

TransContainer

EQUITY RESEARCH

From Recovery to Growth



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TransContainer

From Recovery to Growth

With this report we initiate coverage of TransContainer. We recommend to BUY the stocks and GDRs with 12M target price at \$120 and \$12.0 respectively, which means 24% and 22% upside potential from the current market level. TransContainer is the largest intermodal container operator in Russia, providing transportation services and integrated logistic solutions for its customers. The recovery in domestic consumption, increase in containerization levels and expansion of transit traffic from Asia to Europe will determine the growth in the Russian container transportation market, where TransContainer plays the leading role. The company placed its shares on the market in November 2010, and the stocks performed well since that time posting 21% (22.5% for GDRs) growth. We expect investor's interest to the transportation stocks will remain high in the coming years.

Container market growth will outperform global economic trends. Due to the rapid market recovery and the rebound in private consumption, both global and Russian container transportation will outperform the global economy, posting a 2010-2015 growth rate of 7% and 9% CAGR, respectively (A.T. Kearney).

Economic growth and a low level of containerization create a strong basis for expansion. The rapid growth rate of exports and imports (13.4% CAGR in 2010-2013 vs. 5.7% globally), coupled with a 2.4% CAGR containerization level increase in 2010-2015, will expand the volume of Russian rail container transportation to 3.2 mn TEUs in 2015 (from 1.9 mn TEUs in 2009).

TransContainer will maintain its leading position in the Russian container market. The Company is the largest operator of railway container transportation with a 52% stake on the market, which has a strong growth potential. We estimate container transportation to grow by 48% in the next 5 years.

A unique asset base as a competitive strength. The Company's extensive asset base permits its leading role in a market with high entry barriers and allows it to provide high-value, end-to-end integrated logistic solutions to its customers. As of 31 December, 2010, the company owned 24,255 flatcars, 58,784 ISO containers, and 47 terminals (46 in Russia and one in Slovakia) and a substantial fleet of trucks.

Integrated services are the future of container transportation. TransContainer is the leading provider of high value integrated logistic solutions, which include end-to-end intermodal container transportation, handling and freight forwarding services. We estimate integrated services to provide up to 48% of the revenue by 2015.

A broad geographic presence and a solid customer base strengthen its position. TransContainer has strong domestic and international presence based on 47 container terminals, 148 services centers and sales offices, international subsidiaries and joint ventures with international partners. TransContainer serves more than 20,000 regular customers with the top 10 generating 23% of revenue.

From recovery to growth. We estimate 2010 financial results to be close to pre-crisis level on top-line with lagging recovery of efficiency ratios. In 2010-2015 revenue growth is estimated at CAGR 16.7%, while it will take two more years to reach pre-crisis margins. Growth of demand for container transportation will result in fewer empty runs and higher efficiency ratios. Route expansion, containerization of new cargo types, optimization of the freight transportation and pricing will improve company's financial performance.

We recommend to BUY TransContainer shares with 12M TP at \$120 (\$12 per GDR). Currently company's GDRs are traded with EV/EBITDA 2011E 7.1 and P/E 2011E 16.5 that is 32% discount and 1% premium to its EM peers. Solid growth profile, strong market drivers and support from the state determine favorable prospects of the company and will increase demand for the shares in the future. The main risks related to this investment idea come from a side of market growth and possible changes in tariff regulation. Corporate events in the transportation segment will boost investors' interest to the traded stocks.

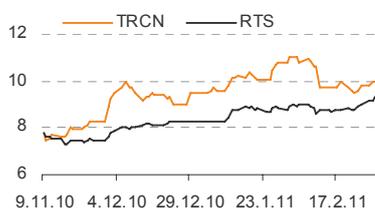
TransContainer		
	Common	GDR
Ticker	TRCN	TRCN LI
Recommendation	BUY	BUY
Price, \$	97.8	9.8
Target price 12M, \$	120.00	12.00
Upside, %	24%	22%

SHARE DATA		
	TRCN RX	TRCN LI
Bloomberg	TRCN.MM	TRCNq.L
Reuters	Common	GDR
# of shares outstanding, mn	13.9	
EV, \$ mn	1,573	1,575
MC, \$ mn	1,359	1,362
MIN, \$	78.57	7.49
MAX, \$	110.70	11.00
	Common	GDR
Swap ratio		0.1

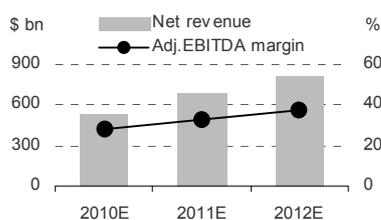
SUMMARY FINANCIALS, \$ mn			
IFRS	2010E	2011E	2012E
Net revenue	533	687	820
Adj.EBITDA	149	223	304
Net income	31	83	134
EPS, \$	2.22	5.95	9.66
Rev. growth, %	27.6	29.0	19.3
EPS growth, %	66.0	168.5	62.3
Adj.EBITDA margin, %	27.9	32.4	37.1
Net margin, %	5.8	12.0	16.4

SUMMARY VALUATIONS			
	2010E	2011E	2012E
P/E	44.2	16.5	10.1
EV/EBITDA	10.8	7.2	5.3

SHAREHOLDER STRUCTURE	
RZhD	50%+1
FESCO	12.50%
EBRD	9.25%
NSPF BLAGOSOSTOYANIE	5.20%
Other	23.05%



Source: LSE, TKB Capital estimates



Investment Summary

TransContainer – a leader on the fast growing market. The Company is the largest operator of railway container transportation with 52% stake on the market, which has a strong growth potential. Rapid recovery of private consumption determines growth of container transportation worldwide bottoming up from 2009 lows. Expansion of container traffic will outperform global economic growth in 2010-2015 posting advance at 7% CAGR vs. world's GDP CAGR at 4.5%, according to A.T. Kearney. The Russian container transportation market will develop faster due to import flows recovery, higher transportation volumes of containerized goods and expansion of infrastructure capacities. Fast growth of export/import flows together with increasing level of containerization will determine expansion of TransContainer business.

