 3.0% compared to the same period of 2017 and amounted to RUB 3,588 million. During the reporting period, TransContainer spent, however, less than it budgeted mainly due to a delay in delivery of flatcars by manufacturers. The major part of CAPEX was spent on the acquisition of flatcars and ISO containers.

Recent developments and outlook

In October and November of 2018, the Russian rail container market continued its robust growth. For the eleven months of 2018, the market is expected to expand by approximately 13% year-on-year, exceeding the Company's initial expectations.

With that in mind, the Company's management will continue implementing its expansion investment programme and strengthening its efforts in business optimisation, while further improving fleet efficiency and the quality of customer service.

The rail container market performance confirms the Company's view that the Russian container transportation market is fundamentally attractive with significant long-term growth prospects, driven by the growth in cargo containerisation, as well as expected economic uplift in Russia in the medium term.

Key operating results

In the reporting quarter, container volumes transported by the Company's flatcars and/or containers (including provision of own containers on the third-party flatcars) were up 7.6% year-on-year to 492 thousand TEU. This was mainly due to the continued growth in international transportation, which was up 13.4% year-on-year, with import segment growing by 15.1 year-on-year. Following the first two quarters of lower domestic transportation volumes, the Company reported an increase of 1.9% year-on-year in the third quarter.

Transportation of containers using TransContainer's assets in 3Q 2018 (ISO Loaded + Empty), 000' TEU

	3Q 2018	3Q 2017	Change	
			000' TEU	Percent
Domestic Routes	233.6	229.3	+4.3	+1.9%
Export	118.5	105.2	+13.3	+12.6%
Import	99.2	86.2	+13.0	+15.1%
Transit	40.1	36.0	+4.2	+11.5%
All Routes	491.5	456.7	+34.7	+7.6%
International	257.9	227.4	+30.5	+13.4%

The Company's revenue-generating^[2] container transportation volumes in Russia amounted to 401 thousand TEU in the third quarter of 2018, up 6.8% year-on-year.

For the nine months of 2018, container volumes transported by the Company's flatcars and/or containers, as described above, grew by 5.1% year-on-year to 1,384 thousand TEU, mainly as a result of a 26.3% year-on-year increase in transit transportation.

Transportation of containers using TransContainer's assets in 9M 2018 (ISO Loaded + Empty), 000' TEU

	9M 2018	9M 2017	Change	
			000' TEU	Percent
Domestic Routes	656.9	669.0	-12.1	-1.8%
Export	355.1	320.8	+34.3	+10.7%
Import	259.3	237.5	+21.8	+9.2%
Transit	112.9	89.4	+23.5	+26.3%
All Routes	1,384.2	1,316.8	+67.4	+5.1%
International	727.3	647.7	+79.5	+12.3%

The Company's revenue-generating container transportation volumes in Russia amounted to 1,125 thousand TEU for the nine months of 2018, up 6.5% year-on-year.

In the third quarter of 2018, the Company's throughput in the Russian rail container terminal network increased by 1.7% to 345 thousand TEU, compared to 339 thousand TEU for the same period of 2017. For the nine months of 2018, the Company's container terminal throughput was down 1.3% and amounted to 949 thousand TEU compared to 961 thousand TEU for the nine months of 2017.

The Company's container handling lagged behind the market dynamics mainly due to the following factors: (i) the fast-growing transit volumes have limited impact on the container terminal handling; and (ii) continuing growth of container freight going directly from/to the producers' own freight yards. Additionally, the Company had to close a number of terminals in Moscow to comply with the decision of the Government of Moscow.

In the third quarter of 2018, container empty run ratio decreased from 16.7% to 16.1%, while empty run ratio for flatcars substantially improved from 4.1% to 2.9%. These improvements were largely due to the continuing optimisation of fleet management.

	3Q 2018	3Q 2017	9M 2018	9M 2017
Turnover of containers, days	30.7	38.3	32.5	38.2
Turnover of flatcars, days	11.9	12.0	12.0	12.0

Empty run ^[3] for containers, %	16.1%	16.7%	17.5%	18.7%
Empty run for flatcars, %	2.9%	4.1%	3.1%	3.8%

Turnover of flatcars improved from 12.0 days in the third quarter of 2017 to 11.9 days in the reporting quarter, while turnover of containers also decreased from 38.3 to 30.7 days, respectively, due to the reason described above.

