JSC “TransContainer”

Management report and consolidated financial statements

for the year ended 31 December 2010

Management report

JSC "TransContainer" (the "Company" together with its consolidated subsidiaries) presents its management report together with the audited consolidated financial statements for the year ended 31 December 2010. The Company's financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS).

Operating and financial review

Summary

JSC "TransContainer" is the leading intermodal container transportation company in Russia. As of December 31, 2010 the Company is estimated to own about 60% of the total Russia's flatcar fleet and to hold approximately 52% of all rail container transportation in Russia. It owns and operates more than 24,000 flatcars and approximately 60,000 containers. TransContainer also owns a network of rail-side container terminals located at 46 railway stations in Russia and operates one terminal in Slovakia under a long-term lease agreement. Company's sales network comprises approximately 150 sales outlets across Russia as well as presences in the CIS, Europe and Asia.

The Company's financial results for the year ended 31 December 2010 reflected the recovery in the rail container market in Russia which started in 2010, as well as results of the Company's measures aimed at the improvement of its financial and operational performance.

In 2010, the Company's total revenue increased by 39.3% to RUR 22,841 million; adjusted revenue increased by 24.4% to RUR 16,502 million; operating income increased by 25.0% to RUR 2,093 million; and EBITDA grew by 11.7% to RUR 4,427 million. Profit for 2010 increased by 57.6% from RUR 589 million for the year ended 31 December 2009 to RUR 928 million for the year ended 31 December 2010. Total comprehensive income for 2010 grew by 58.7% from RUR 589 million for the year ended 31 December 2009 to RUR 935 million for the year ended 31 December 2010.

In 2010 the Company significantly improved its debt structure and reduced interest expenses. As of 31 December 2010 the share of long-term debt in the Company's total debt increased from 40.0% to 90.6%; net debt decreased by 4.2% from RUR 5,989 million as of 31 December 2009 to RUR 5,735 million as of 31 December 2010; and interest expenses for the year ended 31 December 2010 decreased by 10.3% to RUR 848 million.

Capital expenditures increased by 30.4% to RUR 4,046 million from RUR 3,107 million in 2009, primarily due to the Company's investments in the modernization of its flatcar fleet and improvement in its fleet structure through the purchase of new 80' flatcars. In accordance with the Company's policy, the majority of capital expenditures in 2010 were financed by internally generated cash flow.

Outlook

In 2011, Russian GDP growth is forecasted to grow by a healthy 4.2% per annum, according to the Ministry of Economic Development of Russia, which is expected to drive rail container transportation market as well. The Company's operating performance in the 1st quarter of 2011 supports management's expectations regarding a continuing market recovery.

If this recovery persists and trade grows, management currently expects the Company's revenue to grow in line with this recovery as well as with seasonality trends. The Company plans to continue to concentrate on improving both financial and operational efficiency, focusing on key operational metrics such as flatcar turnover and empty runs and pursuing a flexible pricing policy.

Key operating results

Rail container transportation volumes for the full year 2010 increased by 9.5% to 1,202 thousand TEU compared to the year ended 31 December 2009, mainly due to an increase in import transportation by 94 thousand TEU, or 98.6%, to 190 thousand TEU. Domestic transportation in 2010 declined by 3.6% to 719 thousand TEU compared to the previous year, reflecting a shift in the Company's policy in the first half of 2010 aimed at focusing on more profitable routes, in line with its efficiency improvement policy.

Transportation of containers by TransContainer's fleet in 2010 (ISO Loaded + Empty), 000' TEU

	2009	**2010**	**Period on period change**	
			000' TEU	**%**
Domestic Routes	746	719	(27)	(3.6)%
Export	237	264	27	11.3%
Import	96	190	94	98.6%
Transit	19	29	10	52.3%
All Routes	**1,098**	**1,202**	**104**	**9.5%**

As a result of the above, in 2010 import transportation represented 15.8% of TransContainer's transportation volumes compared to 8.7% for the previous year, while the share of domestic transportation decreased from 67.9% in 2009 to 59.8% in 2010.

For the full year 2010 the Company's terminal handling volumes amounted to 1,505 thousand TEU, representing an increase of 96 thousand TEU, or 6.8%, compared to 2009.

The Company's key asset utilization metrics showed significant improvement in the fourth quarter of 2010 and for the full year 2010:

	4Q 2009	**4Q 2010**	**2009**	**2010**
Turnover of containers, days	30.9	21.3	27.7	21.8
Turnover of flatcars, days	14.9	13.4	15.7	14.2
Empty run* for containers, %	41.9%	36.9%	41.4%	39.1%
Empty run* for flatcars, %	7.6%	7.7%	8.0%	8.8%

* Empty run ratio is calculated as an average empty run in kilometers divided by an average total run in kilometers

Description of Key Consolidated Statement of Comprehensive Income Items

The following table sets forth the Company's results for the years ended 31 December 2010 and 2009.

RUR million	2010	2009	Period on period change	Period on period percent change
Revenue	22,841	16,400	6,441	39.3%
Operating expenses, net	(20,748)	(14,726)	(6,022)	40.9%
Operating income	**2,093**	**1,674**	**419**	**25.0%**
Interest expense	(848)	(945)	97	(10.3)%
Interest income	15	35	(20)	(57.1)%
Foreign exchange gain, net	16	4	12	300.0%
Other gains and losses	66	-	66	
Profit before income tax	**1,342**	**768**	**574**	**74.7%**
Income tax expense	(414)	(179)	(235)	131.3%
Profit for the year	**928**	**589**	**339**	**57.6%**
Other comprehensive income:				
Exchange difference on translating foreign operations	7	-	7	
Total comprehensive income for the year	**935**	**589**	**346**	**58.7%**

Non-IFRS financial information

Adjusted Revenue, Adjusted Operating Expenses, EBITDA, Adjusted EBITDA Margin and Adjusted Operating Margin are non-IFRS measures presented as supplemental measures of our 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.

RUR million	2010	2009	Period on period change	Period on period percent change
Adjusted Revenue[1]	16,502	13,262	3,240	24.4%
Adjusted operating expenses[2], net	14,409	11,588	2,821	24.3%
EBITDA[3]	4,427	3,963	464	11.7%
Adjusted EB ITDA Margin[4]	27%	30%		
Net Debt[5]	5,735	5,989	(254)	(4.2)%
Net Debt/ EBITDA	1.3	1.5		

[1]Adjusted Revenue is calculated as total revenue less third-party charges relating to integrated logistics services.

[2] Adjusted Operating Expenses is calculated as operating expenses less third-party charges related to integrated logistics services.

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

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

[5] Net Debt is calculated as Long-term debt, finance lease obligations and current portion of long-term debt less cash and cash equivalents and short-term investments.

Revenue

The following table set forth the breakdown of the total revenue for the years ended 31 December 2010 and 2009.

RUR million	2010	2009	Period on period change	Period on period percent change
Integrated logistics services	10,794	5,347	5,447	101.9%
Rail-based container transportation	6,980	6,573	407	6.2%
Terminal services and agency fees	2,008	1,678	330	19.7%
Truck deliveries	1,513	1,559	(46)	(3.0%)%
Freight forwarding and logistics services	1,192	880	312	35.5%
Bonded warehousing services	273	265	8	3.0%
Other	81	98	(17)	(17.3%)%
Total revenue	**22,841**	**16,400**	**6,441**	**39.3%**

Total revenue increased by RUR 6,441 million, or 39.3%, from RUR 16,400 for the year ended 31 December 2009 to RUR 2,841 million for the year ended 31 December 2010. This increase was primarily due to higher demand for our key services resulting from improving overall economic conditions and consumer confidence.

