

# JSC TransContainer

## Results for the nine months ended 30 September 2013

JSC "TransContainer" (the "Company" together with its consolidated subsidiaries) today publishes its management report together with the reviewed interim condensed financial statements for the nine months ended 30 September 2013. 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. According to the Company's estimates, TransContainer accounts for approximately 47.4% of all rail container transportation in Russia as of 30 September 2013. It owns and operates 25,677 flatcars in Russia and, additionally, operates 5,080 flatcars in Kazakhstan via its subsidiary KedenTransService, as well as more than 60,000 containers. TransContainer also owns a network of rail-side container terminals located at 46 railway stations across Russia and operates one terminal in Slovakia under a long-term lease agreement. The Company also operates 18 inland rail-side terminals in Kazakhstan via KedenTransService. The Company's sales network comprises more than 130 sales outlets across Russia, along with a presence in the CIS, Europe and Asia.

In the reporting period, the rail container market conditions were determined primarily by the deceleration in the Russian economy which began in the fourth quarter of 2012. Although the operating and pricing environment have been moderately improving since March 2013, average tariffs for rail transportation remain below last year's level and the rail container transportation market growth is still in the low- to middle single digit area. Competition between the market participants increased amid relatively weak transportation market conditions.

The Company's rail container transportation volumes in Russia for the first nine months of 2013 amounted to 1,074 thousand TEU<sup>1</sup> from 1,102 thousand TEU for the corresponding period of 2012, down 2.5% year on year, whilst revenue-generating transportation<sup>2</sup> volumes decreased by 1.7% to 821 thousand TEU. In Kazakhstan, rail container transportation volumes for the first nine months of 2013 amounted to 163 thousand TEU compared to 17 thousand TEU a year earlier.

Terminal handling volumes in Russia decreased by 8.3% year on year to 978 thousand TEU in the reporting period, mainly due to a 76.8% decrease in handling of medium-duty containers. Meanwhile, container terminal handling volumes in Kazakhstan were up 39.2% to almost 145 thousand TEU from 104 thousand TEU, reflecting predominantly an increase in container handling at the Dostyk cross-border terminal. Non-container terminal handling volumes in Kazakhstan increased by 17.2% to 2,588 thousand tonnes.

Given the challenging market environment, the Company focused primarily on the cost control and business optimisation. For the nine months ended 30 September 2013, the Company's total revenue increased by 5.3% year on year to RUB 28,793 million. Adjusted revenue decreased by 2.6% year on year to RUB 18,816 million, and EBITDA was down 4.8% year on year to RUB 7,837 million. However, operating profit grew by 2.7% year on year to RUB 6,114 million, and profit for the period increased by a notable 8.9% to RUB 4,666 million for the first nine months of 2013 from RUB 4,283 million in the corresponding period of 2012. The total comprehensive income for the period grew by 17.5% year on

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<sup>1</sup> Twenty-foot equivalent units (TEU)

<sup>2</sup> Transportation of clients' containers and own loaded containers

year to RUB 4,820 million from RUB 4,103 million for the first nine months of 2012. In terms of margins, the Company managed to improve its net income margin from 22.2% for the nine months ended 30 September 2012 to 24.8% in the reporting period, while the EBITDA margin remained above the 40% level at 41.7%.

As of 30 September 2013, the Company's total debt amounted to RUB 9,178 million with net debt of only RUB 3.845 million, bringing the Net Debt/LTM EBITDA ratio to a comfortable 0,4x.

Capital expenditure for the nine months ended 30 September 2013 decreased by 31.6% year on year to RUB 2,317 million, reflecting the weaker operating environment. The Company's objective to accumulate a cash cushion in anticipation of the dividend payments in August 2013, as well as due to shifting of the deliveries of contracted 800 new flatcars to the fourth quarter of 2013. In accordance with the Company's policy, all capital expenditure in the reporting period was financed by the Company's own cash flow.

## Outlook

After bottoming out in January-February 2013, the Russian container market resumed moderate growth from March 2013. It is in line with the management's view that the Russian rail container market is expected to demonstrate middle single-digit growth for the full year 2013. Going forward, the Company's management notes a continuing deceleration of Russia's economy, reflected in recent downgrades of economic forecasts released by the Ministry of Economic Development, as well as remaining vulnerable to external factors. However, the Company notes certain improvements in the rail freight transportation market in the second half of 2013 and the continuing growth in the rail container transportation segment.

Given the weaker demand for rail cargo transportation and increasing competition in the container segment, the Company believes that there is a limited space for pricing improvements in the near term. Under these circumstances, TransContainer's management will continue to focus on the Company's competitiveness, further improvement of services quality and will continue to take measures aimed at cost control and business optimisation.

