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PJSC TransContainer

Results for the third quarter and first nine months of 2014

PJSC "TransContainer" ("TransContainer" or the "Company" together with its consolidated subsidiaries) today publishes its management report together with the interim condensed financial statements for the third quarter and first nine months ended 30 September 2014. 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 of 30 September 2014, the Company accounted for approximately 45.5% of Russia's rail container transportation market. It owns and operates 26,918 flatcars and 63,918 ISO containers. TransContainer also owns a network of rail-side container terminals located at 46 railway stations across Russia and operates one terminal in Slovakia under a long-term lease agreement. The Company's joint venture JSC KedenTransService ("KedenTransService", or "KDTS") also operates 19 inland rail-side terminals in Kazakhstan. The Company's sales network comprises more than 130 sales outlets in Russia, along with additional outlets across the CIS, Europe and Asia.

During the first nine months of 2014, Russia's rail container transportation market proved to be relatively resilient to the current macroeconomic and political challenges, expanding 6.0% year on year. The main growth driver was domestic rail container transportation, which increased by 10.3% year on year; international transportation was up by just 2.6% driven by higher levels of export and transit transportation.

The Company's rail container transportation volumes in Russia increased by 1.8% year on year to 1,093 thousand twenty-foot equivalent units ("TEU") for the nine months ended 30 September 2014, compared to 1,074 thousand TEU in the corresponding period of 2013. Revenue-generating transportation^[1] volumes grew by 3.4% year on year to 849 thousand TEU. Terminal handling volumes in Russia increased by 1.6% year on year to 994 thousand TEU in the reporting period.

For the three months ended 30 September 2014, the Company's rail container transportation volumes, revenue-generating volumes and terminal handling in Russia grew by 1.0% year on year, 1.3% year on year and 0.1% year on year respectively.

The pricing environment continued to be challenging amid increased market competition and uncertainty around the economy, resulting in a decrease in average transportation tariffs during the reporting period.

The Company's results in 2014 were also impacted by the deconsolidation of KedenTransService in December 2013 after disposing of a 17% stake in the entity. Following this transaction, KedenTransService's assets, liabilities, operating results and cash flow statements are excluded from TransContainer's consolidated results for the reporting period, while they were consolidated for the nine months ended 30 September 2013.

During the nine months ended 30 September 2014, the Company's total revenue was down 6.3% year on year to RUB 26,984 million and adjusted revenue decreased by 18.1% year on year to RUB 15,412 million. EBITDA fell by 18.2% year on year to RUB 6,409 million from RUB 7,837 million in the corresponding period of 2013. Profit for the period was down 29.3% year on year to RUB 3,301 million from RUB 4,666 million in the corresponding period last year.

In the third quarter of 2014, the Company's total revenue decreased by 11.1% year on year to RUB 9,450 million, while adjusted revenue fell by 21.2% year on year to RUB 5,343 million. As a result, EBITDA dropped by 21.2% year on year to RUB 2,301 million and the profit for the period decreased by 35.3% year on year to RUB 1,222 million.

In terms of profitability, the adjusted EBITDA margin in the first nine months of 2014 remained flat at 41.6%, compared to 41.7% for the first nine months of 2013, while the net income margin decreased from 24.8% to 21.4%. On a quarterly basis, the adjusted EBITDA margin remained unchanged at 43.1%, while the net income margin decreased from 27.9% to 22.9%.

As of 30 September 2014, the Company's total debt was RUB 7,579 million with net debt of only RUB 5,120 million. As a result, the Net Debt/ LTM EBITDA ratio remained at a comfortable level of 59%.

Capital expenditure for nine months ended 30 September 2014 increased by 39.8% year on year to RUB 3,238 million. In accordance with the Company's policy, all capital expenditure during the reporting period was financed by the Company's own cash flow.

Recent developments and outlook

In the fourth quarter of 2014 the rail container transportation market demonstrated signs of weakness amid increasing macroeconomic uncertainty. Against this backdrop, management expects the market growth rate for the full year to shift towards the lower end of the single-digit range. Despite the market challenges, we see continuing improvements in the rail containerisation level, growth in industrial production and resilient consumer consumption in Russia. All these factors are expected to support market growth in the near future.

Along with the weakening economic environment, increasing competition in the container segment continues to weigh on operator tariffs. Given the current market environment, the Company's management will focus on business optimisation, as well as improving management efficiency and the quality of service.

On 24 November 2014, Russian Railways, the majority shareholder of the Company, transferred its full shareholding of 50%+2 shares in TransContainer to the share capital of the newly established United Transportation and Logistics Company ("UTLC"). Upon establishment, the share capital of UTLC amounted to RUB 39.7 billion with Russian Railways holding no less

than 99.84% of the share capital of UTLC, and Belorussian Railway and JSC Kazakhstan Temir Zholy each has a shareholding of up to 0.08%. Russian Railways may decrease its stake in the share capital of UTLC in the future to up to 70% as a result of new share issues in favour of JSC Kazakhstan Temir Zholy and Belarusian Railway, provided that the issue price is no less than the market price as determined by an independent appraisal.

TransContainer believes that the establishment of UTLC will help to unlock the three countries' land transit potential and may have a positive impact on rail container transportation volumes and asset utilisation of all the local operators involved.

The Company's management will continue to invest in rolling stock and terminal modernisation, and will pursue suitable M&A opportunities in line with its strategy, subject to changes in the economic environment and container market trends. Despite current challenges, the Company believes that the Russian container transportation market is fundamentally attractive with long-term growth potential, driven by industrial production, resilient consumer confidence and scope for further improving containerisation.