The following table sets forth Adjusted Revenue for the years ended 31 December 2010 and 2009.

RUR million	2010	2009	Period on period change	Period on period percent change
Revenue	22,841	16,400	6,441	39.3%
Less third-party charges relating to integrated logistics services	(6,339)	(3,138)	(3,201)	102.0%
Adjusted Revenue	**16,502**	**13,262**	**3,240**	**24.4%**

Adjusted Revenue (as defined above) grew by 24.4% from RUR 13,262 million for the year ended 31 December 2009 to RUR 16,502 million for the year ended 31 December 2010, primarily due to an increase in rail container transportation volumes by the Company's fleet of 9.5%, from 1,098 thousand twenty-equivalent units (TEU) in 2009 to 1,202 thousand TEU in 2010, and to growth in terminal throughput of 6.8%, from 1,409 thousand TEU in 2009 to 1,505 thousand TEU in 2010, as well as to the effect of the Company's pricing policy.

The following table set forth the relative contribution of the components of the Adjusted Revenue for the years ended 31 December 2010 and 2009.

	2010		2009		Period on period change	
	share, %	RUR mln	share, %	RUR mln	RUR mln	%
Rail-based container transportation	42.3%	6,980	49.6%	6,573	407	6.2%
Integrated logistics services	27.0%	4,455	16.7%	2,209	2,246	101.7%
Terminal services and agency fees	12.2%	2,008	12.7%	1,678	330	19.7%
Truck deliveries	9.2%	1,513	11.8%	1,559	(46)	(3.0%)
Freight forwarding and logistics services	7.2%	1,192	6.6%	880	312	35.5%
Bonded warehousing services	1.7%	273	2.0%	265	8	3.0%
Other	0.5%	81	0.7%	98	(17)	(17.3%)
Adjusted Revenue	**100.0%**	**16,502**	**100.0%**	**13,262**	**3,240**	**24.4%**

The relative contribution of integrated logistics services, net of third-party charges, relating to integrated logistics services, to the Company's Adjusted Revenue increased from 16.7% for the year ended 31 December 2009 to 27.0% for the year ended 31 December 2010, while the contribution of rail-based container transportation services decreased from 49.6% to 42.3%. The relative contribution of terminal services and agency fees remained almost unchanged at 12.2% for the year ended 31 December 2010 as compared to 12.7% for the year ended 31 December 2009, while the contribution of freight forwarding and logistics services grew from 6.6% to 7.2% and the contribution from truck deliveries decreased from 11.8% to 9.2%, respectively.

Integrated logistics services

Revenue from integrated logistics services increased by 101.9% from RUR 5,347 million for the year ended 31 December 2009 to RUR 10,794 million for the year ended 31 December 2010. Revenue from integrated logistics services, net of third-party charges relating to integrated logistics services, grew by 101.7% from RUR 2,209 million in 2009 to RUR 4,455 million in 2010. This increase was primarily due to growing demand for integrated logistics services in Russia reflected in growth in container transportation volumes under integrated logistics contracts of 78.1% from 210 thousand loaded TEU for the year ended 31 December 2009 to 374 thousand loaded TEU for the year ended 31 December 2010. This increase resulted both from new customers' demand and from shift of existing customers' preferences towards using integrated logistics services rather than traditional terminal-to-terminal rail transportation. The revenue increase was also due to an increase in prices the Company charges for integrated logistics services.

Rail-based container transportation services

Revenue from rail-based container transportation increased by 6.2% from RUR 6,573 million for the year ended 31 December 2009 to RUR 6,980 million for the year ended 31 December 2010 despite a decrease in revenue-generating transportation volumes in terms of TEU under standard rail transportation agreements of 12.2%, which was compensated for by an increase in prices the Company charges for its rail-based container transportation services. The decrease in transportation volumes resulted primarily from customer demand shifting from more traditional terminal-to-terminal rail based container transportation to integrated logistics services.

Terminal services and agency fees

Revenue from terminal services, including agency fees, increased by RUR 330 million, or 19.7%, from RUR 1,678 million for the year ended 31 December 2009 to RUR 2,008 million for the year ended 31 December 2010. Agency fees, which are charged for services the Company renders as an agent of Russian Railways, increased by 17.9% from RUR 1,367 million to RUR 1,612 million. This increase was primarily due to an increase in terminal throughput of 6.8% from 1,409 thousand TEU for the year ended 31 December 2009 to 1,505 thousand TEU for the year ended 31 December 2010, as well as due to an increase in prices and an increase in ancillary terminal services offered to customers.

Truck deliveries

Revenue from truck deliveries decreased by RUR 46 million, or 3.0%, from RUR 1,559 million for the year ended 31 December 2009 to RUR 1,513 million for the year ended 31 December 2010. The decrease was primarily due to a decrease in container transportation volumes by own and outsourced truck fleet of 1.0% from 596 thousand TEU for 2009 to 590 thousand TEU in 2010, primarily due to changes in the logistic arrangements for a big customer.

Freight forwarding and logistics services

Revenue from freight forwarding and logistics services grew by RUR 312 million, or 35.5%, from RUR 880 million for the year ended 31 December 2009 to RUR 1,192 million for the year ended 31 December 2010. The increase was primarily due to an increase in revenue-generating rail container transportation volumes of 12.4% and an increase in the number of additional value-added services resulting from the overall increase in demand for container transportation volumes.

Bonded warehousing services

Revenue from bonded warehousing services increased by RUR 8 million, or 3.0%, from RUR 265 million for the year ended 31 December 2009 to RUR 273 million for the year ended 31 December 2010, primarily due to the launch of a new bonded warehouse at Trofimovsky-2 station in Saratov region in November 2010.

Operating expenses

The following table set forth a breakdown of the Company's significant operating expenses for the years ended 31 December 2010 and 2009.

	2010			2009		
	RUR mln	**Percent of operating expenses**	**Percent of total revenue**	**RUR mln**	**Percent of operating expenses**	**Percent of total revenue**
Third-party charges relating to integrated logistics services	6,339	30.6%	27.8%	3,138	21.3%	19.1%
Freight and transportation services	4,534	21.9%	19.9%	3,832	26.0%	23.4%
Payroll and related charges	3,128	15.1%	13.7%	2,437	16.5%	14.9%
Depreciation and amortisation	2,237	10.8%	9.8%	2,250	15.3%	13.7%
Materials, repair and maintenance	1,887	9.1%	8.3%	1,182	8.0%	7.2%
Other expenses, net	2,623	12.6%	11.5%	1,887	12.8%	11.5%
Total operating expenses, net	**20,748**	**100.0%**	**90.8%**	**14,726**	**100.0%**	**89.8%**

TransContainer's total operating expenses grew by RUR 6,022 million, or 40.9%, from RUR 14,726 million for the year ended 31 December 2009 to RUR 20,748 million for the year ended 31 December 2010, primarily due to an increase in third-party charges relating to integrated logistics services.

As a percentage of the total revenue, total operating expenses increased from 89.8% for the year ended 31 December 2009 to 90.8% for the year ended 31 December 2010, primarily due to an increase in third-party charges relating to integrated logistics services. As percentage of total revenue, third-party charges relating to integrated logistics services increased from 19.1% in 2009 to 27.8% in 2010 and materials, repair and maintenance as a percentage of total revenue increased from 7.2% to 8.3%, while the other expense items either decreased or remained flat.