In the long term, we continue to believe that the Russian container transportation market is fundamentally attractive and retains a sustainable growth potential driven by Russia's economic development, further involvement in international trade, the WTO accession, growth in consumer demand and containerisation. With this in mind, the Company's management will continue to invest in rolling stock and modernisation of its terminals, as well as opportunistic M&A, in line with its strategy and subject to changes in the economic environment.

## Key operating results

The Company's rail container transportation volumes for the first nine months of 2013 amounted to 1,074 thousand TEU from 1,102 thousand TEU in the corresponding period of 2012, down 2.5% year on year. This decrease mainly reflects a 9.6% drop in domestic transportation volumes, partly compensated by a 11.8% growth in imports. A decrease in the Company's domestic transportation was primarily driven by tightening competition on the weaker domestic market, as well as by shifting the Company's focus to the faster-growing international transportation market. A reduction in transportation of the Company's empty containers also contributed to a decrease in the Company's transportation volumes.

In Kazakhstan, rail container transportation volumes for the nine months of 2013 amounted to 180.0 thousand TEU, representing a near 11-fold increase on the respective period of 2012.

*Transportation of containers by TransContainer's fleet in 9M 2013 (ISO Loaded + Empty), 000' TEU*

	9m 2013	9m 2012	Change	
			000' TEU	Percent
Domestic Routes	534.7	591.7	-57.0	-9.6%
Export	267.1	261.6	5.5	+2.1%

Import	199.9	178.8	21.1	+11.8%
Transit	72.3	70.0	2.3	+3.2%
<b>All Routes</b>	<b>1 074.0</b>	<b>1 102.1</b>	<b>-28.1</b>	<b>-2.5%</b>

The Company's revenue-generating container transportation volumes in Russia for the first nine months of 2013 were down 1.7% to 821 thousand TEU compared to 834 thousand TEU in the same period of 2012. TransContainer's estimated share of Russia's rail container transportation for the nine months of 2013 decreased to 47.4% compared to 50.4% in the corresponding period of 2012.

### ***Terminal handling***

For the nine months of 2013, throughput of the Company's rail container terminal network in Russia amounted to 978 thousand TEU, a decrease of 8.3% year on year. MDC handling volumes dropped 76.8% year on year for the same period.

Container handling volumes in Kazakhstan at the Dostyk rail side terminal increased by 103.4% to 91.3 thousand TEU. Non-container handling at the KedenTransServices' terminals increased by 17.2% year on year to 2,588 thousand tonnes for the reporting period.

### ***Asset utilisation***

For the nine months of 2013, the flatcar and container empty runs improved considerably as a result of management efforts to optimise the fleet utilisation amid challenging operating environment. Growth in the container and flatcar turnover reflects the weak market environment for the nine months of 2013, as well as a decrease in average train speeds across the Russian railway network.

	<b>9m 2013</b>	<b>9m 2012</b>
Turnover of containers, days	25.9	22.7
Turnover of flatcars, days	13.8	13.3
Empty run <sup>3</sup> for containers, %	30.3%	36.8%
Empty run <sup>3</sup> for flatcars, %	6.8%	7.7%

<sup>3</sup> The Empty run ratio is calculated as an average empty run in kilometers divided by an average total run in kilometers

## **Consolidated Statement of Comprehensive Income Items**

The following table sets out the Company's results for the nine months ended 30 September 2013 and 2012.

<b>RUB million</b>	<b>9m 2013</b>	<b>9m 2012</b>	<b>Year on Year change</b>	<b>Year on Year change (%)</b>
Revenue	28,793	27,334	1,459	5.3%
Other operating income	499	226	273	120.8%
Operating expenses	-23,178	-21,605	-1,573	7.3%
<b>Operating profit</b>	<b>6,114</b>	<b>5,955</b>	<b>159</b>	<b>2.7%</b>
Interest expense	-569	-674	105	-15.6%
Interest income	182	173	9	5.2%
Foreign exchange gain, net	62	2	60	31x
Share of result of associates and JVs	5	-20	25	
Gain from disposal of associate	0	72	-72	-100.0%
Gain from early termination of	32	0	32	-

finance lease obligations				
<b>Profit before income tax</b>	<b>5,826</b>	<b>5,508</b>	<b>318</b>	<b>5.8%</b>
Income tax expense	-1,160	-1,225	65	-5.3%
<b>Profit for the period</b>	<b>4,666</b>	<b>4,283</b>	<b>383</b>	<b>8.9%</b>
<b>Attributable to:</b>				
Equity holders of the parent	4,606	4,268	338	7.9%
Non-controlling interest	60	15	45	4x
<b>Other comprehensive income for the period</b>	<b>154</b>	<b>-180</b>	<b>334</b>	
Remeasurements of post-employment benefit plans	19	-28	47	
Exchange differences on translating foreign operations	135	-152	287	
<b>Total comprehensive income for the period</b>	<b>4,820</b>	<b>4,103</b>	<b>717</b>	<b>17.5%</b>
<b>Attributable to:</b>				
Equity holders of the parent	4,724	4,135	589	14.2%
Non-controlling interest	96	-32	128	

