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PJSC TransContainer

Results for the third quarter and nine months ended 30 September 2017

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 2017. 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 2017, it owned and leased 24,235 flatcars and 71,075 ISO containers. TransContainer also owns a network of rail-side container terminals, located at 42 railway stations across Russia and operates one terminal in Slovakia under a long-term lease agreement. The Company's joint venture JSC KedenTransService ("KedenTransService", or "KDTS") also operates 19 inland rail-side terminals in Kazakhstan. TransContainer's sales network comprises 107 sales outlets in Russia, along with additional outlets across the CIS, Europe and Asia.

In the third quarter of 2017, Russia's container market continued to demonstrate a strong and robust growth of 19.2% year-on-year, mainly driven by an increase in import and transit transportation.

For the nine months of 2017, the Russian rail container market grew by 19.6% year-on-year to 2,831 thousand TEU. In terms of segment breakdown for the nine month period, domestic transportation volumes grew by 7.3% year-on-year, export transportation increased by 20.5% year-on-year, while import and transit transportation volumes surged by 36.7% and 67.5%, respectively.

Amid the favorable market environment, the Company's revenue-generating transportation volumes increased by 22.6% year-on-year to 376 thousand TEU in the third quarter and by 22.9% year-on-year to 1,057 thousand TEU for the first nine months of the reporting year. As a result, the Company's adjusted revenue increased by 29.7% year-on-year in the third quarter and by 30.1% year-on-year for the first nine months of 2017, respectively.

At the same time adjusted operating expenses grew by just 2.5% year-on-year in the reporting quarter and by 10.2% year-on-year for the nine month period. This was largely driven by an increase in transportation volumes by the Company's assets, which grew by 16.0% and 17.7%, respectively. The Company managed to keep under control its key expense items such as empty run costs, salaries and administrative expenses, as a result of improved fleet management, as well as logistics and optimisation measures taken at the Company's terminals.

As a result, the EBITDA margin increased to the record 50.3% in the third quarter of 2017 and to 43.7% for the first nine months of 2017, while the net profit margin improved to 31.6% and 25.4%, respectively.

The summary of the Company's key financial metrics is presented in the table below:

	9M	9M	Year-on-year change		3Q	3Q	Year-on-year change	
	2017	2016	RUB mln	Percent	2017	2016	RUB mln	Percent
Total revenue	48,242	36,900	+11,342	+30.7%	17,569	13,357	+4,212	+31.5%
Adjusted revenue	20,427	15,695	+4,732	+30.1%	7,442	5,738	+1,704	+29.7%
Adjusted expenses	14,697	13,334	+1,363	+10.2%	4,861	4,744	+134	+2.5%
EBITDA	8,936	5,298	+3,638	+68.7%	3,744	2,106	+1,638	+77.8%
Adjusted EBITDA margin	43.7%	33.8%			50.3%	36.7%		
Profit for the period	5,186	2,641	+2,545	+96.4%	2,350	1,159	+1,174	+102.8%
Adjusted net profit margin	25.4%	16.8%	+8.6%		31.6%	20.2%	+11.4%	

As at 30 September 2017, the Company's total debt was RUB 6,267 million with net debt of only RUB 1,217 million.

On the back of the strong customer demand for transportation services, capital expenditure for the nine months ended 30 September 2017 increased 2.6 times year-on-year and amounted to RUB 3,483 million, which were spent on the acquisition of containers, flatcars and investments in terminal infrastructure. All capital expenditure during the reporting period was financed by the Company's own cash flow.

Recent developments and outlook

In October and November of 2017, the Russian rail container market continued its robust growth. For the eleven months of 2017, the market is expected to expand by approximately 19% year-on-year, exceeding the Company's initial expectations.

To facilitate faster-than expected market growth, the Company has been investing in acquisition of new flatcars and containers, as well as making efforts to further optimise the business in order to improve its position in key segments of the container market. Along with acquisitions of terminal assets made or agreed on during the third quarter, in September of 2017, the Company's Board of Directors approved to spin off the Company's tank-container transportation business into a wholly owned subsidiary.

As the Company believes that the long-term growth potential of the rail container transportation market is driven by ongoing rail cargo containerisation, TransContainer will continue to focus on further business optimisation, improving management efficiency, asset utilisation and the quality of customer service in order to increase the attractiveness of container transportation for existing and potential clients.

Key operating results

In the reporting quarter, container volumes transported by the Company's transportation assets (including provision of own containers to third-party flatcars) increased by 16.0% year-on-year to 456.7 thousand TEU. This was mainly as a result of the continued growth in international transportation, which was up 34.8% year-on-year, especially in import and transit segments, which grew by 34.0% and 92.3%, respectively.