The following table set forth Adjusted Operating Expenses for the years ended 31 December 2010 and 2009.

RUR million	**2010**	**2009**	**Period on period change**	**Period on period percent change**
Total operating expenses, net	20,748	14,726	6,022	40.9%
Third-party charges relating to integrated logistics services	(6,339)	(3,138)	(3,201)	102.0%
Adjusted operating expenses	**14,409**	**11,588**	**2,821**	**24.3%**

Adjusted operating expenses, as described above, increased by 24.3% from RUR 11,588 million for the year ended 31 December 2009 to RUR 14,409 million for the year ended 31 December 2010, primarily due to increases in freight and transportation costs, materials, repair and maintenance and payroll and related charges.

The following table sets forth a breakdown of Company's significant operating expenses, except for third-party charges relating to integrated logistics services, as well as their value as a percentage of Adjusted Operating Expenses for the years ended 31 December 2010 and 2009.

	2010		2009	
	RUR million	**Percent of Adjusted operating expenses**	**RUR million**	**Percent of Adjusted operating expenses**
Freight and transportation services	4,534	31.5%	3,832	33.1%
Payroll and related charges	3,128	21.7%	2,437	21.0%
Depreciation and amortisation	2,237	15.5%	2,250	19.4%
Materials, repair and maintenance	1,887	13.1%	1,182	10.2%
Other expenses	2,623	18.2%	1,887	16.3%
Adjusted Operating Expenses	**14,409**	**100.0%**	**11,588**	**100.0%**

Freight and transportation services as a percentage of Adjusted Operating Expenses decreased from 33.1% in 2009 to 31.5% in 2010 and depreciation and amortization decreased from 19.4% to 15.5%, while materials, repair and maintenance grew from 10.2% to 13.1% and other expenses increased from 16.3% to 18.2%.

Third-party charges relating to integrated logistics services

Third-party charges relating to integrated logistics services increased by RUR 3,201 million, or 102%, from RUR 3,138 million for the year ended 31 December 2009 to RUR 6,339 million for the year ended 31 December 2010, primarily due to an increase in transportation volumes under integrated logistics contracts of 78.1% from 210 thousand loaded TEU in 2009 to 374 thousand loaded TEU in 2010, as well as an increase in prices of our subcontractors (primarily Russian Railways tariffs ,which grew on average by 12.4% in 2010) and an increase in volumes of subcontractors' services resulting from the growing complexity of logistics chains and changes in regulation of Company's fleet operations in CIS countries.

Freight and transportation services

Expenses relating to freight and transportation services increased by RUR 702 million, or 18.3%, from RUR 3,832 million for the year ended 31 December 2009 to RUR 4,534 million for the year ended 31 December 2010. This increase was primarily due to an increase in rail-based transportation with usage of Company's own containers of 11.3% from 804 thousand TEU in 2009 to 895 thousand TEU in 2010, as well as an increase in tariffs charged for empty runs by Russian Railways, which increased in 2010 by 12.4% on average. This increase was partially offset by a decrease in the empty run ratio for containers from 41.4% in 2009 to 39.1% in 2010.

Payroll and related charges

Payroll and related charges increased by RUR 691 million, or 28.4%, from RUR 2,437 million for the year ended 31 December 2009 to RUR 3,128 million for the year ended 31 December 2010. This increase primarily resulted from the return to full-time employment of most of the employees who had temporarily transferred to part-time schedules during the economic downturn in 2009, which resulted in an increase in an average monthly salaries of 25.3% from RUR 28.8 thousand to RUR 36.1 thousand, as well as an increase in payroll tax payments by RUR 66.7 million due to changes in Russian tax legislation. This increase in payrolls and related charges was partially offset by a decrease in the average number of employees by 2.3% from 5,274 for the year ended 31 December 2009 to 5,150 for the year ended 31 December 2010.

Depreciation and amortisation

Depreciation and amortization decreased marginally by RUR 13 million, or 0.6%, from RUR 2,250 million for the year ended 31 December 2009 to RUR 2,237 million for the year ended 31 December 2010. The decrease was primarily due to continuing usage of lifting equipment, IT and software fully depreciated in the previous year, as well as due to divestment of the container terminal in Novorossiysk, which was sold to optimise the Company's terminal network. This decrease was partially offset by acquisitions of new flatcars during this period and the retiring of flatcars inherited from Russian Railways.

Materials, repair and maintenance

Expenses related to materials, repair and maintenance increased by RUR 705 million, or 59.6%, from RUR 1,182 million for the year ended 31 December 2009 to RUR 1,887 million for the year ended 31 December 2010, primarily due to an increase in volumes of repairs of flatcars from 17,992 in 2009 to 19,526 in 2010 resulting from repairs of flatcars which the Company largely suspended during the global economic downturn in an effort to reduce operating costs, as well as due to an increase in the prices charged by repair workshops and costs of materials and the relative increase in more expensive scheduled depot and overhaul repairs in the overall repair structure.

Other expenses

Other expenses are an aggregate of a number of expense items such as taxes other than income tax, rent, consulting expenses, fuel and energy and communication services. Other expenses increased by RUR 736 million, or 39.0%, from RUR 1,887 million for the year ended 31 December 2009 to RUR 2,623 million for the year ended 31 December 2010, primarily due to an increase in expenses related to taxes other than income tax resulting primarily from an increase in property tax payments due to acquisition of fixed assets, software and licenses as a result of an upgrade of Company's IT system and other expenses. This increase was partially offset by a decrease in expenses related to consulting services and charity.

Operating income

Operating income increased by RUR 419 million, or 25.0%, from RUR 1,647 million for the year ended 31 December 2009 to RUR 2,093 million for the year ended 31 December 2010, as a result factors discussed above.

Interest expense

Interest expense decreased by RUR 97 million, or 10.3%, from RUR 945 million for the year ended 31 December 2009 to RUR 848 million for the year ended 31 December 2010 as a result of Company's measures aimed at optimizing its debt structure and reducing the cost of debt. In particular, in March 2010 the coupon rate of the Company's RUR 3,000 million non-convertible 5-year bond (the "RUR Bonds, Series 1") was decreased from 16.5% per annum to 9.5% per annum and, as a result of the issuance of a further RUR 3,000 million non-convertible amortizing 5-year bond with a coupon rate of 8.8% per annum, the Company refinanced more expensive bank debt with nominal interest rates ranging from 12.0% to 12.5% and finance lease obligations with effective interest rates at approximately 24.9%. Moreover, in the first half of 2009, the Company had borrowed approximately RUR 3,000 million in short-term loans denominated in Roubles and US dollars with interest rates ranging from 13.5 percent to 18 percent per annum, which loans were repaid within the same year.

Interest income

Interest income decreased by RUR 20 million, or 57.1%, from RUR 35 million in the year ended 31 December 2009 to RUR 15 million in the year ended 31 December 2010 due to an overall decrease in the interest rates in Russia, as well as due to the promissory notes of Finans-Proekt becoming non-interest bearing during 2009.

Profit before income tax

Profit before income tax increased by RUR 574 million, or 74.7%, from RUR 768 million for the year ended 31 December 2009 to RUR 1,342 million for the year ended 31 December 2010. The increase was due to the factors discussed above.

Income tax expense

Income tax expense increased by RUR 236 million, or 132.6%, from RUR 178 million for the year ended 31 December 2009 to RUR 414 million for the year ended 31 December 2010, primarily due to increase in profit before income tax. The effective tax rate increased from 23.2% for the year ended 31 December 2009 to 30.1% for the year ended 31 December 2010, primarily due to a higher proportion of non-deductible expenses attributed to the profit before income tax. These non-deductible expenses were primarily related to post-employment benefits, non-recoverable VAT and changes in provisions for tax liabilities.