The Company's financial results for the nine months ended 30 June 2013 reflect primarily the relatively weak operating and pricing environment in the rail container transportation market in Russia, partially compensated by the Company's efforts to improve its operational efficiency and cost optimisation.

On the back of the challenging market conditions in the first nine months of 2013, the Company's total revenue increased by 5.3% year on year to RUB 28,793 million, while adjusted revenue was down 2.6% year on year to RUB 18,816 million. EBITDA declined by 4.8% from RUB 8,229 for the nine months ended 30 September 2012 to RUB 7,837 million for the nine months ended 30 September 2013, with profit for the period increasing by 8.9% from RUB 4,283 million to RUB 4,666 million respectively.

#### ***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.

<b>RUB million</b>	<b>9m 2013</b>	<b>9m 2012</b>	<b>Year on Year change</b>	<b>Year on Year change (%)</b>
Adjusted Revenue <sup>1</sup>	18,816	19,324	-508	-2.6%
Adjusted operating expenses <sup>2</sup>	13,201	13,595	-394	-2.9%
EBITDA <sup>3</sup>	7,837	8,229	-392	-4.8%
Adjusted EBITDA margin <sup>4</sup>	41.7%	42.6%		
Total debt	9,178	9,215	-37	-0.4%
Net debt <sup>5</sup>	3,845	5,410	-1,565	-28.9%
Net debt/LTM EBITDA	0.39	0.53		

<sup>1</sup>Adjusted Revenue is calculated as total revenue less cost of integrated freight forwarding and logistics services.

<sup>2</sup>Adjusted Operating Expenses are calculated as operating expenses less cost of integrated freight forwarding and logistics services.

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

<sup>4</sup>Adjusted EBITDA Margin is defined as EBITDA divided by Adjusted Revenue.

<sup>5</sup> 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.

### **Revenue**

The following table sets out the breakdown of total revenue for the nine months ended 30 September 2013 and 2012 respectively.

<b>RUB million</b>	<b>9m 2013</b>	<b>9m 2012</b>	<b>Year on Year change</b>	<b>Year on Year change (%)</b>
Integrated freight forwarding and logistics services	17,429	14,375	3,054	21.2%
Rail-based container shipping services	6,270	7,638	-1,368	-17.9%
Terminal services and agency fees	3,051	3,110	-59	-1.9%
Truck deliveries	1,055	1,198	-143	-11.9%
Other freight forwarding services	446	640	-194	-30.3%
Bonded warehousing services	301	303	-2	-0.7%
Other	241	70	171	244.3%
<b>Total revenue</b>	<b>28,793</b>	<b>27,334</b>	<b>1,459</b>	<b>5.3%</b>

Total revenue increased by RUB 1,459 million, or 5.3%, from RUB 27,334 million for the nine months ended 30 September 2012 to RUB 28,793 million for the nine months ended 30 September 2013. This was primarily a result of an increase in integrated freight and transportation services, driven by higher transportation volumes under through-rate contracts in Russia and developing operations in Kazakhstan.

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

### **Adjusted Revenue**

The following table sets out adjusted revenue calculations for the nine months ended 30 September 2013 and 2012 respectively.

<b>RUB million</b>	<b>9m 2013</b>	<b>9m 2012</b>	<b>Year on Year change</b>	<b>Year on Year change (%)</b>
Total revenue	28,793	27,334	1,459	5.3%
Cost of integrated freight forwarding and logistics services	9,977	8,010	1,967	24.6%
<b>Adjusted Revenue</b>	<b>18,816</b>	<b>19,324</b>	<b>-508</b>	<b>-2.6%</b>

Adjusted revenue (as defined above) declined by 2.6% from RUB 19,324 million for the nine months ended 30 September 2012 to RUB 18,816 million for the nine months ended 30 September 2013. This was primarily due to a 1.7% decrease in revenue-generating rail container transportation volumes by the Company's fleet in Russia and a 8.2% decrease in terminal handling volumes in Russia amid the weak pricing environment. This decrease was partially offset by an increase in container transportation and terminal handling volumes in Kazakhstan.