Container transportation by TransContainer's assets in 3Q 2017 (ISO Loaded + Empty), 000' TEU

	3Q 2017	3Q 2016	Change	
			000' TEU	Percent
Domestic Routes	229.3	225.0	+4.3	+1.9%
Export	105.2	85.7	+19.5	+22.8%
Import	86.2	64.3	+21.9	+34.0%
Transit	36.0	18.7	+17.3	+92.3%
All Routes	456.7	393.8	+63.0	+16.0%

Container volumes transported by the Company's flatcar fleet in the third quarter of 2017 increased by 19.0% year-on-year to 430.4 thousand TEU from 361.6 thousand TEU a year earlier. The Company's

revenue-generating^[1] container transportation volumes in Russia amounted to 376.1 thousand TEU in the third quarter of 2017, up 22.6% year-on-year.

For the nine months of 2017, container volumes transported by the Company's flatcar and container fleet, as described above, grew by 17.7% year-on-year to 1,316.8 thousand TEU, mainly as a result of an increase in import and export transportation.

Container transportation by TransContainer's assets for 9 months 2017 (ISO Loaded + Empty), 000' TEU

	9M 2017	9M 2016	Change	
			000' TEU	Percent
Domestic Routes	669.0	637.1	+31.9	+5.0%
Export	320.8	262.5	+58.3	+22.2%
Import	237.5	169.2	+68.4	+40.4%
Transit	89.4	49.7	+39.7	+79.9%
All Routes	1,316.8	1,118.5	+198.3	+17.7%

Container volumes transported by the Company's flatcar fleet in the nine months of 2017 increased by 19.1% year-on-year to 1,230.5 thousand TEU from 1,032.8 thousand TEU a year earlier. The Company's revenue-generating container transportation volumes in Russia amounted to 1,056.5 thousand TEU in the nine months of 2017, up 22.9% year-on-year.

In the third quarter of 2017, the Company's throughput in the Russian rail container terminal network increased by 6.4% to 339 thousand TEU, compared to 319 thousand TEU for the same period of 2016. For the nine months of 2017, the Company's container terminal throughput was up 7.1% and amounted to 961 thousand TEU compared to 897 thousand TEU for the nine months of 2016.

The Company's container handling lagged the level of growth witnessed in the container transportation market as a result of a higher share of the export and transit transportation market, as well as due to the restrictions applied to some of the Company's terminals in Moscow, in line with the intention of Moscow government to reduce the number of freight terminals located in the central part of the city.

Starting from 30 September 2017, the Company has changed the manner in which it presents the empty run ratio for flatcars and containers. The new formula is based on average container*kilometers rather than average kilometers. This approach provides for more accurate metrics reflecting both distances and volumes relevant to empty transportation.

The comparison of the new metrics with the old ones is presented below:

Empty run ratio	2014	2015	2016	1Q 16	2Q 16	3Q 16	4Q 16	1Q 17	2Q 17	3Q 17
Containers (new)	17.6%	21.7%	21.5%	20.9%	22.2%	22.0%	20.9%	22.6%	17.4%	16.7%
Container (old)	28.8%	31.2%	32.0%	29.3%	32.3%	34.0%	32.1%	31.8%	29.7%	30.2%
Flatcars (new)	2.2%	2.0%	2.7%	2.3%	1.9%	3.1%	3.5%	3.6%	3.7%	4.1%
Flatcar (old)	7.2%	7.4%	8.3%	8.2%	6.4%	8.8%	9.5%	9.2%	10.8%	12.1%

In the third quarter of 2017, container empty run ratio improved from 22.0% to 16.7% due to the optimisation of sales and operations planning and tariffs. Empty run ratio for flatcars grew from 3.1% to 4.1% due to persistent imbalances in container flows in the Far East region, caused by the fast-growing transit and import flows from China.

	3Q 2017	3Q 2016	9M 2017	9M 2016
Turnover of containers, days	38.3	32.7	38.2	35.6
Turnover of flatcars, days	12.0	13.5	12.0	13.9
Empty run ^[2] for	16.7%	22.0%	18.7%	21.7%

containers, %
Empty run^[3] for flatcars,
%

4.1%	3.1%	3.8%	2.5%
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The turnover of flatcars improved from 13.9 days for the nine months of 2016 to 12.0 days for the same period of 2017. The turnover of containers increased from 35.6 to 38.2 days, respectively. This was a result of the Company's policy of arranging container stocks in key loading hubs and in clients' freight yards in order to reduce the number of flatcars standing idle.

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 2017 and 2016.

Summary of the Company's key results for the third quarter and nine months ended 30 September 2017 and 2016, respectively:

RUB million	9M 2017	9M 2016	Year-on-year change		3Q 2017	3Q 2016	Year-on-year change	
			RUB mln	%			RUB mln	%
Revenue	48,242	36,900	+11,342	+30.7%	17,569	13,357	+4,212	+31.5%
Other operating income	445	511	-66	-12.9%	219	168	+51	+30.4%
Operating expenses	-42,512	-34,539	-7,973	+23.1%	-14,988	-12,363	-2,642	+21.2%
Operating profit	6,175	2,872	+3,303	+115.0%	2,800	1,162	+1,638	+141.0%
Interest expense	-491	-290	-201	+69.3%	-141	-77	-64	+83.1%
Interest income	247	190	+57	+30.0%	66	103	-37	-35.9%
Foreign exchange gain, net	-4	-167	+163	-97.6%	-29	-31	+2	-6.5%
Share of result of associates and JVs	493	545	-52	-9.5%	189	225	-36	-16.0%
Other financial results, net	48	0	+48		41	0	+41	
Profit before income tax	6,468	3,150	+3,318	+105.3%	2,926	1,382	+1,544	+111.7%
Income tax expense	-1,282	-509	-773	+151.9%	-576	-223	-353	+158.3%
Profit for the period	5,186	2,641	+2,545	+96.4%	2,350	1,159	+1,191	+102.8%
Other comprehensive income/loss	-217	-482	+265	-55.0%	-229	-49	-180	+367.3%
Remeasurements and other reserves for post-employment benefit plans	-33	-84	+51	-60.7%	-17	-38	+21	-55.3%
Exchange differences on translating foreign operations (TRCN)	9	-39	+48	-123.1%	3	5	-2	-40.0%
Exchange differences on translating foreign operations (Associates & JV)	-193	-359	+166	-46.2%	0	-16	+16	-100.0%
	0	0	+0		-215	0	-215	
Total comprehensive income for the period	4,969	2,159	+2,810	+130.2%	2,121	1,110	+1,011	+91.1%
Attributable to:								
Equity holders of the parent	0	2,159	-2,159	-100.0%	0	1,180	-1,180	-100.0%
Non-controlling interest	0	0	+0		0	0	+0	

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 third-party charges included in TransContainer's revenues

Item	9M	9M	Year-on-year change		3Q	3Q	Year-on-year change	
	2017	2016	RUB mln	%	2017	2016	RUB mln	%
3rd-party charges related to integrated freight forwarding and logistics	25,773	17,582	+8,191	+46.6%	9,921	6,404	+3,517	+54.9%
Cargo transportation and handling services with involvement of third parties	2,042	3,623	-1,581	-43.6%	206	1,215	-1,009	-83.0%
Third-party charges related to principal activities	27,815	21,205	+6,610	+31.2%	10,127	7,619	+2,508	+32.9%

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

Total revenue adjustments

Item	9M	9M	Year-on-year change		3Q	3Q	Year-on-year change	
	2017	2016	RUB mln	%	2017	2016	RUB mln	%
Total revenue	48,242	36,900	+11,342	+30.7%	17,569	13,357	+4,212	+31.5%
Third-party charges related to principal activities	-27,815	-21,205	-6,610	+31.2%	-10,127	-7,619	-2,508	+32.9%
Adjusted Revenue	20,427	15,695	+4,732	+30.1%	7,442	5,738	+1,704	+29.7%

Integrated freight forwarding and logistics services revenue adjustment

Item	9M	9M	Year-on-year change		3Q	3Q	Year-on-year change	
	2017	2016	RUB mln	%	2017	2016	RUB mln	%
Integrated freight forwarding and logistics services	40,990	27,453	+13,537	+49.3%	15,929	10,096	+5,833	+57.8%
3rd-party charges related to integrated freight forwarding and logistics	-25,773	-17,582	-8,191	+46.6%	-9,921	-6,404	-3,517	+54.9%
Adjusted integrated freight forwarding and logistics services	15,217	9,871	+5,346	+54.2%	6,008	3,692	+2,316	+62.7%

Operating expenses adjustment

Item	9M	9M	Year-on-year change		3Q	3Q	Year-on-year change	
	2017	2016	RUB mln	%	2017	2016	RUB mln	%
Total operating expenses	42,512	34,539	+7,973	+23.1%	14,988	12,363	+2,625	+21.2%
Third-party charges related to principal activities	-27,815	-21,205	-6,610	+31.2%	-10,127	-7,619	-2,508	+32.9%
Adjusted Operating Expenses	14,697	13,334	+1,363	+10.2%	4,861	4,744	+117	+2.5%

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.

Non-IFRS metrics used in the analysis

RUB million	9M	9M	Year-on-year		3Q	3Q	Year-on-year	
	2017	2016	RUB mln	change %	2017	2016	RUB mln	change %
Revenue	48,242	36,900	+11,342	+30.7%	17,569	13,357	+4,212	+31.5%
Adjusted Revenue ¹	20,427	15,695	+4,732	+30.1%	7,442	5,738	+1,704	+29.7%
Adjusted operating expenses ²	14,697	13,334	+1,363	+10.2%	4,861	4,744	+117	+2.5%
EBITDA ³	8,936	5,298	+3,638	+68.7%	3,744	2,106	+1,638	+77.8%
Adjusted EBITDA margin ⁴	43.7%	33.8%			50.3%	36.7%		
Profit for the period	5,186	2,641	+2,545	+96.4%	2,350	1,159	+1,191	+102.8%
Net Income Margin	25.4%	16.8%	8.6%		31.6%	20.2%	11.4%	
Total debt	6,267	8,937	-2,670	-29.9%	6,267	8,937	-2,670	-29.9%
Net debt ⁵	1,217	-310	+1,527	-492.6%	1,217	-310	+1,527	-492.6%
LTM EBITDA	10,737	7,067	+3,670	+51.9%	8,936	5,298	+3,638	+68.7%
Net debt/LTM EBITDA	0.11	-0.04			0.14	-0.06		

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.