Key operating results

Rail container transportation volumes in Russia

The Company's rail container transportation volumes in Russia for the third quarter of 2014 increased by 1.0% to 376 thousand twenty-foot equivalent units ("TEU"), compared to 373 thousand TEU in the same period of 2013. This was mainly due to a 7.0% increase in domestic transportation volumes. This partly offset a 16.0% year-on-year decrease in imports. The fall in the Company's import transportation was primarily driven by a slump in Russia's total rail container imports. The Company's rail container transportation volumes in Russia increased by 2.3% quarter-on-quarter in the third quarter of 2014.

Transportation of containers by TransContainer's fleet in 3Q 2014 (ISO Loaded + Empty), 000' TEU

	3Q 2014	3Q 2013	Change 000' TEU	Percent
Domestic Routes	205.0	191.7	+13.3	+7.0%
Export	87.8	86.9	+1.0	+1.1%
Import	56.8	67.7	-10.8	-16.0%
Transit	26.6	26.5	+0.1	+0.3%
All Routes	376.2	372.7	+3.5	+1.0%

The Company's rail container transportation volumes for the first nine months of 2014 grew by 1.8% year-on-year to 1,093 thousand TEU, compared to 1,074 thousand TEU for the first nine months of 2013. This increase was mainly driven by an improvement in domestic, export and transit transportation volumes, and helped to partly offset an 18.9% year on year decline in imports.

Transportation of containers by TransContainer's fleet in 9M 2014 (ISO Loaded + Empty), 000' TEU

	9M 2014	9M 2013	Change 000' TEU	Percent
Domestic Routes	561.9	534.7	+27.2	+5.1%

Export	281.0	267.1	+13.9	+5.2%
Import	162.2	199.9	-37.7	-18.9%
Transit	88.0	72.3	+15.7	+21.8%
All Routes	1,093.1	1,074.0	+19.1	+1.8%

The drop in container import volumes was largely caused by the devaluation of the rouble against the US dollar and Euro, as well as the slump in consumption on the back of economic uncertainty.

The Company's revenue-generating container transportation^[2] volumes in Russia amounted to 292 thousand TEU in the third quarter of 2014, up 1.3% compared to the third quarter of 2013. For the first nine months of 2014, revenue-generating container transportation volumes grew by 3.4% year on year to 849 thousand TEU.

TransContainer's estimated share of Russia's rail container transportation market in the first nine months of 2014 decreased to 45.5% from 47.4% in the corresponding period of 2013. In the third quarter of 2014, the Company's market share remained broadly flat at 45.4% compared to 45.9% in the second quarter of 2014.

Rail container transportation volumes in Kazakhstan

Rail container transportation volumes carried out by KedenTransService ("KDTS"), the joint venture between the Company and Kazakhstan Temir Zholy in Kazakhstan, fell by 7.1% year on year to 65.6 thousand TEU in the third quarter of 2014. In the first nine months of 2014, rail container transportation volumes increased by 9.3% year on year to 183.0 thousand TEU. This was a result of the average flatcar fleet under operation being expanded and an increase in transit transportation through Kazakhstan by the company's fleet.

Terminal handling in Russia

In the third quarter of 2014, throughput of the Company's rail container terminal network in Russia remained flat year on year at about 359 thousand TEU. The terminal throughput was affected by an 86.8% year on year drop in handling medium-duty containers (MDC), which was fully offset by a 1.4% year on year increase in ISO container handling. MDC handling volumes in the third quarter of 2014 amounted to 0.7 thousand TEU, compared to 5.1 thousand TEU in the corresponding period of 2013.

For the first nine months of 2014, throughput of the Company's rail container terminal network in Russia amounted to 994 thousand TEU, representing a year on year increase of 1.6%. MDC handling volumes dropped 83.4% year on year for the same period.

Terminal handling in Kazakhstan

Container handling by KDTS at the cross-border rail side terminals Dostyk and Altynkol amounted to 54.2 thousand TEU in the third quarter of 2014, an 87.8% year on year increase. For the first nine months of 2014, terminal handling volumes at these cross-border terminals amounted to 148.6 thousand TEU, which represents a 62.9% year on year increase. This was a result of a rise in cross-border handling volumes by the Company and getting new container handling yards at the Altynkol rail station under operation.

In the third quarter of 2014, non-container throughput at KDTS' terminals increased by 21.8% year on year to 1.1 million tonnes. For the first nine months of 2014, non-container throughput at KDTS' terminals was down 2.6% year on year to 2.5 million tonnes.

Asset utilisation

In the third quarter of 2014, both flatcar and container empty runs in Russia improved moderately as a result of the Company's efforts to optimise its fleet utilisation.

Growth in flatcar and container turnover primarily reflects weaker customer demand and greater average distances travelled by the Company's containers.

	3Q 2014	3Q 2013	9M 2014	9M 2013
Turnover of containers, days	32.8	26.7	31.6	25.9
Turnover of flatcars, days	14.2	13.7	14.2	13.7
Empty run ^[3] for containers, %	29.2%	30.8%	29.1%	30.3%
Empty run for flatcars, %	7.4%	7.7%	6.8%	6.8%

Description of Key Consolidated Statement of Comprehensive Income Items

The following table sets out the Company's results for the three months and nine months ended 30 September 2014 and 2013.