Total comprehensive income for the year

As a result of factors discussed above the profit for the year increased by RUR 339 million, or 57.6%, from RUR 589 million for the year ended 31 December 2009 to RUR 928 million for the ear ended 31 December 2010. Taking into account differences arising on translating foreign operations, the total comprehensive income for the year was RUR 935 million for the year ended 31 December 2010.

Liquidity and Capital Resources

As of 31 December 2010 the Company had cash and cash equivalents of RUR 1,291 million and Company's current assets exceeded its current liabilities by RUR 25 million.

The Company's business is asset and capital-intensive and requires substantial capital expenditures for, among other things, the purchase of flatcars and containers, the development of rail-side terminals and investment in the expansion and modernisation of its truck fleet. For the year ended 31 December 2010 Company's operations and a majority of its capital expenditures were financed from internally generated cash flows while bond issuance was used primarily for the purposes of the optimization of debt structure and reduction in the cost of debt.

Cash flows

The following table sets forth the principal components of the Company's consolidated cash flows for the years ended 31 December 2010 and 2009:

	2010	2009
Net cash provided by operating activities	3,631	2,168
Net cash used in investing activities	(3,731)	(3,048)
Net cash provided by financing activities	944	1,011
Net increase in cash and cash equivalents	844	131
Cash and cash equivalents at the end of the year	**1,291**	**449**

Cash flow provided by operating activities

Cash flow provided by operating activities increased by RUR 1,463 million, or 67.5%, from RUR 2,168 million for the year ended 31 December 2009 to RUR 3,631 million for the year ended 31 December 2010, primarily due to an increase in operating profit before working capital changes by RUR 653 million, from RUR 3,628 million to RUR 4,281 million resulting from improving operational and price environment, as well as due to changes in working capital resulting from an increase in trade payables and VAT payable due to overall growth in the Company's business which was partially offset by an increase in trade and other payables. The cash flow provided by operating activities was also negatively affected by increase in income tax paid primarily due to an increase in profit before income tax.

Cash flow used in investing activities

Cash flow used in investing activities increased by RUR 683 million, or 22.5%, from RUR 3,048 for the year ended 31 December 2009 to RUR 3,731 million for the year ended 31 December 2010. This increase was primarily due to an increase in capital expenditures by RUR 939 million, from RUR 3,107 million to RUR 4,046 million. This increase was partially offset by an increase in proceeds from disposals of property, plant and equipment from RUR 135 million to RUR 230 million and by a decrease in purchase of intangible assets from RUR 66 million to RUR 18 million

Cash flow provided by financing activities

Cash flow provided by financing activities decreased by RUR 67 million, or 6.6%, from RUR 1,011 million for the year ended 31 December 2010 to RUR 944 million for the year ended 31 December 2010, primarily due to a decrease in proceeds from short-term bank loans, as proceeds from the issuance of RUR bonds series 2 were used mainly for refinancing of bank loans and finance lease obligations.

Capital Expenditures

Capital expenditures increased by RUR 939 million, or 30.4%, from RUR 3,107 million for the year ended 31 December 2009 to RUR 4,046 million for the year ended 31 December 2010. The major portion of capital expenditures of approximately RUR 3,419 million was spent on the acquisition of flatcars, including the purchase of 1,328 units of 80' flatcars and 50 units of 40' flatcars from manufacturers, as well as the acquisition of 825 units of 40' flatcars at the total amount of RUR 889 million resulting from termination of an operating lease contract in June 2010.

The Company also continued spending for development and modernization of key terminals, such as Kleschikha, Kostarikha, Zabaikalsk, and Sverdlovsk-Tovarny. Other capital expenditure items also included investments in the renovation of the Company's office building and purchase of lifting equipment, as well as investments in the Company's newly established subsidiaries and joint ventures, such as TransContainer Europe, TransContainer Slovakia, TransContainer Asia Pacific and Rail-Container.

Planned capital expenditures for 2011

The Company's capital expenditures programme is aimed at maintaining TransContainer's leadership in the container market, improving its positions in the foreign markets and optimising its asset structure and key operational metrics.

The total budget for purchase of property, plant and equipment for 2011 is planned for up to RUR 4.7 billion (excluding VAT), of which up to RUR 2.7 billion may be spent for the acquisition of new 80' flatcars; up to RUR 0.3 billion may be spent for the purchase primarily of 40' containers; and up to RUR 0.8 billion may be invested into upgrade and modernization of the Company's key rails-side terminals.

Capital resources

Since the Company's inception, operations and capital expenditures have been financed primarily from internally generated cash flow and proceeds from issuing domestic debt. As of 31 December 2010 the Company's financial indebtedness consisted of outstanding bonds and financial lease obligations in an aggregate principal amount of RUR 7,026 million, as compared to RUR 6,581 million as of 31 December 2009. As of 31 December 2010 the Company's net debt was RUR 5,735 million.

As of 31 December 2010 all of the Company's financial indebtedness was unsecured, except for the obligations under finance leases, which were secured by the lessors' title to the lease assets. The Company does not have any indebtedness denominated in currencies other than Russian Rouble, or any indebtedness bearing interest rates other than at fixed rates.

RUR bonds series 1

On 4 March 2008 the Company issued non-convertible five-year bonds for the total amount of RUR 3,000 million with RUR 1,000 par value. On 13 March 2009 the majority of the bondholders requested redemption of their bonds in accordance with the put option under the bonds. The Company redeemed the bonds and re-issued them on the same day. As at 31 December 2009 the coupon rate for the bonds was 16.5% per annum, with interest being paid semi-annually. On 12 March 2010 the coupon rate for the fifth and all subsequent coupon rates was reduced to 9.5%, in accordance with the terms of the initial bond offering. There are no further put options on the bonds until their maturity in February 2013, and accordingly these bonds as at 31 December 2010 have been classified as long-term borrowings. The bonds were classified as short-term borrowings at 31 December 2009.

RUR bonds series 2

On 10 June 2010 the Company issued non-convertible five-year bonds for the total amount of RUR 3,000 million with RUR 1,000 par value. The net proceeds from the issuance after the deduction of related offering costs amounted to RUR 2,975 million. The annual coupon rate of the bonds is 8.8% with interest paid semi-annually. The bonds, series 2 are required to be redeemed in four equal semi-annual installments during the fourth and the fifth year. As a result, these borrowings are classified as long-term borrowings as at 31 December 2010.

Working Capital

The Company's working capital is defined as the difference between its current assets and current liabilities. The table below sets forth the key components of TransContainer's working capital for the years ended 31 December 2010 and 2009:

	2010	2009
CURRENT ASSETS		
Inventory	179	134
Trade and other receivables	1,331	1,941
Prepayments and other current assets	2,869	2,263
Prepaid income tax	115	98
Short-term investments	-	143
Cash and cash equivalents	1,291	449
Total current assets	**5,785**	**5,028**
CURRENT LIABILITIES		
Trade and other payables	3,965	3,172
Income tax payable	77	76
Taxes other than income tax payable	741	170
Provisions	34	-
Finance lease obligations, current maturities	545	793
Accrued expenses and other current liabilities	248	184
Deferred income	37	60
Current portion of long-term debt	113	3,153
Total current liabilities	**5,760**	**7,608**
Working Capital	**25**	**(2,580)**

Working capital increased by RUR 2,605 million from negative working capital of RUR 2,580 million to positive working capital of RUR 25 million between 31 December 2009 and 31 December 2010. This increase was primarily due to the reclassification of the RUR Bonds, Series 1 from short- to long-term debt.