The following table sets out the components of relative contribution to adjusted revenue for the nine months ended 30 September 2013 and 2012 respectively.

	9m 2013		9m 2012		Year on Year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Rail-based container shipping services	6,270	33.3%	7,638	39.5%	-1,368	-17.9%
Adjusted integrated freight forwarding and logistics services	7,452	39.6%	6,365	32.9%	1,087	17.1%
Terminal services and agency fees	3,051	16.2%	3,110	16.1%	-59	-1.9%
Truck deliveries	1,055	5.6%	1,198	6.2%	-143	-11.9%
Other freight forwarding services	446	2.4%	640	3.3%	-194	-30.3%
Bonded warehousing services	301	1.6%	303	1.6%	-2	-0.7%
Other	241	1.3%	70	0.4%	171	244.3%
<b>Total adjusted revenue</b>	<b>18,816</b>	<b>100%</b>	<b>19,324</b>	<b>100%</b>	<b>-508</b>	<b>-2.6%</b>

The structure of the Adjusted Revenue changed in the nine months of 2013 compared to the same period of 2012. The share of rail-based container transportation services in the Adjusted Revenue decreased from 39.5% in 2012 to 33.3% in 2013, while the share of integrated freight forwarding and logistics services, net of cost of integrated freight forwarding and logistics services, increased to 39.6% from 32.9%. Shares of terminal services and agency fees and Bonded warehousing services remained flat at the level of ca. 16% and 1.6% respectively. Shares of Other freight forwarding services and Truck deliveries changed marginally, showing mixed dynamics.

#### *Integrated freight forwarding and logistics services*

Revenue from integrated freight forwarding and logistics services increased by 21.2% year on year to RUB 17,429 million for the nine months ended 30 September 2013.

The following table sets out the Adjusted integrated freight forwarding and logistics services calculation for the nine months ended 30 September 2013 and 2012 respectively.

RUB million	9m 2013	9m 2012	Year on Year change	Year on Year change (%)
Integrated freight forwarding and logistics services	17,429	14,375	3,054	21.2%
Cost of integrated freight forwarding and logistics services	9,977	8,010	1,967	24.6%
<b>Adjusted revenue from integrated freight forwarding and logistics services</b>	<b>7,452</b>	<b>6,365</b>	<b>1,087</b>	<b>17.1%</b>

Adjusted revenue from integrated freight forwarding and logistics services grew by 17.1% year on year to RUB 7,452 million in the reporting period. This increase reflects transportation volumes under integrated logistics contracts in Russia growing by 11.9% to 407 thousand TEU in the first nine months ended 30 September 2013 from 364 thousand TEU a year earlier, as well as transportation volumes in Kazakhstan under through rate contracts increasing from 16.7 thousand TEU to 163.3 thousand TEU for the respective periods.

#### *Rail-based container transportation services*

Revenue from rail-based container transportation decreased by 17.9% to RUB 6,270 million for the reporting period from RUB 7,638 million for the same period of 2012. This was mainly due to a decrease in revenue-generating transportation volumes, other than under integrated logistics contracts by 12.1% from 471 thousand TEU for the nine months of 2012 to 414 thousand TEU for the nine months of 2013, as well as due to a deterioration in the pricing environment and a change in the mix of services in favour of the provision of Company's flatcars for transportation of client's containers.

#### *Terminal services and agency fees*

Revenue from terminal services, including agency fees, decreased by 1.9% to RUB 3,051 million for the nine months ended 30 September 2013 from RUB 3,110 million for the same period of 2012 as a result of opposite dynamics of terminal handling volumes in Russia and in Kazakhstan.

Container handling volumes of KedenTransService's rail-side terminals grew by 39.2% to 144.5 thousand TEU in the first nine months of 2013. This was driven by both organic growth of the business and taking over a new handling yard at the Dostyk station under a long-term lease agreement late in 2012. Non-container cargo handling by KedenTransService's terminals for the reporting period increased by 17.2% year on year to 2,588 thousand tonnes.

Revenue from container services and agency fees, the latter being fees for services the Company renders as an agent of Russian Railways, decreased as a result of a 8.2% drop in TransContainer's terminal network throughput in Russia, mainly associated with the continued phasing out of medium-duty containers (MDCs).