RUB million	9m		Year on year change		3Q		Year on year change	
	2014	2013	RUB mln	%	3Q 2014	2013	RUB mln	%
Revenue	26,984	28,793	-1,809	-6.3%	9,450	10,631	-1,181	-11.1%
Other operating income	518	499	+19	+3.8%	195	152	+43	+28.3%
Operating expenses	-23,445	-23,178	-267	+1.2%	-8,269	-8,395	+126	-1.5%
Operating profit	4,057	6,114	-2,057	-33.6%	1,376	2,388	-1,012	-42.4%
Interest expense	-495	-569	+74	-13.0%	-156	-184	+28	-15.2%
Interest income	118	182	-64	-35.2%	23	41	-18	-43.9%
Foreign exchange gain, net	239	62	+177	+285.5%	206	-10	+216	-2160.0%
Share of result of associates and JVs	148	5	+143	+2860.0%	58	0	+58	
Other financial results, net	18	32	-14	-43.8%	0	0	+0	
Profit before income tax	4,085	5,826	-1,741	-29.9%	1,507	2,235	-728	-32.6%
Income tax expense	-784	-1,160	+376	-32.4%	-285	-346	+61	-17.6%
Profit for the period	3,301	4,666	-1,365	-29.3%	1,222	1,889	-667	-35.3%
Attributable to:								
Equity holders of the parent	3,301	4,606	-1,305	-28.3%	1,222	1,820	-598	-32.9%
Non-controlling interest	0	60	-60	-100.0%	0	69	-69	-100.0%
Other comprehensive	105	154	-49	-31.8%	388	-46	+434	-943.5%

income								
Remeasurements and other reserves for post-employment benefit plans	30	19	+11	+57.9%	3	27	-24	-88.9%
Exchange differences on translating foreign operations	67	135	-68	-50.4%	385	-73	+458	-627.4%
Other effects	8	0	+8		0	0	+0	
Total comprehensive income for the period	3,406	4,820	-1,414	-29.3%	1,610	1,843	-233	-12.6%
Attributable to:								
Equity holders of the parent	3,406	4,724	-1,318	-27.9%	1,610	1,797	-187	-10.4%
Non-controlling interest	0	96	-96	-100.0%	0	46	-46	-100.0%

The Company's financial results for the three months and nine months ended 30 September 2014 reflect the challenging pricing environment in the Russian rail container market amid the deteriorating economic conditions and toughening competition, as well as the deconsolidation of KDTS.

In the first nine months of 2014, the Company's total revenue was down 6.3% year on year to RUB 26,984 million and adjusted revenue fell by 18.1% year on year to RUB 15,412 million. This decrease led EBITDA declining by 18.2% year on year to RUB 6,409 million, from RUB 7,837 million in the corresponding period of 2013. Profit for the period fell by 29.3% year on year to RUB 3,301 million in the first nine months of 2014, from RUB 4,666 million in the corresponding period last year.

In the third quarter of 2014, the Company's total revenue decreased by 11.1% year on year to RUB 9,450 million, while adjusted revenue fell by 21.2% year on year to RUB 5,343 million. As a result, EBITDA dropped by 21.2% year on year to RUB 2,301 million and the profit for the period decreased by 35.3% to RUB 1,222 million.

Additional financial information

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

	9M		Year on year change		3Q		Year on year change	
RUB million	2014	2013	RUB	mln %	2014	2013	RUB	mln %
Adjusted Revenue ¹	15,412	18,816	-3,404	-18.1%	5,343	6,782	-1,439	-21.2%

Adjusted operating expenses ²	11,873	13,201	-1,328	-10.1%	4,162	4,546	-384	-8.4%
EBITDA ³	6,409	7,837	-1,428	-18.2%	2,301	2,921	-620	-21.2%
Adjusted EBITDA margin ⁴	41.6%	41.7%			43.1%	43.1%		
Total debt	7,579	9,178	-1,599	-17.4%	7,579	9,178	-1,599	-17.4%
Net debt ⁵	5,120	3,845	+1,275	+33.2%	5,120	3,845	+1,275	+33.2%

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 nine months and the three months ended 30 September 2014 and 2013 respectively.

RUB million	Year on year change				Year on year change			
	9M 2014	9M 2013	RUB mln	%	3Q 2014	3Q 2013	RUB mln	%
Integrated freight forwarding and logistics services	20,106	17,429	+2,677	+15.4%	6,965	6,663	+302	+4.5%
Rail-based container shipping services	4,082	6,270	-2,188	-34.9%	1,474	2,140	-666	-31.1%
Terminal services and agency fees	1,584	3,051	-1,467	-48.1%	590	1,087	-497	-45.7%
Truck deliveries	734	1,055	-321	-30.4%	257	379	-122	-32.2%
Other freight forwarding services	210	446	-236	-52.9%	69	161	-92	-57.1%
Bonded warehousing services	179	301	-122	-40.5%	61	110	-49	-44.5%
Other	89	241	-152	-63.1%	34	91	-57	-62.6%
Total revenue	26,984	28,793	-1,809	-6.3%	9,450	10,631	-1,181	-11.1%

Total revenue decreased by RUB 1,809 million, or 6.3% year on year, to RUB 26,984 million for the nine months ended 30 September 2014, compared to RUB 28,793 million for the nine months ended 30 September 2013. In the third quarter of 2014, total revenue fell by 11.1% to RUB 9,405 million. This decrease was primarily due to the deconsolidation of KDTS' revenue. If KDTS' contribution to the revenue for the first nine months of 2013 and the third quarter of 2013 is eliminated, the Company's total revenue would have increased by 10.1% year on year in nine

months of 2014 and by 5.4% year on year in the third quarter of 2014, respectively, driven by an increase in integrated freight and transportation services.

Adjusted Revenue

The following table sets out adjusted revenue calculations for the nine months and the three months ended 30 September 2014 and 2013 respectively.