Description of Key Consolidated Statement of Comprehensive Income Items

The following table sets out the Company's key results for the third quarter and nine months ended 30 September 2018 and 2017.

Summary of the Company's results for the third quarter and nine months ended 30 September 2018 and 2017, respectively:

RUB million	Year-on-year change				Year-on-year change			
	9M 2018	9M 2017	RUB mln	%	3Q 2018	3Q 2017	RUB mln	%
Revenue	55,720	48,242	+7,478	+15.5%	20,389	17,569	+2,820	+16.1%
Other operating income	492	445	+47	+10.6%	147	219	-72	-32.9%
Operating expenses	-48,346	-42,512	-5,834	+13.7%	-17,056	-15,005	-2,051	+13.7%
Operating profit	7,866	6,175	+1,691	+27.4%	3,480	2,783	+697	+25.0%
Interest expense	-665	-491	-174	+35.4%	-232	-141	-91	+64.5%
Interest income	336	247	+89	+36.0%	115	66	+49	+74.2%
Foreign exchange gain, net	274	-4	+278	6950.0%	83	-29	+112	-386.2%
Share of result of associates and JVs	435	493	-58	-11.8%	758	189	+569	+301.1%
Other financial results, net	154	48	+106	+220.8%	154	41	+113	+275.6%
Profit before income tax	8,400	6,468	+1,932	+29.9%	4,358	2,909	+1,449	+49.8%
Income tax expense	-1,757	-1,282	-475	+37.1%	-906	-576	-330	+57.3%
Profit for the period	6,643	5,186	+1,457	+28.1%	3,452	2,333	+1,119	+48.0%
Other comprehensive income/loss	222	-217	+439	202.3%	-7	-229	+222	-96.9%
Remeasurements and other reserves for post-employment benefit plans	49	-33	+82	-248.5%	35	-17	+52	-305.9%
Exchange differences on translating foreign operations (TRCN)	31	9	+22	+244.4%	16	3	+13	+433.3%
Exchange differences on translating foreign operations (Associates & JV)	142	-193	+335	-173.6%	0	-215	+215	-100.0%
Other effects	0	0	-	-	-58	0	-58	-
Total comprehensive income for the period	6,865	4,969	+1,896	+38.2%	3,445	2,104	+1,341	+63.7%

Adjustments and additional financial information

The majority of the Company's services are provided with the use of third-party services. Accordingly, third-party charges for such services are presented within the Company's revenues and expenses. Such third-party charges include the value of rail infrastructure tariffs and the charges of the Company's other subcontractors and contracted partners involved in the process of providing the Company's services.

Third-party charges other than ones related to integrated freight forwarding and logistics services are presented within revenues as a separate line item "Cargo transportation and handling services with involvement of third parties".

All third-party charges, including ones related to integrated freight forwarding and logistics services, are presented within expenses as "Third-party charges related to principal activities".

Summary of 3rd-party charges involved in TransContainer's revenues

Item	9M	9M	Year-on-year change		3Q	3Q	Year-on-year change	
	2018	2017	RUB mln	%	2018	2017	RUB mln	%
3rd-party charges related to integrated freight forwarding and logistics	33,306	25,773	+7,533	+29.2%	12,016	9,921	+2,095	+21.1%
Cargo transportation and handling services with involvement of third parties	0	2,042	-2,042	-100.0%	0	206	-206	-100.0%
Third-party charges related to principal activities	33,306	27,815	+5,491	+19.7%	12,016	10,127	+1,889	+18.7%

In order to enhance the analysis, we apply adjustments to the components of the Company's revenues and expenses to derive the values that are net of the third party charges involved in providing the Company's services.

Total revenue adjustment

Item	9M	9M	Year-on-year change		3Q	3Q	Year-on-year change	
	2018	2017	RUB mln	%	2018	2017	RUB mln	%
Total revenue	55,720	48,242	+7,478	+15.5%	20,389	17,569	+2,820	+16.1%
Third-party charges related to principal activities	-33,306	-27,815	-5,491	+19.7%	-12,016	-10,127	-1,889	+18.7%
Adjusted Revenue	22,414	20,427	+1,987	+9.7%	8,373	7,442	+931	+12.5%