Revenue

The following table sets out the breakdown of total revenue for the third quarter and nine months ended 30 September 2017 and 2016, respectively.

Revenue breakdown

RUB million	9M	9M	Year-on-year		3Q	3Q	Year-on-year	
	2017	2016	RUB mln	change %	2017	2016	RUB mln	change %
Integrated freight forwarding and logistics services	40,990	27,453	+13,537	+49.3%	15,929	10,096	+5,833	+57.8%
Rail-based container shipping services	1,992	3,057	-1,065	-34.8%	344	1,042	-698	-67.0%
Cargo transportation and handling services with involvement of third parties	2,042	3,623	-1,581	-43.6%	206	1,215	-1,009	-83.0%
Terminal services, bonded warehousing services and agency fees	2,588	1,870	+718	+38.4%	964	681	+283	+41.6%
Truck deliveries	376	657	-281	-42.8%	30	238	-208	-87.4%
Other	254	240	+14	+5.8%	96	85	+11	+12.9%
Total revenue	48,242	36,900	+11,342	+30.7%	17,569	13,357	+4,212	+31.5%

Total revenue increased by RUB 11,342 million, or 30.7% year-on-year, to RUB 48,242 million for the nine months ended 30 September 2017, from RUB 36,900 million in the corresponding period of 2016. In the third quarter of 2017, total revenue increased by 31.5% year-on-year to RUB 17,569 million. This primarily resulted from an increase in transportation volumes by the Company's assets, as well as terminal handling volumes on the back of the growing rail container transportation market.

The following table sets out the components of adjusted revenue and their relative contribution to adjusted revenue for the nine months ended 30 September 2017 and 2016, respectively.

	9M 2017		9M 2016		Year-on-year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Adjusted integrated freight forwarding and logistics services	15,217	74.5%	9,871	62.9%	+5,346	+54.2%
Rail-based container shipping services	1,992	9.8%	3,057	19.5%	-1,065	-34.8%
Terminal services, bonded warehousing services and agency fees	2,588	12.7%	1,870	11.9%	+718	+38.4%
Truck deliveries	376	1.8%	657	4.2%	-281	-42.8%
Other revenues	254	1.2%	240	1.5%	+14	+5.8%
Total adjusted revenue	20,427	100%	15,695	100%	+4,732	+30.1%

Adjusted revenue grew by 30.1% year-on-year to RUB 20,427 million for the nine months of 2017 from RUB 15,695 million in the corresponding period of 2016, due to an increase in revenue from integrated freight forwarding and logistics services, terminal services, bonded warehousing services and agency fees, which was, in turn, partially offset by a decrease in rail-based container shipping services and truck deliveries.

Adjusted revenue grew by 29.7% year-on-year to RUB 7,442 million in the third quarter of 2017 from RUB 5,738 million in the corresponding quarter of 2016, primarily as a result of an increase in integrated freight forwarding and logistic services, as well as terminal services, bonded warehousing services and agency fees.

The following table sets out the components of relative contribution to adjusted revenue for the three months ended 30 September 2017 and 2016, respectively.

	3Q 2017		3Q 2016		Year-on-year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Adjusted integrated freight forwarding and logistics services	6,008	80.7%	3,692	64.3%	+2,316	+62.7%
Rail-based container shipping services	344	4.6%	1,042	18.2%	-698	-67.0%
Terminal services, bonded warehousing services and agency fees	964	13.0%	681	11.9%	+283	+41.6%
Truck deliveries	30	0.4%	238	4.1%	-208	-87.4%
Other	96	1.3%	85	1.5%	+11	+12.9%
Total adjusted revenue	7,442	100%	5,738	100%	+1,704	+29.7%

Integrated freight forwarding and logistics services

Revenue from integrated freight forwarding and logistics services increased by 49.3% year-on-year to RUB 40,990 million and by 57.8% year-on-year to RUB 15,929 million for the nine months and three months ended 30 September 2017, respectively.

Adjusted revenue from integrated freight forwarding and logistics services was up 54.2% year-on-year to RUB 15,217 million for the nine months of 2017, on the back of growing revenue-generating volumes and continuing shift of customers' preferences towards complex and integrated transportation services. For the same reasons, in the third quarter of 2017, this revenue item grew by 62.7% year-on-year to RUB 6,008 million, mainly as a result of an increase in revenue-generating transportation volumes.

Rail-based container transportation services

Revenue from rail-based container transportation was down by 34.8% year-on-year to RUB 1,992 million for the nine months ended 30 September 2017, from RUB 3,057 million in the corresponding period of 2016. In the third quarter of 2017, revenue from rail-based container transportation decreased by 67.0% year-on-year to RUB 344 million. The decline was due to customer demand continuing to shift towards integrated freight forwarding and logistics services.