	9M		Year on year change		3Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%
RUB million								
Total revenue	26,984	28,793	-1,809	-6.3%	9,450	10,631	-1,181	-11.1%
Cost of integrated freight forwarding and logistics services	11,572	9,977	+1,595	+16.0%	4,107	3,849	+258	+6.7%
Adjusted Revenue	15,412	18,816	-3,404	-18.1%	5,343	6,782	-1,439	-21.2%

Adjusted revenue (as defined above) declined by 18.1% year on year to RUB 15,412 million for the nine months ended 30 September 2014 from RUB 18,816 million for the nine months ended 30 September 2013. This was primarily due to the deconsolidation of KDTS' costs and revenues, as well as the challenging pricing environment in the Russian rail container transportation market. If KDTS' contribution to the adjusted revenue for the first nine months of 2013 is eliminated, the Company's adjusted revenue would have decreased by RUB 840 million, or 5.2% year on year, driven by lower average transportation tariffs.

Due to the reasons outlined above, adjusted revenue declined by 21.2% year on year to RUB 5,343 million in the third quarter of 2014. If KDTS' contribution to the adjusted revenue for the third quarter of 2013 is eliminated, the Company's adjusted revenue would have decreased by RUB 562 million, or 9.5% year on year, due to a reduction in transportation tariffs.

The following table sets out the components of adjusted revenue for the nine months ended 30 September 2014 and 2013, respectively, and outlines their relative contribution.

	9M 2014		9M 2013		Year on year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Rail-based container shipping services	4,082	26.5%	6,270	33.3%	-2,188	-34.9%
Adjusted integrated freight forwarding and logistics services	8,534	55.4%	7,452	39.6%	+1,082	+14.5%
Terminal services and agency fees	1,584	10.3%	3,051	16.2%	-1,467	-48.1%
Truck deliveries	734	4.8%	1,055	5.6%	-321	-30.4%
Other freight forwarding services	210	1.4%	446	2.4%	-236	-52.9%
Bonded warehousing services	179	1.2%	301	1.6%	-122	-40.5%
Other	89	0.6%	241	1.3%	-152	-63.1%
Total adjusted revenue	15,412	100%	18,816	100%	-3,404	-18.1%

The structure of adjusted revenue changed in the first nine months of 2014 compared to the corresponding period of 2013. The share of rail-based container transportation services in adjusted revenue fell from 33.3% for the first nine months ended 30 September 2013 to 26.5% for the first nine months ended 30 September 2014. The share of integrated freight forwarding and logistics services, net of cost of integrated freight forwarding and logistics services, grew to 55.4% from 39.6% as a result of the services mix shifting towards transportation under integrated logistics contracts. The share of terminal services and agency fees decreased from 16.2% to 10.3%, mainly due to the deconsolidation of KedenTransService's results.

The following table sets out the components of adjusted revenue for the three months ended 30 September 2014 and 2013, respectively, and outlines their relative contribution.

	3Q 2014		3Q 2013		Year on year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Rail-based container shipping services	1,474	27.6%	2,140	31.6%	-666	-31.1%
Adjusted integrated freight forwarding and logistics services	2,858	53.5%	2,814	41.5%	+44	+1.6%
Terminal services and agency fees	590	11.0%	1,087	16.0%	-497	-45.7%
Truck deliveries	257	4.8%	379	5.6%	-122	-32.2%
Other freight forwarding services	69	1.3%	161	2.4%	-92	-57.1%
Bonded warehousing services	61	1.1%	110	1.6%	-49	-44.5%
Other	34	0.6%	91	1.3%	-57	-62.6%
Total Adjusted Revenue	5,343	100%	6,782	100%	-1,439	-21.2%

In the third quarter of 2014, the share of integrated freight forwarding and logistics services, net of cost of integrated freight forwarding and logistics services, in adjusted revenue grew to 53.5% for the three months ended 30 September 2014 from 41.5% for the three months ended 30 September 2013. The share of rail-based container transportation services decreased to 27.6% from 31.6% as a result of the services mix shifting towards transportation under integrated logistics contracts. The share of terminal services and agency fees decreased from 16.0% to 11.0% due to the deconsolidation of KDTS' results.

Integrated freight forwarding and logistics services

Revenue from integrated freight forwarding and logistics services increased by 22.1% year on year to RUB 13,141 million in the nine months of 2014 and by 17.9% year on year to RUB 6,786 in the three months ended 30 September 2014.

The following table sets out adjusted integrated freight forwarding and logistics services calculations for the six months and three months ended 30 September 2014 and 2013, respectively.

	9M		Year on year change		3Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%
Integrated freight forwarding and	20,106	17,429	+2,677	+15.4%	6,965	6,663	+302	+4.5%

logistics services									
Cost of integrated freight forwarding and logistics services	11,572	9,977	+1,595	+16.0%	4,107	3,849	+258	+6.7%	
Adjusted revenue from integrated freight forwarding and logistics services	8,534	7,452	+1,082	+14.5%	2,858	2,814	+44	+1.6%	

Adjusted revenue from integrated freight forwarding and logistics services grew by 14.5% year on year to RUB 8,534 million for the first nine months of 2014. In the third quarter of 2014, this revenue item grew by 1.6% year on year to RUB 2,858 million. This increase was primarily due to the Company's business shifting towards providing integrated freight forwarding and logistics services, and was partly offset by the deconsolidation of KDTS' transportation business.

Rail-based container transportation services

Revenue from rail-based container transportation fell by 34.9% to RUB 4,082 million for the nine months ended 30 September 2014 from RUB 6,270 million for the same period of 2013. In the third quarter of 2014, revenue from rail-based container transportation decreased by 31.1% year on year to RUB 1,474 million. This decline resulted from a change in the mix of services shifting towards transportation as part of integrated logistics contracts, as well as from lower average tariffs.