Integrated freight forwarding and logistics services revenue adjustment

Item	9M	9M	Year-on-year change		3Q	3Q	Year-on-year change	
	2018	2017	RUB mln	%	2018	2017	RUB mln	%
Integrated freight forwarding and logistics services	51,678	40,990	+10,688	+26.1%	18,781	15,929	+2,852	+17.9%
3rd-party charges related to integrated freight forwarding and logistics	-33,306	-25,773	-7,533	+29.2%	-12,016	-9,921	-2,095	+21.1%
Adjusted integrated freight forwarding and logistics services	18,372	15,217	+3,155	+20.7%	6,765	6,008	+757	+12.6%

Operating expenses adjustment

Item	9M	9M	Year-on-year	3Q	3Q	Year-on-year
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	2018	2017	change		2018	2017	change	
			RUB mln	%			RUB mln	%
Total operating expenses	48,346	42,512	+5,834	+13.7%	17,056	15,005	+2,051	+13.7%
Third-party charges related to principal activities	-33,306	-27,815	-5,491	+19.7%	12,016	10,127	-1,889	+18.7%
Adjusted Operating Expenses	15,040	14,697	+343	+2.3%	5,040	4,878	+162	+3.3%

Adjusted Revenue, Adjusted Operating Expenses, EBITDA, Adjusted EBITDA Margin and Adjusted Operating Margin are not recognised under the IFRS as measures of financial performance, but are calculated on the basis of the IFRS figures and 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 the IFRS.

Revenue

In the first quarter of 2018, the Company changed the way it presents its revenue structure, reflecting an increased role of the integrated services in TransContainer's business, as well as higher share of the integrated services in its revenues. Starting from 31 March 2018, the Company's revenue breakdown comprises three main segments: revenue from integrated freight forwarding and logistics services, agency fees and revenue from other services.

Agency fees line item was formerly a part of the Terminal services, bonded warehousing and agency fees line item.

Revenue from other services line item combines revenues formerly reported as the Rail based container shipping services, Cargo transportation and handling services with involvement of third parties, Truck deliveries, Other.

The following table sets out a breakdown of total revenue for the third quarter and nine months ended 30 September 2018 and 2017, respectively.

Revenue breakdown

RUB million	9M	9M	Year-on-year change		3Q	3Q	Year-on-year change	
	2018	2017	RUB mln	%	2018	2017	RUB mln	%
Integrated freight forwarding and logistics services	51,678	40,990	+10,688	+26.1%	18,781	15,929	+2,852	+17.9%
Cargo transportation and handling services with involvement of third parties	0	2,042	-2,042	-100.0%	0	206	-206	-100.0%
Agency fees	2,134	1,872	+262	+14.0%	796	731	+65	+8.9%
Revenue from other services	1,908	3,338	-1,430	-42.8%	812	703	+109	+15.5%
Total revenue	55,720	48,242	+7,478	+15.5%	20,389	17,569	+2,820	+16.1%

Total revenue increased by RUB 7,478 million, or 15.5% year-on-year, to RUB 55,720 million for the nine months ended 30 September 2018, from RUB 48,242 million in the corresponding period of 2017. In the third quarter of 2018, total revenue grew by 16.1% year-on-year to RUB 20,389 million. This primarily resulted from an increase in transportation volumes by the Company's assets on the back of the growing rail container transportation market and the development of international transportation.

The following table sets out the components of adjusted revenue (as described in *Adjustments and additional financial information* above) and their relative contribution to the adjusted revenue for the nine months ended 30 September 2018 and 2017, respectively.

Adjusted revenue breakdown for the nine months ended 30 September 2018 and 2017, respectively

	9M 2018		9M 2017		Year-on-year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Adjusted integrated freight forwarding and logistics services	18,372	82.0%	15,217	74.5%	+3,155	+20.7%
Agency fees	2,134	9.5%	1,872	9.2%	+262	+14.0%
Revenue from other services	1,908	8.5%	3,338	16.3%	-1,430	-42.8%
Total adjusted revenue	22,414	100%	20,427	100%	+1,987	+9.7%

Adjusted revenue grew by 9.7% year-on-year to RUB 22,414 million for the nine months of 2018 from RUB 20,427 million in the corresponding period of 2017. This mainly resulted from an increase in revenue from integrated freight forwarding and logistics services, driven by higher revenue-generating transportation volumes and strong pricing policy.

Adjusted revenue increased by 12.5% year-on-year to RUB 8,373 million in the third quarter of 2018 from RUB 7,442 million in the third quarter of 2017, primarily due to the growing integrated freight forwarding and logistic services, as well as revenue from other services.