Terminal services, bonded warehousing services and agency fees

Revenue from terminal services, bonded warehousing services and agency fees, increased by 38.4% year-on-year to RUB 2,588 million for the nine months of 2017 from RUB 1,870 million for the same

period of 2016. In the third quarter of 2017, revenue from terminal services, bonded warehousing and agency fees, increased by 41.6% year-on-year to RUB 964 million. This was primarily driven by an increase in agency fees, certain reclassification of freight forwarding and logistics services, as well as growth in handling volumes.

Since 30 June 2017, this revenue item includes the revenue from bonded warehousing services, which was previously presented as a standalone item. This was done to reflect the amendments in the Company's price list and unified list of services adopted in the second quarter of 2017.

Truck deliveries

Revenue from truck deliveries for the nine months ended 30 September 2017 decreased by RUB 281 million, or 42.8% year-on-year, to RUB 376 million, from RUB 657 million for the same period of 2016. Revenue from truck deliveries in the third quarter of 2017 decreased by RUB 208 million, or 87.4% year-on-year, to RUB 30 million, from RUB 238 million in the corresponding period of 2016. This was mainly due to a higher share of truck transportation provided within integrated logistics services.

Other revenues

Since the third quarter of 2017, a new price list was adopted by the Company, according to which some freight forwarding fees were reclassified into rail transportation and handling tariffs. This led to a substantial reduction in this revenue item. Therefore, it was considered as insignificant and accounted for as other revenues.

Revenues from other freight forwarding and logistics services, which comprise mainly freight forwarding and logistics services of a non-integrated nature, increased by 12.9% year-on-year to RUB 96 million in the third quarter of 2017, compared to RUB 85 million for the corresponding period of 2016, reflecting an increase in transportation volumes and change in the Company's services structure.

For the same reason, revenue from other services for the nine months ended 30 September 2017 increased by 5.8% year-on-year to RUB 254 million, compared to RUB 240 million for the corresponding period of 2016.

Operating expenses

The following tables provides a breakdown of the Company's operating expenses for the third quarter and nine months ended 30 September 2017 and 2016, respectively.

Operating expenses structure for the three month period

	3Q2017			3Q2016		
	RUB mln	% of operating expenses	% of total revenue	RUB mln	% of operating expenses	% of total revenue
Third-party charges related to principal activities	10,127	67.5%	57.6%	7,619	61.6%	57.0%
Freight and transportation services	1,623	10.8%	9.2%	1,555	12.6%	11.6%
Payroll and related charges	1,231	8.2%	7.0%	1,117	9.0%	8.4%
Depreciation and amortisation	677	4.5%	3.9%	647	5.2%	4.8%
Materials, repair and maintenance	867	5.8%	4.9%	797	6.4%	6.0%
Taxes other than income tax	2	0.0%	0.0%	122	1.0%	0.9%
Rent	72	0.5%	0.4%	65	0.5%	0.5%
Other expenses	389	2.6%	2.2%	441	3.6%	3.3%
Total operating expenses	14,988	100.0%	85.3%	12,363	100.0%	92.6%

Operating expenses structure for the nine month period

	9M 2017			9M2016		
	RUB mln	% of operating expenses	% of total revenue	RUB mln	% of operating expenses	% of total revenue
Third-party charges related to principal activities	27,815	65.4%	57.7%	21,205	61.4%	57.5%
Freight and transportation	4,869	11.5%	10.1%	4,312	12.5%	11.7%

services						
Payroll and related charges	3,932	9.2%	8.2%	3,530	10.2%	9.6%
Depreciation and amortisation	1,977	4.7%	4.1%	1,858	5.4%	5.0%
Materials, repair and maintenance	2,201	5.2%	4.6%	1,861	5.4%	5.0%
Taxes other than income tax	405	1.0%	0.8%	411	1.2%	1.1%
Rent	200	0.5%	0.4%	227	0.7%	0.6%
Other expenses	1,113	2.6%	2.3%	1,135	3.3%	3.1%
Total operating expenses	42,512	100.0%	88.1%	34,539	100.0%	93.6%

TransContainer's total operating expenses increased by RUB 7,973 million, or 23.1% year-on-year, to RUB 42,512 million for the nine months ended 30 September 2017, from RUB 34,539 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 2017, the Company's total operating expenses grew by 21.2% year-on-year, or by RUB 2,625 million, to RUB 14,988 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 31.2% year-on-year to RUB 27,815 million for the nine months ended 30 September 2017, from RUB 21,205 million for the same period of 2016. This was predominantly driven by a higher volume of the Company's operations, tariff indexing by Russian Railways and other subcontractors, growth in international transportations with the involvement of outsourced transportation services. The strengthening of the Russian rouble against the US dollar and Euro in the nine months ended 30 September 2017 as compared to the same period of 2016, partially offset this increase related to FX-denominated expenses, primarily charges of foreign rail administrations and sea shipping companies.