Principal risks

Last year, TransContainer began developing a corporate risk management system. In 2009-10 the following documents were approved: Risk Management Policy, Risk Management Systems Framework and Corporate Risk Map. Initial risk strategies were also set out (assuming risk, controlling and warning, avoidance, and sale). The Company approved Provisional Risk Management Regulations defining the interaction between the various parties in the Company's risk management system.

The main risk management principles contained in TransContainer's Risk Management Policy are as follows:

- Managing all types of risk on every organizational level using a unified methodology
- Balancing the cost of potential risks with the cost of implementing the necessary management procedures
- Dividing authority between the Board of Directors (which approves key risk reports), the General Director (who approves regulations), the Audit Committee (which approves acceptable risk reports), a Working Group (which manages minor risks) and those parties assuming risks
- Integrating the Company's internal control system

Main risks

The Company's business is exposed to various risks, of which the main ones are listed below. The order is not linked to the likelihood of occurrence or potential impact on the Company.

Industry and operating risks

- Container shipping volumes have fallen in the past as due to the impact of deteriorating economic conditions, and adverse economic conditions in the future could negatively affect the Company's operations and financial results in the future
- The container shipping industry is cyclical and depends on the conditions of the economy and other industries that could affect demand for container shipping services and pricing
- The Company's business depends on the terms at which Russian Railways provides infrastructure services and locomotives
- TransContainer occupies dominant positions in several segments of the container shipping market, which could lead to interference by the state in its operations
- The Company's container terminals have the status of "sites of common use" and fall under state regulation, which could limit flexibility in their use
- TransContainer's business is affected by infrastructure and locomotive tariffs set by the Federal Tariff Service
- TransContainer's business could be negatively affected by greater competition from other companies or other means of transportation
- The Company's management accounting and control systems could be less developed than those in more mature markets
- The interests of TransContainer's majority shareholder may not coincide with the interests of the Company and its minority shareholders
- Modernizing the flatcar fleet could require significant capital expenditure
- Raising financing to fund TransContainer's investment program may not be possible on commercially viable terms
- Some operations require licenses, which may not be renewed upon termination
- The Company's insurance policies may not cover all significant risks arising from normal operations
- TransContainer could incur significant costs should it violate environmental legislation
- The Company's operations depend on the reliable functioning of its IT systems and any malfunctions could have a significant impact
- TransContainer carries risks relating to retaining key personnel

- Expansion through mergers and acquisitions results in integration risks and risks in managing new companies

- Higher prices for flatcars and higher inflation could negatively affect the Company's business and its prospects

- TransContainer may enter into transactions with interested parties, which could result in conflicts of interest

Country risk

TransContainer conducts its business in Russia and other CIS countries, where its main assets are also located. As such, the Company's operations are subject to certain risks in emerging market countries such as like Russia and Kazakhstan, including political, economic, social and legal risks.

Corporate governance

Principles of corporate governance

TransContainer understands corporate governance to be the way in which shareholders, the Board of Directors and management, other stakeholders (creditors, counterparties, customers, employees, the state and municipalities, as well as subsidiaries and dependent companies and shareholders/stakeholders in those companies) interact within the decision-making process of its management.

TransContainer recognizes the importance of corporate governance to ensure operational effectiveness and greater attractiveness for investment.

In addition to legal requirements and TransContainer's own internal regulations, the Company has adopted a Corporate Governance Code (approved by the Board of Directors on 18 November 2009), setting out the following principles of corporate governance:

Equal and fair treatment of shareholders. TransContainer acts fairly in the interests of its shareholders and abstains from preferential treatment of any group of shareholders at the expense of others.

Accountability. TransContainer's General Director is accountable to the General Meeting of Shareholders and the Board of Directors and submits regular reports on the General Director's activities, allowing the General Director's effectiveness to be evaluated. In turn, the Board of Directors is accountable to the General Meeting of Shareholders.

Transparency. TransContainer provides regular, timely, full and accurate disclosure of information about its activities.

Social responsibility. The Company strives to achieve long-term, sustainable profitability based on a balance between its own economic interests and the social, economic and ecological commitments that it has voluntarily assumed.

The Company's Corporate Governance Code can be found at http://www.trcont.ru/fileadmin/template/images/finans/internal_documents_pdf/English/Corporate_Governance_Code.pdf .
The Company believes that its corporate governance practices are in compliance with its Corporate Governance Code.

Information disclosure

TransContainer strictly adheres to legal requirements relating to information disclosure, including the Federal Law “On Joint Stock Companies,” the Federal Law “On Securities Markets”, recommendations from the Code of Corporate Behavior, requirements of the Federal Financial Markets Service, requirements of the British financial market regulator, and listing rules in Russia and London.

The Company has approved Regulations on Information Disclosure to protect the rights and legal interests of shareholders, meet legal requirements on information disclosure, increase transparency, and improve confidence in relations with shareholders, creditors, investors and other stakeholders.

Basic principles of information disclosure:

- Regular and timely provision of information
- Accuracy and completeness of information
- Availability of information disclosed
- Neutrality in disclosing information
- Ensuring a reasonable balance between openness and addressing commercial interests

TransContainer regularly, fully and in a timely manner discloses accurate information about all significant matters of its business. This includes its financial position, operating results, ownership structure, lists of affiliated parties, information about pertinent facts, information that could affect the value of its securities and other information in accordance with legal requirements, as well as other information that the Company deems necessary to bring to the attention of shareholders and investors.

Main corporate governance events in 2010

- The Board of Directors created a Personnel and Remuneration Committee, headed by an independent director. Its main task is to set out key goals in the human resource and remuneration policy for the management.
- Three TransContainer subsidiaries were created:

  TransContainer Asia Pacific Ltd.co, which is based in South Korea. It will offer integrated logistics solutions for container shipments from South Korea to Russia and other countries in Eastern and Western Europe, allowing the Company to reduce delivery times by 20-25 days compared with traditional sea shipping.

  TransContainer Europe GmbH, which is based in Austria. TransContainer Europe GmbH’s main tasks are to expand TransContainer’s international presence in promising segments of the container shipping market; to develop long-term, mutually beneficial cooperation with European partners to form a quality logistics service and to help develop rail-based container transit between China and Europe

  Logistic Investment SARL, which is based in Luxembourg. It was set up to act as a holding company for the Company’s foreign investments.

- TransContainer’s purchase of a stake in Kedentransservis (Kazakhstan) was approved. Kedentransservis is a leading private operator of a network of rail terminals in Kazakhstan, managing terminals at 17 rail stations across the country and a fleet of diesel locomotives, 90%

of which are main-line. The acquisition of the stake is an important part of TransContainer's strategy and is aimed at strengthening its presence in fast-growing Asian markets and developing the transit potential of the 1,520 gauge area.

- A Borrowing Policy for 2010 was approved. This established the procedure for evaluating the Company's financial stability and creditworthiness to determine limits for management in implementing credit operations.

- TransContainer's Risk Management Policy, Risk Management Systems Framework and Register of Risks (risk map) were approved. The main aim of risk management at TransContainer is to provide a reasonable level of confidence in achieving the Company's goals by identifying, analyzing and managing possible risks. These documents contain the main aims of the Company's risk management, its approach to classifying risks, key risk management principles, the roles and responsibility for risk management and the basic steps needed to create a corporate risk management system.