The following table sets out the components of relative contribution to adjusted revenue for the three months ended 30 September 2018 and 2017, respectively.

Adjusted revenue breakdown for the three months ended 30 September 2018 and 2017, respectively

	3Q 2018		3Q 2017		Year-on-year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Adjusted integrated freight forwarding and logistics services	6,765	80.8%	6,008	80.7%	+757	+12.6%
Agency fees	796	9.5%	731	9.8%	+65	+8.9%
Revenue from other services	812	9.7%	703	9.4%	+109	+15.5%
Total adjusted revenue	8,373	100%	7,442	100%	+931	+12.5%

Integrated freight forwarding and logistics services

Revenue from integrated freight forwarding and logistics services increased by 26.1% year-on-year to RUB 51,678 million and by 17.9% year-on-year to RUB 18,781 million for the nine months and three months ended 30 September 2018, respectively.

Adjusted revenue from integrated freight forwarding and logistics services was up 20.7% year-on-year to RUB 18,372 million for the nine months of 2018, on the back of growing revenue-generating volumes and changes in transportation services structure. In the third quarter of 2018, this revenue item grew by 12.6% year-on-year to RUB 6,765 million, mainly as a result of an increase in revenue-generating transportation volumes.

Agency fees

Revenue from agency fees increased by 14.0% year-on-year to RUB 2,134 million for the nine months of 2018 from RUB 1,872 million for the same period of 2017. In the third quarter of 2018, revenue from agency fees grew by 8.9% year-on-year to RUB 796 million. This was primarily driven by infrastructure tariff indexation, as well as changes in the structure of services performed under agency agreement with Russian Railways.

Revenue from other services revenue

Revenue from other services item comprises revenues formerly reported as Rail based container shipping services, Cargo transportation and handling services with involvement of third parties, Truck deliveries, Other. This item fell by 42.8% year-on-year to RUB 1,908 million for the nine months of 2018, compared

to RUB 3,338 million for the corresponding period of 2017, mainly due to a shift of the revenue components to integrated logistics services.

Revenue from other services for the three months ended 30 September 2018 increased by 15.5% year-on-year to RUB 812 million compared to RUB 703 million in the corresponding period of 2017, as a result of an increase in revenue-generating transportation volumes and tariff indexation.

Operating expenses

The following tables provides a breakdown of the Company's operating expenses for the third quarter and nine months ended 30 September 2018 and 2017, respectively.

Operating expenses structure for the three months ended 30 September 2018 and 2017, respectively

	3Q 2018			3Q 2017		
	RUB mln	% of operating expenses	% of total revenue	RUB mln	% of operating expenses	% of total revenue
Third-party charges related to principal activities	12,016	70.5%	58.9%	10,127	67.5%	57.6%
Freight and transportation services	1,295	7.6%	6.4%	1,623	10.8%	9.2%
Payroll and related charges	1,360	8.0%	6.7%	1,231	8.2%	7.0%
Depreciation and amortisation	732	4.3%	3.6%	677	4.5%	3.9%
Materials, repair and maintenance	883	5.2%	4.3%	867	5.8%	4.9%
Taxes other than income tax	243	1.4%	1.2%	2	0.0%	0.0%
Rent	99	0.6%	0.5%	72	0.5%	0.4%
Other expenses	428	2.5%	2.1%	406	2.7%	2.3%
Total operating expenses	17,056	100.0%	83.7%	15,005	100.0%	85.4%

Operating expenses structure for the nine months ended 30 September 2018 and 2017, respectively

	9M 2018			9M 2017		
	RUB mln	% of operating expenses	% of total revenue	RUB mln	% of operating expenses	% of total revenue
Third-party charges related to principal activities	33,306	68.9%	59.8%	27,815	65.4%	57.7%
Freight and transportation services	4,058	8.4%	7.3%	4,869	11.5%	10.1%
Payroll and related charges	4,257	8.8%	7.6%	3,932	9.2%	8.2%
Depreciation and amortisation	2,145	4.4%	3.8%	1,977	4.7%	4.1%
Materials, repair and maintenance	2,463	5.1%	4.4%	2,201	5.2%	4.6%
Taxes other than income tax	624	1.3%	1.1%	405	1.0%	0.8%
Rent	229	0.5%	0.4%	200	0.5%	0.4%
Other expenses	1,264	2.6%	2.3%	1,113	2.6%	2.3%
Total operating expenses	48,346	100.0%	86.8%	42,512	100.0%	88.1%

TransContainer's total operating expenses increased by RUB 5,834 million, or 13.7% year-on-year, to RUB 48,346 million for the nine months ended 30 September 2018, from RUB 42,512 million for the corresponding period of the previous year. This was mainly due to a significant increase in the third-party charges related to principal activities.