#### *Truck deliveries*

Revenue from truck deliveries decreased by RUB 143 million, or 11.9%, to RUB 1,055 million for the nine months ended 30 September 2013 from RUB 1,198 million for the corresponding period of 2012. This was due to a 8.6% reduction in container transportation volumes by the Company's own and outsourced truck fleet from 392 thousand TEU for the nine months of 2012 to 358 thousand TEU for the reporting period, predominantly associated with a decrease in the Company's terminal throughput, as well as due to the tough pricing environment.

#### *Other freight forwarding and logistics services*

Revenue from other freight forwarding and logistics services, which are freight forwarding and logistics services of a non-integrated nature, fell by 30.3% from RUB 640 million to RUB 446 million. This decrease was primarily due to a reduction in transportation volumes other than those under integrated logistics contracts and a decline in demand for added-value services amid the weak market environment.

#### *Bonded warehousing services*

Revenue from bonded warehousing services decreased by RUB 2 million, or 0.7%, to RUB 301 million for the nine months ended 30 September 2013 from RUB 303 million for the same period of 2012, as a result of minor reductions in the contribution from bonded warehousing services in Kazakhstan partly offset by a growth in revenues from bonded warehousing services in Russia.

#### **Operating expenses**

The following table sets out a breakdown of the Company's operating expenses for the nine months ended 30 September 2013 and 2012 respectively.

<b>RUB million</b>	<b>9m 2013</b>	<b>9m 2012</b>	<b>Year on Year change</b>	<b>Year on Year change (%)</b>
Cost of integrated freight forwarding	9,977	8,010	1,967	24.6%

and logistics services				
Freight and transportation services	3,180	3,800	-620	-16.3%
Payroll and related charges	3,404	3,651	-247	-6.8%
Depreciation and amortisation	1,442	2,047	-605	-29.6%
Materials, repair and maintenance	2,132	1,904	228	12.0%
Taxes other than income tax	494	417	77	18.5%
Rent	1,224	418	806	192.8%
Other operating expenses	1,325	1,358	-33	-2.4%
<b>Total operating expenses</b>	<b>23,178</b>	<b>21,605</b>	<b>1,573</b>	<b>7.3%</b>

TransContainer's total operating expenses grew by RUB 1,573 million, or 7.3%, to RUB 23,178 million for the nine months ended 30 September 2013 from RUB 21,605 million for the nine months ended 30 September 2012. This was primarily due to an increase in the Cost of integrated freight forwarding and logistics services, Rent, Materials, Repair and maintenance costs and Taxes other than income tax, partially offset by a decrease in the costs of freight and transportation services, Depreciation and amortisation, Payroll and related charges and Other operating expenses.

The following table sets out a breakdown of the Company's largest operating expenses for the nine months ended 30 September 2013 and 2012 respectively.

	9m 2013			9m 2012		
	RUB mln	Percent of operating expenses	Percent of total revenue	RUB mln	Percent of operating expenses	Percent of total revenue
Cost of integrated freight forwarding and logistics services	9,977	43.0%	34.7%	8,010	37.1%	29.3%
Freight and transportation services	3,180	13.7%	11.0%	3,800	17.6%	13.9%
Payroll and related charges	3,404	14.7%	11.8%	3,651	16.9%	13.4%
Depreciation and amortisation	1,442	6.2%	5.0%	2,047	9.5%	7.5%
Materials, repair and maintenance	2,132	9.2%	7.4%	1,904	8.8%	7.0%
Taxes other than income tax	494	2.1%	1.7%	417	1.9%	1.5%
Rent	1,224	5.3%	4.3%	418	1.9%	1.5%
Other expenses	1,325	5.7%	4.6%	1,358	6.3%	5.0%
<b>Total operating expenses</b>	<b>23,178</b>	<b>100.0%</b>	<b>80.5%</b>	<b>21,605</b>	<b>100.0%</b>	<b>79.0%</b>

As a percentage of the total revenue, total operating expenses increased from 79.0% for the nine months ended 30 September 2012 to 80.5% for the nine months ended 30 September 2013, as a result of an increase in operating expenses exceeding the growth in total revenue. As a percentage of total revenue, costs related to freight and transportation services decreased from 13.9% in 2012 to 11.0% in 2013. The cost of integrated freight forwarding and logistics services increased from 29.3% in 2012 to 34.7% in 2013 and the share of costs for materials, repair and maintenance increased from 7.0% in 2012 to 7.4% in 2013 as a percentage of total revenue; share of depreciation and amortisation in total revenue decreased from 7.5% to 5.0%.