Terminal services and agency fees

Revenue from terminal services, including agency fees, decreased by 48.1% year on year to RUB 1,584 million in the nine months ended 30 September 2014, from RUB 3,051 million in the same period of 2013. In the third quarter of 2014, revenue from terminal services, including agency fees, fell by 45.7% year on year to RUB 590 million. This decrease was primarily due to the deconsolidation of KDTS' terminal business.

On a stand-alone basis, the revenue from terminal services and agency fees would have increased by RUB 5 million, or 0.3% year on year, in the first nine months of 2014, while in the third quarter of 2014, it would have decreased by RUB 22 million, or 3.6% year on year, reflecting the dynamics in terminal handling volumes in Russia as discussed above.

Agency fees, which are charged for services the Company renders as an agent of Russian Railways, decreased by 0.2% year on year to RUB 1,264 million for the nine months ended 30 September 2014, compared to RUB 1,266 million for the same period of 2013. Agency fees for the third quarter of 2014 decreased by 0.4% year on year to RUB 463 million.

Truck deliveries

Revenue from truck deliveries decreased by RUB 321 million, or 30.4% year on year, to RUB 734 million for the nine months ended 30 September 2014, compared to RUB 1,055 million for the same period of 2013. This was due to a 23.1% year on year reduction in container transportation volumes by the Company's own and outsourced truck fleet to 310 thousand TEU in the first nine months of 2014 from 404 thousand TEU in corresponding period of 2013. The deconsolidation of KDTS' trucking business also contributed to this decrease.

For the same reasons, revenue from truck deliveries in the third quarter of 2014 decreased by RUB 105 million, or 32.2% year on year, to RUB 257 million, compared to RUB 379 million in the third quarter of 2013. In the third quarter of 2014, container transportation volumes by the Company's own and outsourced truck fleet decreased by 34.4% year on year to 111 thousand TEU from 149 thousand TEU in the corresponding quarter of 2013.

Other freight forwarding and logistics services

Revenue from other freight forwarding and logistics services, which are freight forwarding and logistics services of a non-integrated nature, fell by 52.9% year on year to RUB 210 million in the first nine months of 2014, compared to RUB 446 million for the corresponding period of 2013. In the third quarter of 2014, revenue from other freight forwarding and logistics services was down 57.1% year on year to RUB 69 million. This decrease was primarily due to the Company's business shifting towards providing integrated freight forwarding and logistics services.

Bonded warehousing services

Revenue from bonded warehousing services fell by 40.5% year on year, or by RUB 122 million, to RUB 179 million for the nine months ended 30 September 2014, compared to RUB 301 million for the same period of 2013. This reduction is largely attributed to the deconsolidation of the KDTs bonded warehousing business and a decrease in import transportation volumes.

Revenue from bonded warehousing services decreased in the third quarter of 2014 by RUB 49 million, or 44.5% year on year, to RUB 61 million for the reason stated above.

Operating expenses

The following table provides a breakdown of the Company's operating expenses for the nine months and three months ended 30 September 2014 and 2013, respectively.

RUB million	9M		Year on year change		3Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%
Cost of integrated freight forwarding and logistics services	11,572	9,977	+1,595	+16.0%	4,107	3,849	+258	+6.7%
Freight and transportation services	3,605	3,180	+425	+13.4%	1,238	1,095	+143	+13.1%
Payroll and related charges	3,159	3,404	-245	-7.2%	1,064	1,162	-98	-8.4%
Depreciation and amortisation	1,829	1,442	+387	+26.8%	638	502	+136	+27.1%
Materials, repair and maintenance	1,552	2,132	-580	-27.2%	646	831	-185	-22.3%
Taxes other than income tax	461	494	-33	-6.7%	187	47	+140	+297.9%
Rent	309	1,224	-915	-74.8%	107	480	-373	-77.7%
Other operating expenses	958	1,325	-367	-27.7%	282	429	-147	-34.3%
Total operating	23,445	23,178	+267	+1.2%	8,269	8,395	-126	-1.5%

expenses

TransContainer's total operating expenses increased by 1.2% year on year, or RUB 267 million, to RUB 23,445 million for the nine months ended 30 September 2014, compared to RUB 23,178 million for the nine months ended 30 September 2013. This was due to a significant increase in the cost of integrated freight forwarding and logistics services, higher expenses related to freight and transportation services and depreciation, which offset the effect of the deconsolidation of the KDTS' business. The reduction in other cost items was also a contributing factor.

In the third quarter of 2014, the Company's total operating expenses decreased by RUB 126 million, or 1.5% year on year, to RUB 8,269 million, driven by an increase in the cost of integrated freight forwarding and logistics services, freight and transportation services, depreciation charges and taxes other than income tax. This was partially offset by a decrease in other expense items.

Cost of integrated freight forwarding and logistics services

Costs of integrated freight forwarding and logistics services increased by 16.0% year on year to RUB 11,572 million for the nine months ended 30 September 2014, from RUB 9,977 million for the same period of 2013. This was predominantly driven by an increase in transportation volumes under integrated logistics contracts and higher volume of outsourced transportation services involved in TransContainer's integrated logistics solutions.

For the same reasons, costs of integrated freight forwarding and logistics services increased in the third quarter of 2014 by 6.7% year on year to RUB 4,107 million, compared to RUB 3,849 million in the corresponding quarter of 2013.

Adjusted operating expenses

The following table sets out adjusted operating expenses for the nine months and three months ended 30 September 2014 and 2013, respectively.