In the third quarter of 2018, the Company's total operating expenses grew by 13.7% year-on-year, or by RUB 2,051 million, to RUB 17,056 million for the reason stated above.

Cost of third-party charges related to principal activities

Costs of third-party charges related to principal activities increased by 19.7% year-on-year to RUB 33,306 million for the nine months ended 30 September 2018, from RUB 27,815 million for the same

period of 2017. This was predominantly driven by a higher volume of the Company's operations, tariff indexing by Russian Railways and other subcontractors, as well as by an increase in international transportations with the involvement of outsourced transportation services.

For the reasons discussed above, the costs of third-party charges related to principal activities increased in the third quarter of 2018 by 18.7% year-on-year to RUB 12,016 million, from RUB 10,127 million in the corresponding quarter of 2017.

Adjusted operating expenses

Adjusted operating expenses, as defined in the *Adjustments and additional financial information* section above, grew by 2.3% year-on-year to RUB 15,040 million for the nine months ended 30 September 2018, from RUB 14,697 million in the corresponding period of 2017, primarily due to an increase in payroll and related charges, materials, repair and maintenance costs, depreciation and amortisation, taxes other than income tax and other expenses. This, in turn, was partially offset by a decrease in freight and transportation services costs.

In the third quarter of 2018, adjusted operating expenses increased by 3.3% year-on-year to RUB 5,040 million, from RUB 4,878 million in the third quarter of 2017, due to the reasons described above.

The following tables provide a breakdown of the Company's adjusted operating expenses for the third quarter and nine months ended 30 September 2018 and 2017, respectively.

Adjusted operating expenses structure and dynamics for three months ended 30 September 2018 and 2017

	3Q 2018		3Q 2017		Year-on-year change	
	RUB mln	%	RUB mln	%	RUB mln	Percent change
Freight and transportation services	1,295	25.7%	1,623	33.3%	-328	-20.2%
Payroll and related charges	1,360	27.0%	1,231	25.2%	+129	+10.5%
Depreciation and amortisation	732	14.5%	677	13.9%	+55	+8.1%
Materials, repair and maintenance	883	17.5%	867	17.8%	+16	+1.8%
Taxes other than income tax	243	4.8%	2	0.0%	+241	+120x
Rent	99	2.0%	72	1.5%	+27	+37.5%
Other expenses	428	8.5%	406	8.3%	+22	+5.4%
Adjusted operating expenses	5,040	100.0%	4,878	100.0%	+162	+3.3%

Adjusted operating expenses structure and dynamics for the nine months ended 30 September 2018 and 2017

	9M 2018		9M 2017		Year-on-year change	
	RUB mln	%	RUB mln	%	RUB mln	Percent change
Freight and transportation services	4,058	27.0%	4,869	33.1%	-811	-16.7%
Payroll and related charges	4,257	28.3%	3,932	26.8%	+325	+8.3%
Depreciation and amortisation	2,145	14.3%	1,977	13.5%	+168	+8.5%
Materials, repair and maintenance	2,463	16.4%	2,201	15.0%	+262	+11.9%
Taxes other than income tax	624	4.1%	405	2.8%	+219	+54.1%
Rent	229	1.5%	200	1.4%	+29	+14.5%
Other expenses	1,264	8.4%	1,113	7.6%	+151	+13.6%
Adjusted operating expenses	15,040	100.0%	14,697	100.0%	+343	+2.3%

In the nine months of 2018, there were moderate fluctuations in the structure of the Company's adjusted costs, however, they were within the range inherent to the Company's business model.

Freight and transportation services

Expenses related to freight and transportation services decreased by RUB 811 million, or 16.7% year-on-year, to RUB 4,058 million for the nine months ended 30 September 2018. This resulted from the improvement in empty run ratio, which more than compensated the effect of tariff indexing by Russian Railways.

Expenses related to freight and transportation services decreased by 20.2% year-on-year, or by RUB 328 million, to RUB 1,295 million in the third quarter of 2018 for the reason described above.