#### *Cost of integrated freight forwarding and logistics services*

Costs of integrated freight forwarding and logistics services increased by 24.6%, to RUB 9,977 million for the nine months ended 30 September 2013 from RUB 8,010 million for the same period of 2012. This was driven predominantly by an increase in transportation volumes under integrated logistics contracts in

Russia and in Kazakhstan, as well as by an increase in infrastructure tariffs including the tariffs paid to Russian Railways and JSC National Company "Kazakhstan Temir Zholy".

### **Adjusted operating expenses**

The following table sets out adjusted operating expenses for the nine months ended 30 September 2013 and 2012 respectively.

<b>RUB million</b>	<b>9m 2013</b>	<b>9m 2012</b>	<b>Year on Year change</b>	<b>Year on Year change (%)</b>
Total operating expenses	23,178	21,605	1,573	7.3%
Cost of integrated freight forwarding and logistics services	9,977	8,010	1,967	24.6%
<b>Adjusted operating expenses</b>	<b>13,201</b>	<b>13,595</b>	<b>-394</b>	<b>-2.9%</b>

Adjusted operating expenses, as defined above, decreased by 2.9% to RUB 13,201 million for the nine months ended 30 September 2013 from RUB 13,595 million for the same period of 2012, primarily due a decrease in Freight and transportation costs, Depreciation and amortisation, as well as Payrolls and related charges. The effect of these factors was partially offset by an increase in costs related to Materials, repair and maintenance, as well as in Rent and Taxes other than income tax.

The following table sets out a breakdown of the Company's adjusted operating expenses, as defined above, for the nine months ended 30 September 2013 and 2012 respectively.

	<b>9m 2013</b>		<b>9m 2012</b>		<b>Year on year change</b>	
	<b>RUB mln</b>	<b>Percent of adjusted operating expenses</b>	<b>RUB mln</b>	<b>Percent of adjusted operating expenses</b>	<b>RUB mln</b>	<b>Percent change</b>
Freight and transportation services	3,180	24.1%	3,800	28.0%	-620	-16.3%
Payroll and related charges	3,404	25.8%	3,651	26.9%	-247	-6.8%
Depreciation and amortisation	1,442	10.9%	2,047	15.1%	-605	-29.6%
Materials, repair and maintenance	2,132	16.2%	1,904	14.0%	228	12.0%
Taxes other than income tax	494	3.7%	417	3.1%	77	18.5%
Rent	1,224	9.3%	418	3.1%	806	192.8%
Other expenses	1,325	10.0%	1,358	10.0%	-33	-2.4%
<b>Adjusted operating expenses</b>	<b>13,201</b>	<b>100.0%</b>	<b>13,595</b>	<b>100.0%</b>	<b>-394</b>	<b>-2.9%</b>

### *Freight and transportation services*

Expenses relating to freight and transportation services decreased by RUB 620 million, or 16.3%, to RUB 3,180 million for the nine months ended 30 September 2013. This decrease was mainly due to a number of factors set out below:

- i) a decrease in empty run ratio of containers and flatcars, respectively, from 36.8% and 7.7% for the nine months of 2012 to 30.3% and 6.8% for the reporting period;
- ii) a 10.7% decrease in rail-based transportation by the Company's own containers from 723 thousand TEU in 2012 to 646 thousand TEU in 2013 and a 2.5% reduction in total transportation volume by Company's railcar fleet for the same period.

These factors were partially offset by an increase in infrastructure and locomotive tariffs charged by Russian Railways and JSC National Company "Kazakhstan Temir Zholy".

#### *Payroll and related charges*

Payroll and related charges decreased by RUB 247 million, or 6.8%, to RUB 3,404 million for the nine months ended 30 September 2013 from RUB 3,651 million for the same period of 2012. This decrease was mainly a result of a 3.0% decrease in the average headcount in Russia, a decrease in performance-linked payments to the Company's personnel, partially offset by a scheduled indexing of base salaries.

#### *Depreciation and amortisation*

Depreciation and amortisation decreased by RUB 605 million, or 29.6% to RUB 1,442 million for the nine months of 2013 from RUB 2,047 million for the same period of 2012, primarily due to the effect of extension of depreciable lives of the Company's fixed assets adopted in 2013. If the previous accounting policy related to depreciable lives had been applied, the depreciation charge for the nine months ended 30 September 2013 would have been RUB 2,132 million.

#### *Materials, repair and maintenance*

Expenses related to materials, repair and maintenance grew by 12.0%, to RUB 2,132 million for the nine months of 2013 from RUB 1,904 million for the same period of 2012. This was primarily due to a 5% increase in the number of flatcars repaired and an increase in the average prices of repairs and materials, as well as due to a growth in contribution to repair costs from KedenTransService.