For the same reason, the costs of third-party charges related to principal activities increased in the third quarter of 2017 by 32.9% year-on-year to RUB 10,127 million, from RUB 7,619 million in the corresponding quarter of 2016.

Adjusted operating expenses

Adjusted operating expenses, as defined in the *Adjustments and additional financial information* section above, grew by 10.2% year-on-year to RUB 14,697 million for the nine months ended 30 September 2017, from RUB 13,334 million in the corresponding period of 2016, primarily due to an increase in freight and transportation services, materials, repair and maintenance costs and taxes other than income tax. This, in turn, was partially offset by a decrease in rent expenses.

In the third quarter of 2017, adjusted operating expenses increased by 2.5% year-on-year to RUB 4,861 million, from RUB 4,744 million in the third quarter of 2016, 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 2017 and 2016, respectively.

Adjusted operating expenses structure and dynamics for three months ended 30 September 2017 and 2016

	3Q2017		3Q2016		Year-on-year change	
	RUB mln	%	RUB mln	%	RUB mln	Percent change
Freight and transportation services	1,623	33.3%	1,555	32.8%	+68	+4.4%
Payroll and related charges	1,231	25.2%	1,117	23.5%	+114	+10.2%
Depreciation and amortisation	677	13.9%	647	13.6%	+30	+4.6%
Materials, repair and maintenance	867	17.8%	797	16.8%	+70	+8.8%
Taxes other than income tax	2	0.0%	122	2.6%	-120	-98.4%
Rent	72	1.5%	65	1.4%	+7	+10.8%
Other expenses	389	8.0%	441	9.3%	-52	-11.8%
Adjusted operating expenses	4,861	100.0%	4,744	100.0%	+117	+2.5%

Adjusted operating expenses structure and dynamics for nine months ended 30 September 2017 and 2016

	9M2017		9M2016		Year-on-year change	
	RUB mln	%	RUB mln	%	RUB mln	Percent change
Freight and transportation services	4,869	33.1%	4,312	32.3%	+557	+12.9%
Payroll and related charges	3,932	26.8%	3,530	26.5%	+402	+11.4%
Depreciation and amortisation	1,977	13.5%	1,858	13.9%	+119	+6.4%
Materials, repair and maintenance	2,201	15.0%	1,861	14.0%	+340	+18.3%
Taxes other than income tax	405	2.8%	411	3.1%	-6	-1.5%
Rent	200	1.4%	227	1.7%	-27	-11.9%
Other expenses	1,113	7.6%	1,135	8.5%	-22	-1.9%
Adjusted operating expenses	14,697	100.0%	13,334	100.0%	+1,363	+10.2%

In the nine months of 2017, there were moderate fluctuations in the structure of the Company's adjusted costs, but these were within the range inherent to the Company's business model.

Freight and transportation services

Expenses related to freight and transportation services increased by RUB 557 million, or 12.9% year-on-year, to RUB 4,869 million for the nine months ended 30 September 2017. This increase is mainly due to the growth in the Company's operations, as well as tariff indexing by Russian Railways, which was partially compensated by the improved empty container fleet management.

Expenses related to freight and transportation services grew by only 4.4% year-on-year, or by RUB 68 million, to RUB 1,623 million in the third quarter of 2017 on the back of improved logistics and container fleet management

Payroll and related charges

Payroll and related charges increased by RUB 402 million, or by 11.4% year-on-year, to RUB 3,932 million for the nine months ended 30 September 2017, compared to RUB 3,530 million for the corresponding period of 2016. 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 3,634 to 3,537 employees on the year-on-year basis and an effect of pension plan reserve adjustments.

For the reasons stated above, in the third quarter of 2017, payroll and related charges grew by 10.2% year-on-year, or by RUB 114 million, to RUB 1,231 million.

Depreciation and amortisation

Depreciation and amortisation increased by RUB 119 million, or 6.4% year-on-year, to RUB 1,977 million in the nine months of 2017, from RUB 1,858 million for the corresponding period of 2016, reflecting investments made throughout 2017.

For the same reason, in the third quarter of 2017, depreciation and amortisation increased by 4.6% year-on-year, or RUB 30 million, to RUB 677 million.

Materials, repair and maintenance

Expenses related to materials, repair and maintenance were up by 18.3% year-on-year to RUB 2,201 million for the nine months of 2017, compared to RUB 1,861 million for the corresponding period of 2016, due to an increase in a number of flatcar repairs resulted from a higher fleet utilisation, as well as higher average repair price resulted from an increase in prices for cast. This expense item was also affected by maintenance and repair works on the Company's terminals during the construction season.

In the third quarter of 2017, expenses related to materials, repair and maintenance were up 8.8% year-on-year to RUB 867 million, due to the reasons mentioned above.

Taxes other than income tax

Taxes other than income tax decreased by 1.5% year-on-year to RUB 405 million for the nine months ended 30 September 2017, from RUB 411 million for the corresponding period of 2016, primarily due to the dynamics of VAT settlements.