Payroll and related charges

Payroll and related charges increased by RUB 325 million, or by 8.3% year-on-year, to RUB 4,257 million for the nine months ended 30 September 2018, compared to RUB 3,932 million for the corresponding period of 2017. This increase was mainly due to the base salary indexing and performance-linked payments, which was partially offset by a decrease in TransContainer's average headcount from 3,537 to 3,518 and an effect of pension plan reserve adjustments.

For the reasons stated above, in the third quarter of 2018, payroll and related charges grew by 10.5% year-on-year, or by RUB 129 million, to RUB 1,360 million.

Depreciation and amortisation

Depreciation and amortisation increased by RUB 168 million, or 8.5% year-on-year, to RUB 2,145 million in the nine months of 2018, from RUB 1,977 million for the corresponding period of 2017, reflecting investments made in the second half of 2017 and for the nine months of 2018.

In the third quarter of 2018, depreciation and amortisation increased by 8.1% year-on-year, or RUB 55 million, to RUB 732 million.

Materials, repair and maintenance

Expenses related to materials, repair and maintenance were up by 11.9% year-on-year to RUB 2,463 million for the nine months of 2018, compared to RUB 2,201 million for the corresponding period of 2017, mainly due to an increase in average repair price and higher prices for flatcar components. This expense item was also affected by maintenance and repair works in the Company's terminals during the construction season.

In the third quarter of 2018, expenses related to materials, repair and maintenance were up 1.8% year-on-year to RUB 883 million, due to the reasons mentioned above.

Taxes other than income tax

Taxes other than income tax increased by 54.1% year-on-year to RUB 624 million for the nine months ended 30 September 2018, from RUB 405 million for the corresponding period of 2017, primarily due to the dynamics of VAT settlements.

In the third quarter of 2018, taxes other than income tax increased by RUB 241 million year-on-year to RUB 243 million from RUB 2 million in the corresponding quarter of 2017. This was mainly a result of the settlement of an extraordinary VAT charge in the third quarter of 2017.

Rent

Rent expenses increased by RUB 29 million, or by 14.5% year-on-year, to RUB 229 million for the nine months of 2018 from RUB 200 million in the corresponding period of 2017, mainly due to the flatcar short-term operating lease contracts.

Rent expense for the third quarter of 2018 increased by 37.5% year-on-year to RUB 99 million.

Other operating expenses

Other operating expenses are an aggregate of various expense items such as security, consulting expenses, fuel and energy, licenses and software, communication service and loss of sale of fixed assets. For the nine months of 2018, other expenses increased by 13.6% year-on-year to RUB 1,264 million, from RUB 1,113 million in the corresponding period of 2017, mainly due to the growth in charity expenses, license and software and other expenses. In the third quarter of 2018, other operating expenses increased by RUB 22 million, or 5.4% year-on-year, mainly due to a increase in charity expenses and fuel costs.

Interest expenses

Interest expenses grew by RUB 174 million, or 35.4% year-on-year, to RUB 665 million for the nine months of 2018 from RUB 491 million for the corresponding period of 2017, mainly due an increase in the amount of total debt outstanding.

For the same reason, interest expense in the third quarter of 2018 increased by RUB 91 million, or 64.5% year-on-year, to RUB 232 million from 141 million in the corresponding period of 2017.

Interest income

Interest income grew by RUB 89 million, or 36.0% year-on-year, to RUB 336 million for the nine months of 2018 from RUB 247 million in the corresponding period of 2017, mainly due to an increase in the amount of RUB-denominated deposits with banks.

For similar reasons, interest income in the third quarter therefore increased by RUB 49 million, or 74.2% year-on-year, to RUB 115 million.

Share of result of associates and JVs

Share of result of associates and JVs for the nine months ended 30 September 2018 amounted to RUB 435 million, following the negative result of RUB 323 million reported for the six months ended 30 June 2018. This was due to successful efforts of the management of a Company's JV to recover the impairment of receivables and financial investments that took place in the second quarter of 2018. Share of result of associates and JVs for the three months ended 30 September 2018 amounted to RUB 758 million.

Profit before income tax

As a result of the reasons described above, the Company's profit before income tax increased by RUB 1,932 million, or by 29.9% year-on-year, to RUB 8,400 million for the nine months ended 30 September 2018 from RUB 6,468 million in the corresponding period of 2017.

In the third quarter of 2018, profit before income tax increased by RUB 1,449 million, or by 49.8% year-on-year, to RUB 4,358 million from RUB 2,909 million in the corresponding period of 2017, as a result of the factors mentioned above.