#### *Taxes other than income tax*

Taxes other than income tax increased by 18.5% to RUB 494 million for the nine months ended 30 September 2013 from RUB 417 million for the same period of 2012, primarily due to VAT settlements mainly related to international rail transportation.

#### *Rent*

Rent expenses grew by RUB 806 million, or 2.9 times to RUB 1,224 million in the reporting period from RUB 418 million in the same period of 2012. This was primarily due to growth in expenses related to rent of third parties' rolling stock by JSC KedenTransService, as well as rent of additional handling yards at the Dostyk station by JSC KedenTransService from the fourth quarter of 2012.

#### *Other expenses*

Other expenses are an aggregate of various expense items such as security, consulting expenses, fuel and energy, licences and software, communication services, loss on sale of fixed assets etc. Other expenses decreased by 2.4% to RUB 1,325 million for the nine months of 2013 from RUB 1,358 million in the respective period of 2012. This was primarily due to a decrease in expenses for licence and software, communication and other costs, which were partly offset by an increase in expenses related to fuel and energy, as well as consulting services.

#### *Operating profit*

Operating profit for the nine months ended 30 September 2013 increased by RUB 159 million, or 2.7%, to RUB 6,114 million from RUB 5,955 million in the same period of 2012, as a result of the factors discussed above.

#### *Interest expense*

Interest expenses decreased by RUB 105 million, or 15.6%, to RUB 569 million for the nine months of 2013 from RUB 674 million for the same period of 2012, mainly due to a refinancing of maturing RUB-denominated bonds series 1 and loans obtained from OJSC Alfa Bank by newly issued RUB-denominated bonds series 4.

### *Interest income*

Interest income grew by RUB 9 million to RUB 182 million for the nine months of 2013 from RUB 173 million for the same period of 2012 due to an increase in average balances in deposit accounts for the reporting period.

### *Profit before income tax*

Profit before income tax increased by RUB 318 million, or by 5.8%, to RUB 5,826 million for the nine months ended 30 September 2013 from RUB 5,508 million for the nine months ended 30 September 2012. This increase was due to the factors discussed above.

### *Income tax expenses*

Income tax expenses decreased by RUB 65 million, or 5.3%, to RUB 1,160 million for the nine months of 2013 from RUB 1,225 million for the same period of 2012, primarily due to a reduction in deferred tax liabilities. For the same reason the effective tax rate in the reporting period decreased to 20% in 2013 compared to 22% in 2012.

### *Profit and Total comprehensive income for the period*

As a result of the factors discussed above, the profit for the nine months ended 30 September 2013 increased by RUB 383 million, or 8.9% to RUB 4,666 million compared with RUB 4,283 million for the same period of 2012. Taking into account the exchange differences in translating foreign operations and remeasurements of post-employment benefit plans, the total comprehensive income for the reporting period totalled RUB 4,820 million, compared to RUB 4,103 million for the nine months of 2012, up 17.5%.

## **Liquidity and Capital Resources**

As of 30 September 2013 the Company's net cash and cash equivalents amounted to RUB 4,071 million and the Company's current assets exceeded current liabilities by RUB 3,742 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 other fixed assets. During the reporting period the Company's operations and its capital expenditures were financed from internally generated cash flows.

### **Cash flows**

The following table sets out the principal components of the Company's consolidated cash flows for the nine months ended 30 September 2013 and 2012 respectively.

	<b>9m 2013</b>	<b>9m 2012</b>
Net cash provided by operating activities	5,849	6,003
Net cash used in investing activities	-1,962	-3,541
Net cash provided by financing activities	-1,203	-2,031
Net increase in cash and cash equivalents	2,684	431
<b>Net cash and cash equivalents at the end of the period</b>	<b>4,071</b>	<b>2,643</b>

### *Cash flow generated by operating activities*

Cash flow generated by operating activities decreased by RUB 154 million, or 2.6 %, to RUB 5,849 million for the nine months ended 30 September 2013 from RUB 6,003 million for the same period of 2012. This was primarily due to a decrease in operating profit before working capital changes by RUB 426 million, or 5.3 %, from RUB 8,064 million for the nine months of 2012 to RUB 7,638 million in 2013. This decline was partially offset by a decrease in income tax and interest paid.

### *Cash flow used in investing activities*

Cash flow used in investing activities decreased by RUB 1,579 million, or 44.6%, to RUB 1,962 million for the nine months ended 30 September 2013 from RUB 3,541 million for the same period of 2012. This was primarily due to a decrease in the purchase of property, plant and equipment by RUB 1,069 million and net effect of short-term investments, mainly represented by bank deposits in the amount of RUB 408 million.