- TransContainer's Internal Control Regulations were approved. The regulations govern the implementation of internal control procedures to help provide a reasonable guarantee that the Company will meet its goals.

- TransContainer's Charity Policy and Charitable Operations Regulations were approved. These documents set out the aims and principles of providing charitable support, how this is implemented and ways of controlling the resources used in its provision.

- TransContainer's Corporate Governance Improvement Program for 2010 was approved, providing for implementation of activities to increase information transparency, improve corporate governance standards, launch a strategic management process, and improve risk management systems.

Corporate governance ratings

In 2010, the quality of corporate governance at the Company was evaluated by independent ratings agencies. TransContainer has held domestic and international corporate governance ratings since 2008.

Changes in TransContainer's corporate governance ratings

	2008	2009	2010
GAMMA rating (Standard & Poor's)	5+	6	6
National corporate governance rating (RID – Expert RA)	6	6+	7

Obtaining a high corporate governance rating is not all that the Company is seeking to do. The main aim is to develop corporate governance systems and improve corporate governance procedures. Above all, the Company sees ratings as a means of obtaining an independent external assessment of the work that it has carried out and setting targets for future development.

In 2010, TransContainer's international rating was reaffirmed by Standard & Poor's at GAMMA-6, indicating mature corporate governance processes and practices within the Company.

Among the strong aspects of TransContainer's corporate governance, Standard & Poor's analysts noted as follows:

- The active role of the Board of Directors in taking decisions and controlling management

- The effective work carried out by the Board of Directors' three committees: the Audit Committee, the Personnel and Remuneration Committee, and the Strategy Committee

- The quality of information disclosure through the corporate website and the level of information disclosure

- The strategic planning process, which has several strong elements: a formalized strategic planning process and proactive work by the Strategy Committee

- Improvements in the audit process; better interaction between the Audit Committee and the Internal Audit Service

In 2010, the RIS-Expert RA consortium raised TransContainer's national corporate governance rating from 6+ to 7. This shows that the Company has low corporate governance risks, adheres to Russian corporate governance requirements, follows most recommendations from the Russian Code of Corporate Behavior, as well as other recommendations from international best practices.

Board of Directors

The Board of Directors is a collective governing body that determines the Company's development strategy and supervises the operations of TransContainer's management.

In 2010 the composition of the Board of Directors changed twice.

From January to June 2010, the Board of Directors acted on the basis of a decision by the General Meeting of Shareholders dated 23 June 2009 (Minutes no. 10 dated 26 June 2009) with the following members:

A Averin
P Baskakov
M Liksutov
G Lozovsky
D Novikov
U Novozhilov
Z Rymzhanova
G Fedulov
D Hexter

That Board of Directors held 10 meetings, seven in person and three in absentia.

Following the decision of the Annual General Meeting of Shareholders dated 23 June 2010 (Minutes no. 13 dated 24 June 2010), a new Board of Directors was elected for 2010-11 as follows:

A Averin
P Baskakov
G Lozovsky
D Novikov
Z Rymzhanova
I Ryashchin
G Fedulov
D Hexter
I Shitkina

Between July and September 2010, this Board of Directors held four meetings in person.

On 19 October 2010, an Extraordinary Meeting of Shareholders (no. 15 of 20 October 2010) terminated the authority of the previous Board of Directors and elected a new one as follows:

Dmitry Novikov Chairman of the Board of Directors	Date of birth: 1969 Education: Moscow Institute of Finance, International Currency and Credit Relations 2002 to 2007: Vice President of ALROSA 2007 to present: Advisor to the President of Russian Railways Mr Novikov is also General Director of KRP-Invest.
Alexey Averin Deputy Chairman of the Board of Directors	Date of birth: 1962 Education: Moscow State University of Foreign Affairs, under the USSR Foreign Ministry, Foreign Trade Up to 2005: Worked at the Foreign Ministry 2005 to 2010: Head of Internal Affairs at Russian Railways 2009 to present: Chairman of the Board of Directors at KRP-Invest 2010 to present: Advisor to the President of Russian Railways
Petr Baskakov General Director	Date of birth: 1961 Education: Moscow Institute of Railway Engineers, Management of Rail Transport Shipment Processes 2003 to 2006: Director of the “TransContainer” Center for Cargo Container Traffic, a branch of Russian Railways March 2006 to present: General Director of TransContainer
David Hexter Independent Director	Date of birth: 1949 Education: Oxford University, Philosophy, Politics and Economics; Cranfield School of Management, MBA; London University, Philosophy; University College London, Legal Science and Political Theory 2002 to 2004: member of the Board of Directors at KMB Small Business Bank Mr Hexter is also a consultant to Denholm Hall Investment Management, a member of the Board of Directors of KASPI Bank, and the Head of the Advisory Council on Investment at Private Equity New Markets Fund.
Irina Shitkina Independent Director	Date of birth: 1965 Education: Moscow State University, Legal Science, Doctorate in Law 2005 to 2009: Deputy General Director for personnel and legal support at Elinar Holding Company 2009 to present: Deputy General Director for corporate governance at Elinar Holding Company 2010: Head of the Supervisory Boards of Elinar Holding Company and Elinar 2005 to present: Professor in Business Law at Moscow State University
Alexei Davydov	Date of birth: 1971 Education: St Petersburg Institute of Engineering and Economics, Engineering and Economics; St Petersburg University, Law (1999) 2006 to 2010: Head of Treasury at Russian Railways 2010 to present: Head of Subsidiary and Dependent Company Management at Russian Railways
Gennady Lozovsky	Date of birth: 1972 Education: University of Chicago, Economics 2004 to 2006: Executive Director, UFG / Delta Private Equity Partners At present: Director of Russian Cinema Holdings, Advisor to the Board of Directors at FML limited, Main Partner at EmCo Capital Partners, Partner at Salute Capital Mgt
Zhanar Rymzhanova	Date of birth: 1968 Education: Kazakh Academy of Management; Georgetown University 2002 to 2010: Senior and Principal Banker for Transport, Russia, at the European Bank for Reconstruction and Development 2010 to present: Director of Infrastructure and Energy for Russia at the European Bank for Reconstruction and Development
Ilya Ryashchin	Date of birth: 1973 Education: Nizhny Novgorod State University, Finance and Credit 2006 to present: Head of Planning and Budgeting at Russian Railways, Chairman of the Board of Directors at Freight One

As a result of the change in the composition of the Board of Directors on 19 October 2010, Russian Railways’ representative G. Fedulov was replaced by A. Davydov.

Between October and December 2010, the Board of Directors held three meetings in person.

Statistics from meetings of the Board of Directors

In 2010, the Board of Directors held 18 meetings, 15 of which were in person and three in absentia. At these meetings, 211 issues were discussed and more than 200 related-party transactions were approved.

The participation of each director in meetings held in 2010 was as follows:

Name	Participation	Rate
D Novikov	17/18	95%
A Averin	14/18	78%
P Baskakov	17/18	95%
A Davydov	2/3	67%
M Liksutov	10/10	100%
G Lozovsky	16/18	89%
Y Novozhilov	4/10	40%
I Ryashchin	4/8	50%
Z Rymzhanova	15/18	83%
G Fedulov	12/15	80%
D Hexter	18/18	100%
I Shitkina	8/8	100%

The General Director, Petr Baskakov, owns 1,700 TransContainer shares. No other Board members own shares in the Company.