Income tax expenses

Income tax expenses increased by RUB 475 million, or 37.1% year-on-year, to RUB 1,757 million for the nine months of 2018 from RUB 1,282 million for the corresponding period of 2017, due to an increase in taxable profit.

For the same reason, in the third quarter of 2018, income tax expenses grew by RUB 330 million, or by 57.3% year-on-year, to RUB 906 million from RUB 576 million in the corresponding quarter of 2017.

The effective tax rate for the nine months ended 30 September 2018 increased to 20.9% from 19.8% for the same period of 2017, while it also grew to 20.8% in the reporting quarter compared to 19.7% in the third quarter of 2017.

Total profit and comprehensive income for the period

As a result of the factors discussed above, the profit for the nine months ended 30 September 2018 increased by RUB 1,457 million, or 28.1% year-on-year, to RUB 6,643 million compared to RUB 5,186 million for the same period of 2017. Taking into account the exchange rate differences relating to foreign operations and other effects, the total comprehensive income for the nine month period increased by 38.2% and amounted to RUB 6,865 million, compared to RUB 4,969 million for the corresponding period of 2017.

The profit for the third quarter 2018 increased by RUB 1,119 million, or 48.0% year-on-year, to RUB 3,452 million from RUB 2,333 million for the same period of 2017. Taking into account the exchange rate differences relating to foreign operations and other effects, the Company generated the total comprehensive income of RUB 3,445 million in the third quarter of 2018 compared to RUB 2,104 million in the third quarter of 2017.

Liquidity and Capital Resources

As of 30 September 2018, the Company's net cash and cash equivalents amounted to RUB 8,482 million, while its current liabilities exceeded current assets by RUB 7,197 million.

The Company's business is asset and capital-intensive and requires substantial capital expenditure for the purchase of flatcars and containers, for the development of rail-side terminals and modernising its lifting equipment and truck fleet, as well as other purposes. During the reporting period, the Company's operations and its capital expenditures were financed from both internally generated cash flows and by attraction of debt.

Cash flows

The following table sets out the principal components of the Company's consolidated cash flows for the nine months ended 30 September 2018 and 2017, respectively.

Cash flows structure

RUB million	9M 2018	9M 2017
Net cash provided by operating activities	8,576	5,949
Net cash used in investing activities	-5,262	-3,214
Net cash used in financing activities	663	-3,282
Net increase in cash and cash equivalents	3,977	-547
Foreign exchange effect on cash and cash equivalents	334	33
Net cash and cash equivalents at the end of the period	8,482	5,011

Cash flow generated by operating activities increased by RUB 2,627 million, or 44.2% year-on-year, to RUB 8,576 million for the nine months ended 30 September 2018 from RUB 5,949 million for the corresponding period of 2017, mainly due to an increase in revenue-generating transportation volumes.

Cash outflow used in investing activities increased by RUB 2,048 million, or 63.7% year-on-year, to RUB 5,262 million for the nine months ended 30 September 2018 from RUB 3,214 million for the corresponding period of 2017. This was primarily a result of an increase in capital expenditures from RUB 3,483 million to RUB 3,588 million, respectively, as well as the acquisition of JSC "Logistika-Terminal".

Cash flow from financing activities increased considerably - from negative RUB 3,282 million for the nine months ended 30 September 2017 to positive RUB 663 million for the nine month period of 2018, primarily as a result of RUB 6.0 billion bond placement in January 2018.

Capital Expenditure

Capital expenditure increased by RUB 105 million, or by 3.0% year-on-year, to RUB 3,588 million in the nine months of 2018 from RUB 3,483 million in the corresponding period of 2017. The majority of the capital expenditure was spent on acquiring new ISO containers and flatcars.

Planned capital expenditure for 2018

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

The total capital expenditure for 2018 is budgeted at RUB 12.3 billion (excluding VAT), however, the actual amount of capital expenditure is subject to the market conditions. The 2018 CAPEX programme is focused on the acquisition of flatcars and ISO containers and further improvement of the terminal infrastructure.

Capital resources

The Company's operations and capital expenditure have historically been financed from internally generated cash flow and proceeds from issuing domestic debt. As of 30 September 2018, the Company's financial indebtedness consisted of two outstanding bond issues in an aggregate amount of RUB 11,073 million, compared to RUB 6,267 million as of 30 September 2017. The Company's net debt at the end of the reporting period was RUB 2,037 million.