In the third quarter of 2017, taxes other than income tax dropped from RUB 122 million to RUB 2 million as a result of VAT settlements related to taxation of revenue from international transportation.

Rent

Rent expenses decreased by RUB 27 million, or by 11.9% year-on-year, to RUB 200 million for the nine months of 2017 from RUB 227 million in the corresponding period of 2016, mainly due to termination of operating lease contracts related to fixed assets in the first half of 2017.

Rent expense for the third quarter of 2017 increased by 10.8 % year-on-year to RUB 72 million due to an increased amount of short-term operating lease of containers from third parties.

Other operating expenses

Other operating expenses are an aggregate of various expense items such as security, consulting expenses, fuel and energy, licences and software, communication service and loss of sale of fixed assets. In the nine months of 2017, other expenses decreased by 1.9% year-on-year to RUB 1,113 million, from RUB 1,135 million in the corresponding period of 2016. This primarily resulted from a decrease in consulting and other costs, which was offset by an increase in costs related to fuel, energy, IT and communications. In the third quarter of 2017, other operating expenses decreased by RUB 52 million, or 11.8% year-on-year, mainly due to the reasons described above.

Interest expenses

Interest expenses increased by RUB 201 million, or 69.3% year-on-year, to RUB 491 million for the nine months of 2017 from RUB 290 million for the corresponding period of 2016, mainly due to an issue of the RUB 5 billion bonds in September 2016.

For the same reason, interest expense in the third quarter of 2017 increased by RUB 64 million, or 83.1% year-on-year, to RUB 141 million from 77 million in the corresponding period of 2016.

Interest income

Interest income grew by RUB 57 million, or 30.0% year-on-year, to RUB 247 million in the nine months of 2017 from RUB 190 million for the corresponding period of 2016, as a decrease in average interest rates was offset by an increase in the amount of RUB-denominated deposits with banks throughout 2017.

Interest income in the third quarter therefore decreased by RUB 37 million, or 35.9% year-on-year, to RUB 66 million as a result of a decrease in interest rates.

Profit before income tax

As a result of the reasons described above, the Company's profit before income tax increased by RUB 3,318 million, or by 105.3% year-on-year, to RUB 6,468 million for the nine months ended 30 September 2017 from RUB 3,150 million for the corresponding period of 2016.

In the third quarter of 2017, profit before income tax increased by RUB 1,527 million, or by 110.5% year-on-year, to RUB 2,909 million from RUB 1,382 million in the corresponding period of 2016, as a result of the factors mentioned above.

Income tax expenses

Income tax expenses increased by RUB 773 million, or 151.9% year-on-year, to RUB 1,282 million for the nine months of 2017 from RUB 509 million for the corresponding period of 2016, due to an increase in taxable profit.

For the same reason, in the third quarter of 2017, income tax expenses increased by RUB 353 million, or by 158.3% year-on-year, to RUB 576 million from RUB 223 million in the corresponding quarter of 2016.

The effective tax rate for the nine months ended 30 September 2017 was up 19.8% from 16.2% in the same period of 2016, while the increase in the reporting quarter was 19.7% compared to 16.1% in the third quarter of 2016.

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 2017 increased by RUB 2,545 million, or 96.4% year-on-year, to RUB 5,186 million compared to RUB 2,641 million for the same period of 2016. Taking into account the exchange rate differences relating to foreign operations and other effects, the total comprehensive income for the reporting period increased by 130.2% amounted to RUB 4,969 million, compared to RUB 2,159 million for the nine months of 2016.

The profit for the third quarter 2017 increased by RUB 1,191 million, or 102.8% year-on-year, to RUB 2,350 million from RUB 1,159 million for the same period of 2016. Taking into account the exchange rate differences relating to foreign operations and other effects, the Company generated the total comprehensive profit of RUB 2,121 million in the third quarter of 2017 compared to the total comprehensive profit of RUB 1,110 million in the third quarter of 2016.

Liquidity and Capital Resources

As of 30 September 2017, the Company's net cash and cash equivalents amounted to RUB 5,011 million, while its current assets exceeded current liabilities by RUB 3,768 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 for modernising its lifting equipment and truck fleet and other purposes. During the reporting period, the Company's operations and its capital expenditures were financed mainly 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 2017 and 2016, respectively.

Cash flows structure

RUB million	9M 2017	9M 2016
Net cash provided by operating activities	5,949	4,426
Net cash used in investing activities	-3,214	-1,017
Net cash used in financing activities	-3,282	3,855
Net increase in cash and cash equivalents	-547	7 264
Foreign exchange effect on cash and cash equivalents	33	-194
Net cash and cash equivalents at the end of the period	5,011	9,180

Cash flow generated by operating activities increased by RUB 1,523 million, or 34.4% year-on-year, to RUB 5,949 million for the nine months ended 30 September 2017 from RUB 4,426 million for the corresponding period of 2016, mainly due to an increase in operating profit, as discussed above.