### *Cash flow generated by financing activities*

Cash outflow generated by financing activities decreased by RUB 828 million for the months of 2013 to RUB 1,203 million from RUB 2,031 million for the same period of 2012, primarily due to proceeds from the issuance of the RUB-denominated bonds series 4 remaining after redemption of the RUB-denominated bonds series 1 and bank loans.

### **Capital Expenditure**

Capital expenditure decreased by RUB 1,069 million, or 31.5%, to RUB 2,317 million for the nine months of 2013 from RUB 3,386 million for the nine months of 2012, mainly due to a decrease in prices for rolling stock, an optimisation of construction works at terminals, as well as due to a shift of investment schedule towards the end of 2013.

### *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 was initially budgeted at RUB 9.1 billion (excluding VAT), subject to the market environment and the Company's financial conditions. In September 2013, the capital expenditure programme was revised by the Company's Board of Directors taking into account a decrease in the prices for flatcars and containers and other factors, with the number of flatcars and containers to be acquired throughout the year remaining unchanged. Currently, the total capital expenditure in 2013 is budgeted at RUB 7.4 billion (excluding VAT), of which up to RUB 3.7 billion may be spent on the acquisition of new flatcars (including leasing); up to RUB 1.4 billion on the upgrade and modernisation of the Company's key rail-side terminals; up to RUB 1.1 billion on the acquisition of containers and up to RUB 1.2 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 30 September 2013, the Company's financial indebtedness consisted of two outstanding bond issues, financial lease obligations and other borrowings in an aggregate amount of RUB 9,178 million compared to RUB 9,188 million as of 31 December 2012. As of 30 September 2013, the Company's net debt was RUB 3,845 million.

As of 30 September 2013, the major portion of the Company's financial indebtedness was unsecured, except for the obligations under finance leases, which were secured by the lessors' title to the leased assets. The Company's indebtedness is denominated in Russian Roubles and fixed-rated.

### *RUB-denominated bonds series 1*

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

#### *RUB-denominated bonds series 2*

On 10 June 2010, the Company issued non-convertible five-year amortising bonds for a total amount of RUB 3,000 million at a par value of RUB 1,000 each. Net proceeds from the issuance after deduction of related offering costs amounted to RUB 2,975 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. As at 30 September 2013 the carrying value of the bonds amounted to RUB 2,986 million (RUB 2,982 million as at 31 December 2012).

As at 30 September 2013 the short-term portion of long-term bonds equals RUB 1,500 million (RUB 750 million as at 31 December 2012) and this amount has been included as short-term debt in the interim condensed consolidated statement of financial position. The amount of accrued interest is RUB 87 million (RUB 22 million as at 31 December 2012), and has been included as short-term debt in the interim condensed consolidated statement of financial position.

#### *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 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 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 30 September 2013 the carrying value of the bonds amounted to RUB 4,988 million. The amount of accrued interest is RUB 69 million and has been included as short-term debt in the interim condensed consolidated statement of financial position.

#### *Bank loans and other borrowings*

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

On 23 May 2011, the Company borrowed funds from LLC TrustUnion AM for the principal amount of RUB 514 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 30 September 2013 was RUB 484 million.

#### *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 2013.

	<b>30 September 2013</b>	<b>31 December 2012</b>
<b>Current assets</b>		
Inventory	434	334
Trade and other receivables	2,025	1,262
Prepayments and other current assets	3,449	4,434
Prepaid income tax	156	132
Short-term investments	1,121	1,339
Cash and cash equivalents	4,212	1,318
<b>Total current assets</b>	<b>11,397</b>	<b>8,819</b>
<b>Current liabilities</b>		
Trade and other payables	4,737	3,773

Short-term debt	1,656	5,695
Income tax payable	289	167
Taxes other than income tax payable	296	367
Provisions	2	10
Finance lease obligations current maturities	73	94
Dividends payable	41	0
Accrued and other current liabilities	561	789
Deferred income	0	0
<b>Total current liabilities</b>	<b>7,655</b>	<b>10,895</b>
<b>Working capital</b>	<b>3,742</b>	<b>-2,076</b>

Working capital increased by RUB 5,818 million from negative RUB 2,076 million as at 31 December 2012 to positive RUB 3,742 million at the end of the reporting period. This increase was primarily due to a decrease in short-term debt by RUB 4,039 million and an increase in Cash and cash equivalents by RUB 2,894 million.

### Downloads

The consolidated financial statements for the nine months ended 30 September 2013 are available via the National Storage Mechanism at: <http://www.hemscott.com/nsm.do> or at the Company's website: <http://www.trcont.ru>

### 29 November 2013

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