As of 30 September 2018, the major portion of the Company's financial indebtedness was unsecured. The Company's debt is rouble-denominated and bears a fixed interest rate.

RUB-denominated bonds series 4

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

The series 4 bonds were redeemed in four equal semi-annual installments within the fourth and fifth years. The Company fully repaid its obligation in the amount of RUB 1,295 million (including the amount of accrued interest of RUB 45 million) in January 2018.

RUB-denominated bonds series BO-02

On 22 September 2016, the Company issued non-convertible five-year bonds for a total amount of RUB 5,000 million at a par value of RUB 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUB 4,987 million. The annual coupon rate of the bonds for five years is 9.4% with interest paid semi-annually.

The series BO-02 bonds will be redeemed in four equal semi-annual instalments within the fourth and fifth years. As a result, these bonds are classified as long-term borrowings as at the reporting date.

As of 30 September 2018, the carrying value of the bonds amounted to RUB 5,005 million. The amount of accrued interest stood at RUB 13 million and has been included as current portion of long-term debt in the interim condensed consolidated statement of the financial position.

RUB-denominated bonds series BO-01

On 25 January 2018, the Company issued non-convertible five-year bonds for a total amount of RUB 6,000 million at a par value of RUB 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUB 5,985 million. The annual coupon rate of the bonds for five years is 7.5% with interest paid semi-annually.

The series BO-01 bonds will be redeemed in four equal semi-annual instalments within the fourth and fifth years. As a result, these bonds are classified as long-term borrowings as at the reporting date.

As of 30 September 2018, the carrying value of the bonds amounted to RUB 6,069 million, including the amount of accrued interest of RUB 82 million. The amount of accrued interest has been included as

current portion of long-term debt in the interim condensed consolidated statement of the financial position.

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 nine months ended 30 September 2018 and 2017.

Working capital structure

RUB million	30 September 2018	30 September 2017
Current assets		
Inventory	229	246
Trade and other receivables	1,318	2,113
Prepayments and other current assets	3,329	4,447
Prepaid income tax	4	0
Short-term investments	554	39
Cash and cash equivalents	8,482	5,011
Non-current Assets classified as held for sale	0	0
Total current assets	13,916	11,856
Current liabilities		
Trade and other payables	5,367	5,758
Short-term debt and current portion of long-term debt	94	1,280
Income tax payable	195	170
Taxes other than income tax payable	338	293
Provisions	0	0
Finance lease obligations, current maturities	0	0
Dividends payable	0	0
Accrued and other current liabilities	725	587
Deferred income	0	0
Total current liabilities	6,719	8,088
Working capital	7,197	3,768

Working capital increased by RUB 3,429 million to RUB 7,197 million at the end of the reporting period from RUB 3,768 million as at 30 September 2017, primarily due to a rise in cash and cash equivalents.

Downloads

The consolidated financial statements for the third quarter and nine months ended 30 September 2018 are available via the National Storage Mechanism at: <http://www.morningstar.co.uk/uk/NSM> or at the Company's website <http://www.trcont.com>.

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About TransContainer

TransContainer (LSE: TRCN; MOEX: TRCN) is the leading intermodal container transportation company in Russia with a market share of approximately 43%. It is the market leader in Russia by flatcar fleet size, container transportation by rail and rail-side container terminal throughput. As at 30 September 2018, it owned and leased 25,903 flatcars and 67,852 ISO containers. TransContainer owns a network of rail-side container terminals, located at 40 railway stations across Russia. The company's joint ventures and subsidiaries also operate one terminal in Slovakia, two terminals in Russia and 19 inland rail-side terminals in Kazakhstan. The Company's sales network comprises of 98 sales outlets in Russia, along with additional outlets across the CIS, Europe and Asia. TransContainer is listed on the Moscow Exchange and London Stock Exchange. The Company's major shareholder with 50% +2 shares is United Transportation and Logistics Company, established by Russian Railways, Belorussian Railway and Kazakhstan Temir Zholy.

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^[1] Transportation of clients' containers by the Company's rolling stock and own loaded containers by its own and third-party flatcars

^[2] Transportation of clients' containers by the Company's rolling stock and own loaded containers by its own and third-party flatcars

^[3] The empty run ratio is calculated as an average empty run in kilometers divided by an average total run in kilometers

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