Cash flow used in investing activities increased by RUB 2,197 million, or by 216.0% year-on-year, to RUB 3,214 million for the nine months ended 30 September 2017 from RUB 1,017 million for the corresponding period of 2016. This was primarily as a result of an increase in capital expenditures from RUB 1,326 million to RUB 3,483 million, respectively.

Cash flow from financing activities turned to negative RUB 3,282 million from positive RUB 3,885 million a year earlier due to scheduled debt repayments in 2017.

Capital expenditure

Capital expenditure increased by RUB 2,157 million, or by 162.7% year-on-year, to RUB 3,483 million in the nine months of 2017 from RUB 1,326 million in the corresponding period of 2016. The majority of the capital expenditure was spent on acquiring new ISO containers and flatcars.

Planned capital expenditure for 2017

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 2017 is budgeted at RUB 10.8 billion (excluding VAT and long-term financial investments). The 2017 CAPEX programme is focused on the acquisition of flatcars and ISO containers and further improvement of 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 2017, the Company's financial indebtedness consisted of two outstanding bond issues and financial lease obligations in an aggregate amount of RUB 6,267 million, compared to RUB 9,137 million as of 31 December 2016. The Company's net debt at the end of the reporting period was RUB 1,217 million.

As of 30 September 2017, all the Company's financial indebtedness was unsecured. The Company's debt is rouble-denominated and has 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 are to be redeemed in four equal semi-annual instalments within the fourth and fifth years, the first and second instalments being made in July 2016 and January 2017, respectively. As a result, these bonds debt are classified as the short-term portion of the long-term bond issue with the carrying value amounted to RUB 2,588 million including the accrued interest in amount of RUB 88 million.

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 at 30 September 2017, the carrying value of the bonds amounted to RUB 4,999 million. The amount of accrued interest is RUB 12 million and has been included as short-term debt in the consolidated statement of 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 2017 and 2016.

Working capital structure

RUB million	30 September 2017	30 September 2016
Current assets		
Inventory	246	246
Trade and other receivables	2,113	1,256
Prepayments and other current assets	4,447	3,515
Prepaid income tax	0	2

Short-term investments	39	67
Cash and cash equivalents	5,011	9,180
Non-current Assets classified as held for sale	0	0
Total current assets	11,856	14,266
Current liabilities		
Trade and other payables	5,758	4,244
Short-term debt and current portion of long-term debt	1,280	2,564
Income tax payable	170	71
Taxes other than income tax payable	293	289
Provisions	0	9
Finance lease obligations, current maturities	0	18
Dividends payable	0	4,830
Accrued and other current liabilities	587	458
Deffered income	0	0
Total current liabilities	8,088	12,483
Working capital	3,768	1,783

Working capital increased by RUB 1,985 million to RUB 3,768 million at the end of the reporting period from RUB 1,783 million as at 30 September 2016, primarily due to a rise in short term investments and cash equivalents.

Downloads

The consolidated financial statements for the third quarter and nine months ended 30 September 2017 are available via the National Storage Mechanism at: <http://www.hemscott.com/nsm.do> or at the Company's website <http://www.trcont.ru>.

Conference call

TransContainer will host an analyst conference call on Tuesday, 28 November 2017, at 14:00 UK time / 17:00 Moscow time. Dial in details are as follows:

UK Free Call Dial In	0800 694 0257
Russia Dial In (from a landline)	810 8002 0972 044
Conference ID	2699985#

A replay of the call will be available until 28 December 2017 using the following details:

UK Free Call Dial In	0800 953 1533
Russia Dial In	8 499 677 1064
Replay Access Code	2699985#

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About TransContainer

TransContainer (LSE ticker: TRCN) is the leading intermodal container transportation company in Russia with a market share of approximately 47%. 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 2017, it owned and leased 24,235 flatcars and 71,075 ISO containers. TransContainer also owns a network of rail-side container terminals, located at 42 railway stations across Russia and operates one terminal in Slovakia under a long-term lease agreement. The Company's joint venture JSC Kedentransservice ("Kedentransservice", or "KDTS") also operates 19 inland rail-side terminals in Kazakhstan. The Company's sales network comprises of 107 sales outlets in Russia, along with additional outlets across the CIS, Europe and Asia. TransContainer is listed at Moscow Exchange and LSE. 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.

Legal Disclaimer

Some of the information in this announcement may contain projections or other forward-looking statements regarding future events or the future financial performance of the Company. You can identify forward-looking statements by terms such as 'expect', 'believe', 'anticipate', 'estimate', 'intend', 'will', 'could', 'may' or 'might', the negative of such terms or other similar expressions. PJSC "TransContainer" wishes to caution you that these statements are only predictions and that actual events or results may differ materially. PJSC "TransContainer" does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of PJSC "TransContainer", including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia, rapid technological and market change in the industries PJSC "TransContainer" operates in, as well as many other risks specifically related to PJSC "TransContainer" and its operations.

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

^[2] The empty run ratio is calculated as an average empty container*kilometers divided by an average total container*kilometers

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

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