In 2010, the Board of Directors made the following key decisions:

- Creation of the Personnel and Remuneration Committee
- Approval of the Company’s Borrowing Policy for 2010
- Approval of TransContainer’s Risk Management Policy, Risk Management Systems Framework and Risk Register (risk map)
- Approval of the creation of the following subsidiaries:
  - TransContainer Asia Pacific Ltd.co in South Korea
  - TransContainer Europe GmbH in Austria
  - Logistic Investment SARL in Luxembourg
- Approval for TransContainer to buy a stake in Kedentransservis (Kazakhstan)
- Approval of the Internal Control Regulations
- Approval of TransContainer’s Charity Policy and Charitable Operations Regulations
- Approval of TransContainer’s Corporate Governance Improvement Program for 2010
- Approval of TransContainer’s Long-Term Employee Motivation Plan.

Independent Directors

In July 2009, TransContainer's Board of Directors discussed the criteria for independent directors, in accordance with which David Hexter and Irina Shitkina were elected. The Board of Directors made the same decision when re-electing the board in July 2010, after the new Board had been selected by the Annual General Meeting of Shareholders.

In determining the independence of directors, the Board of Directors was guided by Russian legislation, recommendations from the Federal Code of Corporate Behavior and the UK's Corporate Governance Code, as well as criteria from TransContainer's own Corporate Governance Code. TransContainer's criteria for assessing independence is different in certain respects from that adopted in the UK Corporate Governance Code.

Independent directors have made a significant contribution to the Board of Directors, expressing independent opinions and demonstrating true independence in voting on agenda items. This has enabled the development of solutions that take into account the interests of the various stakeholder groups and improvement in the quality of managerial decisions.

Independent directors head two of the Board of Directors' Committees: David Hexter is head of the Audit Committee, while Irina Shitkina is head of the Personnel and Remuneration Committee.

Board of Directors' Committees

The following committees have been created by the Board of Directors:

- Strategy Committee
- Audit Committee
- Personnel and Remuneration Committee

The main aim of the committees is to ensure that the Board of Directors works effectively through prior review and preparation of recommendations on issues falling under their competence.

In 2010, the committees carried out significant work on building strategic management, internal control and risk management, and management motivation systems.

Strategy Committee

The Strategy Committee is tasked with developing recommendations for the Board of Directors in terms of Company priorities, devising Company strategy, suggesting how best to implement it and controlling overseeing its implementation.

Between January and July 2010, the Strategy Committee consisted of the following directors:

Name	Position
A Averin	Deputy Chairman of the Board of Directors
P Baskakov	Member of the Board of Directors, General Director
M Liksutov	Independent Director, Chairman of the Strategy Committee
G Lozovsky	Member of the Board of Directors
R Valeyev	Not a member of the Board of Directors, Deputy Head of Subsidiary and Dependent Company Management at Russian Railways

On 21 July 2010, the Board of Directors re-elected the Strategy Committee as follows:

Name	Position
P Baskakov	Member of the Board of Directors, General Director
G Lozovsky	Member of the Board of Directors
R Valeyev	Not a member of the Board of Directors, Deputy Head of Subsidiary and Dependent Company Management at Russian Railways
C Wolff	Not a member of the Board of Directors
G Fedulov	Member of the Board of Directors, Chairman of the Strategy Committee

From 20 October to December 2010, the composition of the Strategy Committee was as follows:

Name	Position
P Baskakov	Member of the Board of Directors, General Director
G Lozovsky	Member of the Board of Directors
R Valeyev	Not a member of the Board of Directors, Deputy Head of Subsidiary and Dependent Company Management at Russian Railways
A Davydov	Member of the Board of Directors, Chairman of the Strategy Committee

In 2010, seven Strategy Committee meetings were held, two of which were in absentia.

Participation of Strategy Committee members in meetings in 2010

Name	Participation	Rate
A Averin	2/3	67%
P Baskakov	4/7	57%
M Liksutov	3/3	100%
G Lozovsky	6/7	86%
R Valeyev	6/7	86%
C Wolff	0/3	0%
G Fedulov	3/3	100%
A Davydov	1/1	100%

Audit Committee

The Audit Commission's functions include supervision of the completeness and reliability of the Company's financial statements, evaluation of the effectiveness of internal control and risk management systems, and interaction with internal and external auditors.

From January to June 2010, the Audit Committee consisted of the following directors:

Name	Position
D Hexter	Member of the Board of Directors, Chairman of the Audit Committee
S Andreikin	Head of Financial and Economic Planning at Russian Railways
A Averin	Member of the Board of Directors
M Liksutov	Independent Director

From July to September 2010, the Audit Committee consisted of the following directors:

Name	Position
D Hexter	Member of the Board of Directors, Chairman of the Audit Committee
R Valeyev	Deputy Head of Asset Management and Project Development at Russian Railways
A Averin	Member of the Board of Directors
M Liksutov	Independent Director

Between 20 October and December 2010, the Audit Committee consisted of the following directors:

Name	Position
D Hexter	Member of the Board of Directors, Chairman of the Audit Committee
A Averin	Member of the Board of Directors
I Shitkina	Independent Director

In 2010, nine meetings of the Audit Committee were held, all of which were in person.

Participation of Audit Committee members in meetings in 2010

Name	Participation	Rate
M Liksutov	4/5	80%
S Andreikin	5/5	100%
R Valeyev	1/2	50%
D Hexter	9/9	100%
A Averin	6/9	67%
I Shitkina	3/4	75%

Personnel and Remuneration Committee

The Personnel and Remuneration Committee was created in July 2010. Its functions include defining key goals in personnel and remuneration policy covering the management.

Composition of Personnel and Remuneration Committee

Name	Position
I Shitkina	Independent Director, Chairman of the Personnel and Remuneration Committee
A Averin	Member of the Board of Directors
I Ryashchin	Member of the Board of Directors
I Kostenets	Not a member of the Board of Directors, Head of Organizational and Staffing Issues at Russian Railways

After the Board of Directors was re-elected in October 2010, the Personnel and Remuneration Committee remained the same.

In 2010, four meetings of the Personnel and Remuneration Committee were held in person.

Participation of Personnel and Remuneration Committee members in meetings in 2010

Name	Participation	Rate
I Shitkina	4/4	100%
A Averin	2/4	50%
I Ryashchin	1/4	25%
I Kostenets	4/4	100%

Remuneration of members of the Board of Directors

Payment of remuneration and compensation to members of the Board of Directors is carried out in accordance with the Regulations on Paying Remuneration and Compensation to Members of the Board of Directors, approved by an Extraordinary General Meeting of Shareholders on 25 September 2008 (Minutes no. 7 dated 29 September 2008).

In accordance with the regulations, remuneration of members of the Board of Directors consists of two elements: remuneration for participation in the work of the Board of Directors and an annual bonus.

Remuneration for participation in the work of the Board of Directors (regardless of how meetings are held) is set at three times the minimum monthly wage at Russian Railways[1] after meetings of the Board of Directors have been held. Remuneration is taken from the current year's profits.

In 2010, overall remuneration paid to members of the Board of Directors for participation in the work of the Board in 2010 stood at 2,689,707 rubles.

The annual bonus for members of the Board of Directors consists of two parts:

- Fixed bonus of 1,400,000 rubles a year (without taking into account attendance rates, assuming a reduction in annual remuneration in proportion to the number of meetings missed)
- Bonus for any increase in the Company's capitalization, which is paid in shares equivalent to US$70,000 per member

Representatives of Russian Railways on the Company's Board of Directors (D Novikov, A Averin, P Baskakov, Y Novozhilov and G Fedulov) waived their annual bonuses in 2010 due to the insignificant size of the net profit in 2009.