	9M		Year on year change		3Q		Year on year change	
RUB million	2014	2013	RUB	mln %	2014	2013	RUB	mln %
Total operating expenses	23,445	23,178	+267	+1.2%	8,269	8,395	-126	-1.5%
Cost of integrated freight forwarding and logistics services	11,572	9,977	+1,595	+16.0%	4,107	3,849	+258	+6.7%
Adjusted operating expenses	11,873	13,201	-1,328	-10.1%	4,162	4,546	-384	-8.4%

Adjusted operating expenses, as defined above, decreased by 10.1% year on year to RUB 11,873 million for the nine months ended 30 September 2014, compared to RUB 13,201 million for the same period of 2013, primarily as a result of the deconsolidation of KDTS' business. For the same reason, adjusted operating expenses decreased by 8.4% year on year to RUB 4,162 million in the third quarter of 2014, from RUB 4,546 million in the third quarter of 2013.

The following table provides a breakdown of the Company's adjusted operating expenses, as defined above, for the nine months and three months ended 30 September 2014 and 2013, respectively.

RUB million	9M 2014		9M2013		3Q 2014		3Q 2013	
	RUB mln	Share	RUB mln	Share	RUB mln	Share	RUB mln	Share
Freight and transportation services	3,605	30.4%	3,180	24.1%	1,238	29.7%	1,095	24.1%
Payroll and related charges	3,159	26.6%	3,404	25.8%	1,064	25.6%	1,162	25.6%
Depreciation and amortisation	1,829	15.4%	1,442	10.9%	638	15.3%	502	11.0%
Materials, repair and maintenance	1,552	13.1%	2,132	16.2%	646	15.5%	831	18.3%
Taxes other than income tax	461	3.9%	494	3.7%	187	4.5%	47	1.0%
Rent	309	2.6%	1,224	9.3%	107	2.6%	480	10.6%
Other expenses	958	8.1%	1,325	10.0%	282	6.8%	429	9.4%
Adjusted operating expenses	11,873	100%	13,201	100%	4,162	100%	4,546	100%

Freight and transportation services

Expenses relating to freight and transportation services increased by RUB 425 million, or 13.4% year on year, to RUB 3,605 million for the nine months ended 30 September 2014. If the deconsolidation effect is eliminated, costs related to freight and transportation services would have increased by 10.9% year on year, due to a rise in empty run costs incurred from container transportation in the CIS countries. The higher number of empty runs was driven by increased volumes of transit transportation by the Company's rolling stock, and the devaluation of the Russian Rouble. This increase was partially offset by a decrease in the container empty run ratio in Russia from 30.3% to 29.1%.

In the third quarter of 2014, expenses relating to freight and transportation services grew by 143 million, or 13.1% year on year, to RUB 1,238 million. If the deconsolidation effect of KDTS is eliminated, expenses relating to freight and transportation services would have increased by RUB 128 million, or 11.6% year on year, due to the reasons outlined above.

Payroll and related charges

Payroll and related charges decreased by 7.2% year on year, or by RUB 245 million, to RUB 3,159 million for the nine months ended 30 September 2014, compared to RUB 3,404 million for the same period of 2013. This reduction was primarily due to the deconsolidation of KDTS. If the deconsolidation effect is eliminated, payroll and related charges would have increased by 10.2% year on year, mainly due to base salary indexing and a year on year rise in payments of performance-related bonuses in the first half of 2014. This increase, however, was partially offset by a 12.5% decrease in TransContainer's average headcount from 4,670 to 4,089 employees.

In the third quarter of 2014, payroll and related charges decreased by 8.4% year on year, or by RUB 98 million, to RUB 1,064 million.

Depreciation and amortisation

Depreciation and amortisation increased by RUB 387 million, or 26.8% year on year, to RUB 1,829 million in the first nine months of 2014, from RUB 1,442 million for the same period of 2013, despite the deconsolidation of KDTS. This was mainly due to an increase in depreciation and amortisation charges resulting from acquiring fixed assets between 30 September 2013 and 30 September 2014. Revising the useful life of the rolling stock was a factor that led to depreciation charges increasing by RUB 346 million.

For the same reason, depreciation and amortisation grew in the third quarter of 2014 by RUB 136 million, or 27.1% year on year, to RUB 638 million.

Materials, repair and maintenance

Expenses related to materials, repair and maintenance fell by 27.2% year on year to RUB 1,552 million for the first nine months of 2014, compared to RUB 2,132 million for the same period of 2013, due to the deconsolidation of KDTS. A fall in the number of the most expensive overhaul repairs of flatcars was also a contributing factor.

In the third quarter of 2014, expenses related to materials, repair and maintenance decreased by 22.3% year on year to RUB 646 million due to the factors described above.

Taxes other than income tax

Taxes other than income tax decreased by 6.7% year on year to RUB 461 million for the nine months ended 30 September 2014, from RUB 494 million for the same period of 2013, primarily due to the deconsolidation of KDTS. Excluding the deconsolidation effect, taxes other than income tax would have decreased by 1.0% year on year due to VAT settlements.

In the third quarter of 2014, taxes other than income tax increased by 297.9% year on year to RUB 187 million due to the deconsolidation of KDTS. Excluding the deconsolidation effect, taxes other than income tax would have increased by 22.0% year on year, primarily due to VAT settlements.

Rent

Rent expenses fell by RUB 915 million, or by 74.8% year on year, to RUB 309 million for the nine months ended 30 September 2014 period from RUB 1,224 million in the same period of 2013, as a result of the deconsolidation of KDTS. On a stand-alone basis, the Company's rent expenses would have risen by RUB 98 million, or 46.3% year on year, primarily due to the number of flatcars rented under operating lease contracts increasing to 379 units in the first nine months of 2014 from 70 units in the first nine months 2013.

In the third quarter of 2014, rent expenses decreased by 77.7% year on year to RUB 107 million as a result of the deconsolidation of KDTS. If this effect was eliminated, rent expenses would have grown RUB 28 million, or 35.0% year on year, in the third quarter of 2014 due to an increase in the number of flatcars rented under operating lease contracts.

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 services, loss of sale of fixed assets and so on. Other expenses fell by 27.7% year on year to RUB 958 million for the first nine months of 2014 from RUB 1,325 million in the first nine months of 2013, primarily due to the deconsolidation of KDTS. Excluding the deconsolidation effect, other operating expenses would have decreased by 3.7% year on year, as a result of improved cost control.

In the third quarter of 2014, other operating expenses decreased by RUB 147 million, or 34.3% year on year, resulting from the deconsolidation of KDTS. On a stand-alone basis, other operating expenses would have increased by RUB 21 million, or 7.9% year on year.

Interest expenses

Interest expenses decreased by RUB 74 million, or 13.0% year on year, to RUB 495 million for the first nine months of 2014 from RUB 569 million for the same period of 2013, mainly due to the scheduled amortisation of series 2 bonds in the total amount of RUB 1,500 million in December 2013 and in June 2014.

For the same reason, interest expenses in the third quarter of 2014 decreased by RUB 28 million, or 15.2% year on year, to RUB 156 million for the three months ended 30 September 2014 from 184 million for the three months ended 30 September 2013.

Interest income

Interest income decreased by RUB 64 million, or 35.2% year on year, to RUB 118 million in the first nine months of 2014 from RUB 182 million for the same period of 2013, due to a year on year decrease in cash balances in deposit accounts.

Interest income in the third quarter of 2014 fell by RUB 18 million, or 43.9% year on year, due to a decrease in average cash balances in deposit accounts compared to the same quarter of 2013.

Profit before income tax

Profit before income tax decreased by RUB 1,741 million, or by 28.9% year on year, to RUB 4,085 million for the nine months ended 30 September 2014 from RUB 5,826 million for the nine months ended 30 September 2013.

In the third quarter of 2014, profit before income tax decreased by RUB 728 million, or by 32.6% year on year, to RUB 1,507 million for the three months ended 30 September 2014 from RUB 2,235 million for the three months ended 30 September 2013.

Income tax expenses

Income tax expenses decreased by RUB 376 million, or 32.4% year on year, to RUB 784 million in the first nine months of 2014 from RUB 1,160 million for the same period of 2013, due to a decrease in taxable profit.

Income tax expenses decreased by RUB 61 million, or by 17.6% year on year, to RUB 285 million for the three months ended 30 September 2014 from RUB 346 million for the three months ended 30 September 2013 for the same reason stated above.

The effective tax rate for the six months ended 30 September 2014 decreased to 19.2% from 19.9% in the same period of 2013, while on the quarterly basis the effective tax rate was 18.9% compared to 15.5% in the corresponding period of last year.

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 2014 decreased by RUB 1,365 million, or 29.3% year on year, to RUB 3,301 million compared to RUB 4,666 million for the same period of 2013. Taking into account the exchange rate differences relating to foreign operations and other effects, the total comprehensive income for the reporting period was down 29.3% year on year and totalled RUB 3,406 million, compared to RUB 4,820 million for the first nine months of 2013.

The profit for the three months ended 30 September 2014 decreased by RUB 667 million, or 35.3% year on year, to RUB 1,222 million from RUB 1,889 million for the same period of 2013. Taking into account the exchange rate differences relating to foreign operations and other effects, the Company generated total comprehensive profit of RUB 1,610 million in the third quarter of 2014, compared to RUB 1,843 million in the third quarter of 2013.

Liquidity and Capital Resources

As of 30 September 2014, the Company's net cash and cash equivalents amounted to RUB 2,452 million and the Company's current liabilities exceeded current assets by RUB 953 million.

The Company's business is asset and capital-intensive and requires substantial capital expenditure for the purchase of flatcars and containers, the development of rail-side terminals and investment in expanding and modernising its lifting equipment and truck fleet, amongst other things. During the reporting period, the Company's operations and its capital expenditures were financed from internally generated cash flows.

Cash flows

The following table sets out the principal components of the Company's consolidated cash flows for the six months ended 30 September 2014 and 2013 respectively.

RUB million	9M 2014	9M 2013
Net cash provided by operating activities	5,428	5,849
Net cash used in investing activities	-3,159	-1,962
Net cash used in/ provided by financing activities	-1,883	-1,203
Net increase in cash and cash equivalents	386	2,684
Foreign exchange effect on cash and cash equivalents	183	69
Net cash and cash equivalents at the end of the period	2,452	4,071

Cash flow generated by operating activities

Cash flow generated by operating activities decreased by RUB 421 million, or 7.2% year on year, to RUB 5,428 million for the nine months ended 30 September 2014 from RUB 5,849

million for the same period of 2013. Operating profit before working capital decreased by RUB 1,943 million, or 25.4% year on year, and was offset by changes in working capital (primarily by a decrease in trade receivables) and a decrease and income tax expense.

Cash flow used in investing activities

Cash flow used in investing activities increased by RUB 1,197 million, or 61.0% year on year, to RUB 3,159 million for the nine months ended 30 September 2014 from RUB 1,962 million for the same period of 2013. This was primarily due to capital expenditures rising by RUB 921 million, or 39.7% year on year, to RUB 3,238 million from RUB 2,317 million in the corresponding period of last year.