Annual bonus payments were made to representatives of minority shareholders and independent directors.

The overall remuneration paid to members of the Board of Directors in 2010 was 13,400,117.69 rubles.

In accordance with the Company's Regulations for Board of Directors' Committees, as well as budget committees approved by the Board of Directors, Committee members are paid for participation in Committee business and an annual bonus.

For participation in Committee meetings, remuneration is set at three times the minimum monthly wage at Russian Railways.

Members of Board of Directors' Committees are paid their annual bonuses based on a decision by the Annual General Meeting of Shareholders.

[1] From 1 February 2011, the minimum monthly salary at Russian Railways was 6,156 rubles.

Remuneration to members of the Board of Directors and Committees in 2010

Type	Amount (rubles)
Remuneration for participation in the work of the Board of Directors	2,689,707
Annual bonuses for members of the Board of Directors	13,400,117.69
Remuneration for participation in the work of the Board of Directors' Committees	2,028,548.25
Annual bonuses for members of the Board of Directors' Committees	2,153,484
Total	**19,261,182.44**

In 2010, the overall remuneration paid to members of the Board of Directors, the General Director and 19 key managers (including insurance payments and before deduction of personal income tax) was 94 million rubles.

Corporate Secretary

The main tasks of the Corporate Secretary are to ensure that Company bodies and officers comply with relevant legislation, the Company Charter and internal documents regulating the provision and protection of shareholder rights. The Corporate Secretary should also prepare for and arrange the General Meeting of Shareholders and Board of Directors' meetings, handle information disclosure, and improve existing corporate governance practice.

The Corporate Secretary's duties include:

- Preparing for and arranging General Meetings of Shareholders
- Facilitating the work of the Board of Directors
- Organizing work for the Board of Directors' Committees
- Handling communications between the Company and its shareholders
- Managing information disclosure about the Company's operations
- Developing proposals to improve corporate governance

General Director

Management of the Company's operations is performed by a single executive body, the General Director, who is accountable to the General Meeting of Shareholders and the Board of Directors. The General Director's duties cover all operational issues except those that fall under the competency of the General Meeting of Shareholders and the Board of Directors.

The General Director acts without power of attorney on behalf of the Company while observing the limitations placed by Russian legislation, the Company Charter and decisions by the Board of Directors.

Petr Baskakov has been TransContainer's General Director since 2006.

Mr Baskakov owns 1,700 TransContainer shares.

Dividend policy and history

The Company’s dividend policy was approved by the Board of Directors on 27 October 2008.

It is based on the following principles:

- An annual dividend payment when the Company posts a net profit
- Balance between the interests of the Company and its shareholders
- A desire to increase the Company’s market capitalization and its investment attractiveness
- Observing shareholder rights set out in Russian legislation and best practice in corporate governance
- Transparency in setting and paying out dividends

Dividend payments are approved by the General Meeting of Shareholders based on recommendations by the Board of Directors. Among other things, they depend on Company strategy, its investment program and financial position, and general economic conditions.

Dividends are funded from TransContainer’s net profit, which is determined by Company accounts calculated in accordance with Russian legislation.

Dividend payments from 2007 to 2010

Dividends	**2007 (for 2006)**	**2008 (for 2007)**	**2009 (for 2008)**	**2010 (for 2009)**
Overall dividend payout, mln rubles	144.2	153.3	268.0	2.2
Dividends per share, rubles	10.38	11.03	19.29	0.16
Dividends as a percentage of net profit (RAS)	10%	10%	10%	10 %
Date of dividend announcement	20.06.2007	20.06.2008	23.06.2009	23.06.2010
Date of dividend payment	13.08.2007	22.08.2008	20.08.2009	10.08.2010

Auditor

The Company has a policy of rotating its external auditors and restrictions on use of external auditors for non-audit services. This is aimed at ensuring the independence of TransContainer’s audit process.

The Audit Committee holds tenders for external auditors for both RAS and IFRS accounts at least once every five years.

To ensure a high quality of audit services, the Company selects one of the “Big Four” audit firms.

To ensure the independence of the external audit process, the Audit Committee oversees the provision of non-audit services by the auditor as set out in Company policy governing rotation of the external auditor and interaction with the external auditor for non-audit services.

The Audit Committee evaluates the quality of the external auditor’s work and its independence on an annual basis.

As per a decision by the General Meeting of Shareholders dated 14 September 2010 (Minutes no. 14 dated 17 September 2010), Deloitte and Touche CIS was approved as the Company’s auditor, after a tender held by TransContainer’s Audit Committee.

The auditor is authorized to audit TransContainer's accounts for 2010 under both local and international standards.

Internal Audit Service

The Internal Audit Service (IAS) was created in 2009 following a decision of the Board of Directors. Its aims are to improve the effectiveness of internal control systems and risk management, provide full and reliable information on operations to Company bodies, and identify and prevent violations and malpractice.

The IAS is accountable to the Board of Directors' Audit Committee, which also approves its annual plan.

Audit Commission

The Audit Commission is tasked with providing continuous internal control over the Company's financial activities, including those of its branches and representative offices, to ensure compliance with Russian legislation, the Company Charter and its internal documents.

The Audit Commission acts in the interests of shareholders and is accountable to the General Meeting of Shareholders. It works independently of Company officers. Neither Company officers nor employees can be members of the Audit Commission.

On 23 June 2010, the Audit Commission was elected by the General Meeting of Shareholders as follows:

Name	Position
Oleg Ivanov	Head of the Center for Control and Internal Audit on Rail Transport, a division of Russian Railways, Chairman of the Audit Commission
Natalya Lem	Head of Accounts at Russian Railways
Sergei Davydov	Head of Financial Investment and Subsidiary Accounting, part of Accounts at Russian Railways
Anna Chernyavskaya	Chief Auditor, Head of Sector, Deputy Head of Department in the Center for Control and Internal Audit on Rail Transport, a division of Russian Railways
Lyudmila Bulgakova	Chief Expert in Financial Controlling and Forecasting, part of Corporate Finance at Russian Railways

Payment of remuneration to members of the Audit Commission is carried out in accordance with TransContainer's Regulations for Paying Remuneration and Compensation to Members of the Audit Commission, approved by the General Meeting of Shareholders (Minutes no. 1 dated 25 December 2006). For participation in verifying (auditing) the Company's financial activities in 2010, members of the Audit Commission were paid 204,260,000 rubles.

Registrar

In October 2010, Registration Company "Status" was approved as TransContainer's registrar. The Company transferred the information and documents necessary to keep the register on 24 December 2010. Status began keeping a register of owners of TransContainer's securities on 27 December 2010.

The decision to change the registrar and end the agreement with TsMD came after the Federal Financial Markets Service withdrew TsMD's license to provide registrar services from 1 February 2011.

DIRECTORS' RESPONSIBILITY STATEMENT

P.V. Baskakov, General Director of OJSC "TransContainer" confirms on behalf of the Board of Directors to the best of its knowledge that:

(a) the consolidated financial statements for 2010, prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board, give a true and fair view of the assets, liabilities, financial position and profit or loss of OJSC "TransContainer" and its consolidated subsidiaries (hereinafter referred to as the "Group"); and

(b) the management report for the year 2010 includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Neither OJSC "TransContainer" nor the directors accept any liability to any person in relation to the management report except to the extent that such liability could arise under English law. Accordingly, any liability to a person who has demonstrated reliance on any untrue or misleading statement or omission shall be determined in accordance with Section 90A of the Financial Services and Markets Act 2000.

P.V. BASKAKOV

General Director

28 April 2011