Cash flow used in financing activities

Cash flow used in financing activities increased by 56.5% year on year, or by RUB 680 million, to negative RUB 1,883 million in the first nine months of 2014 from negative RUB 1,203 million for the same period of 2013. This was primarily due to the scheduled amortisation of series 2 RUB-denominated bonds in the amount of RUB 750 million.

Capital Expenditure

Capital expenditure increased by RUB 921 million, or by 39.7% year on year, to RUB 3,238 million in the first nine months of 2014 from RUB 2,317 million in the corresponding period of 2013. The majority of the capital expenditure was spent on acquiring new flatcars and ISO containers, as well as on construction and other investments. In particular, during the reporting period, the Company acquired 3,951 ISO containers, 1,316 units of 80 foot flatcars and 200 units of 40 foot flatcars.

Planned capital expenditure for 2014

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

The total capital expenditure in 2014 is budgeted at RUB 5.3 billion (excluding VAT), subject to market conditions, of which RUB 2.7 billion has already been spent on acquiring new flatcars. Up to RUB 0.95 billion has been allocated to upgrading and modernising the Company's key rail-side terminals; up to RUB 0.5 billion on acquiring new containers; up to RUB 0.5 billion on purchasing new cranes and other lifting equipment and up to RUB 0.45 billion on other capital expenditure items such as trucks, IT and other equipment.

The budget for capital expenditures for 2015 is expected to be approved by the Board of Directors in December 2014.

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 2014, the Company's financial indebtedness consisted of two outstanding bond issues, financial lease obligations and other borrowings in an aggregate amount of RUB 7,579 million, compared to RUB 8,438 million as of 31 December 2013. As of 30 September 2014, the Company's net debt was RUB 5,120 million.

As of 30 September 2014, the major portion of the Company's financial indebtedness was unsecured, except for the obligations under finance leases, which were secured by the lessors' title to the lease assets. The Company's debt is rouble-denominated and has a fixed interest rate.

RUB-denominated bonds series 2

On 10 June 2010, the Company issued non-convertible five-year amortising bonds for a total amount of RUB 3,000 million at a par value of RUB 1,000 each. Net proceeds from the issuance after the deduction of related offering costs amounted to RUB 2,975 million. The annual coupon on the five-year bonds is 8.8%, with interest paid semi-annually. The series 2 bonds will be redeemed in four equal semi-annual instalments during the fourth and fifth year.

As at 30 September 2014, the carrying value of the bonds amounted to RUB 1,490 million (RUB 2,236 million as at 31 December 2013) and this amount was included as short-term debt in the interim condensed consolidated statement of financial position. The amount of accrued interest is RUB 42 million (RUB 18 million as at 31 December 2013), and was included as short-term debt in the interim condensed consolidated statement of financial position.

RUB-denominated bonds series 4

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

The series 4 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 2014, the carrying value of the bonds amounted to RUB 4,990 million (RUB 4,988 million as at 31 December 2013).

The amount of accrued interest is RUB 69 million (RUB 175 million as at 31 December 2013) and has been included as short-term debt in the interim condensed consolidated statement of financial position.

Other borrowings

On 23 May 2011, the Company borrowed funds from LLC TrustUnion AM for the principal amount of RUB 514 million at an interest rate of 9.5% per annum with a five year maturity to finance the acquisition of the Company's ordinary shares for a share option plan for the Company's management. The outstanding debt was RUB 468 million as at 30 September 2014.

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 2014.

RUB million	30 September 2014	31 December 2013
Current assets		
Inventory	299	358
Trade and other receivables	1,313	1,621
Prepayments and other current assets	2,446	3,435

Prepaid income tax	104	114
Short-term investments	7	1
Cash and cash equivalents	2,452	1,883
Total current assets	6,621	7,412
Current liabilities		
Trade and other payables	2,786	3,216
Short-term debt and current portion of long-term debt	1,601	1,693
Income tax payable	205	77
Taxes other than income tax payable	314	372
Provisions	14	19
Finance lease obligations, current maturities	165	66
Dividends payable	0	
Accrued and other current liabilities	583	834
Total current liabilities	5,668	6,277
Working capital	953	1,135

Working capital decreased by RUB 182 million to RUB 953 million at the end of the reporting period from RUB 1,135 million as at 31 December 2013. This was primarily due to a RUB 441 million increase in trade and other payables, accompanied by a RUB 597 million decrease in prepayments and other current assets.

Downloads

The consolidated financial statements for the nine months ended 30 September 2014 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 Friday, 28 November 2014, at 12:00 UK time / 15:00 Moscow time. Dial in details are as follows:

UK Free Call Dial In	0800 694 0257
Russia Dial In (from a landline)	810 8 002 097 2044
Conference ID	40218643

A replay of the call will be available until Monday, 29 December 2014, using the following details:

UK Free Call Dial In	0800 953 1533
Russia Dial In	8 499 677 1064
Replay Access Code	40218643#

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About TransContainer

TransContainer (LSE ticker: TRCN) is the leading intermodal container transportation company in Russia. It is the market leader in Russia by flatcar fleet size, container transportation by rail and rail-side container terminal throughput. As of 30 September 2014, it operated 26,918 flatcars and 63,918 ISO containers. It owns a network of 46 rail-side container terminals in Russia, 19 rail-side terminals in Kazakhstan (through its joint venture company KedenTransService) and operates one terminal in Slovakia. Company's sales network comprises more than 130 sales offices across Russia as well as presence in the CIS, Europe and Asia. TransContainer is listed at Moscow Exchange and LSE. 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 and own loaded containers

[2] Transportation of clients' containers and own loaded containers

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

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