Unique assets base of TransContainer as competitive strength. Extensive asset base of the Company determines its leading position on the market and strong growth opportunities in the future. Rail-based container transportation market is difficult to enter due to high entry barriers. Unique asset base gives strong competitive advantages to the Company and allows providing high value end-to-end integrated logistic solutions to its clients. It is expensive and will take a long time to replicate asset base of the Company.

TransContainer is the primary integrated logistic solution provider. The Company keeps the leading position as provider of high value integrated logistic solutions, which include end-to-end intermodal container transportation, handling and freight forwarding services as well as other high value-added services. High share of container transportation based on a through-rate tariff will increase efficiency of the Company and secure relations with the core clients.

A broad geographic presence and strong customer base to support positions. TransContainer has strong domestic and international presence through its container terminals, sales offices, international subsidiaries and joint ventures with international partners. Substantial customer base is highly diversified, while relations with core clients are constantly developed through provision of integrated services.

Growth strategy – betting on market expansion through goods to transport and new routes. Unique assets base and leading position on the market allows benefiting from the market growth and higher level of containerization. Fleet expansion and optimization of routing result in higher efficiency ratios. Expansion of infrastructure facilities will increase transit flows from Western China to Europe saving time of delivery. Import flows will grow with domestic demand expansion.

Successful placement and new strategic shareholder. 35% of TransContainer shares were placed on the market in November, 2010. As a result RZhD reduced its stake to 50%+1 share. During the IPO FESCO bought 12.5% of the stocks and is planning to acquire control in TransContainer in the future to create the largest well diversified integrated transportation company. We consider this as a long-term prospect, but we see positive synergy effect from this cooperation. Free float of TransContainer shares after placement is 23.05%.

Sales growth and margins recovery in the coming years. We expect net revenue to grow at 16.7% CAGR in 2010-2015. EBITDA margin will reach pre-crisis level in 2013-2014 at 40%, which we consider as sustainable level in a longer period. Net margin will grow to 20% by 2015 supported by increasing efficiency of operations. We expect that the Company will generate enough cash flows to finance its CAPEX program, while in case of additional financing required TransContainer will be able to attract funds on the market.

Key risks for the Company. Among risks for TransContainer we consider lower than expected market growth that will limit the Company's expansion, change in RZhD tariff regulation that may reduce difference in pricing for containers and goods' transportation in other rail cars, and faster growth in price of flatcars that will require additional expenses to execute investment program.

Valuation

We assign BUY recommendation for TransContainer shares and GDRs with 12M TP at \$120 and \$12 that means upside potential from the current level at 24% and 22% respectively. We used DCF model, multiples valuation and asset based approach to estimate the company. Currently TransContainer is traded with EV/EBITDA 2011E at 7.1 and P/E 2011E 16.5. In our DCF model we used WACC at 12.55% and terminal growth at 2%. Our operating and financial assumptions as well as detailed valuation models are introduced in the following parts of the reports.

Company	P/E			EV/EBITDA		
	2010E	2011E	2012E	2010E	2011E	2012E
TransContainer	44.2	16.5	10.1	10.6	7.1	5.2
Premium/(discount) to DM	138%	8%	-23%	19%	-9%	-28%
Premium/(discount) to EM	132%	1%	-28%	-10%	-32%	-44%
Russian Market						
Globaltrans	12.9	9.6	8.3	8.6	6.8	5.9
FESCO	91.0	20.9	14.7	9.1	7.7	6.3
Developed Markets						
Average DM	18.5	15.2	13.1	8.9	7.7	7.2
Emerging Markets						
Average EM	19.1	16.3	14.0	11.8	10.4	9.3

Source: Bloomberg, TKB Capital estimates

Strengths

- leading player on the rail-based container transportation market with 52% share
- unique asset base, which is difficult to replicate and which allows providing door-to-door services
- leading position as integrated logistic solutions provider
- broad and diversified client base
- wide geographic presence
- strong relations with the core shareholder RZhD

Weaknesses

- relatively old fleet
- required substantial investments in fleet replacement
- low utilization rate of a number of small container terminals
- lack of developed port facilities

Opportunities

- fast growth of container market in Russia backed by economic recovery and higher level of containerization
- increasing import flows backed by growth in domestic consumption
- further development of integrated logistic services
- development of new routes
- optimization of the fleet structure to increase efficiency of operations

Threats

- slower market growth than expected
- competition from other types of rail transportation
- growing competition from smaller players
- competition from truck transportation on short distance
- constrained capacities of railcars production that may lead to shortage of or higher prices of flatcars
- possible changes in RZhD tariff system
- possible antimonopoly regulation of the segment

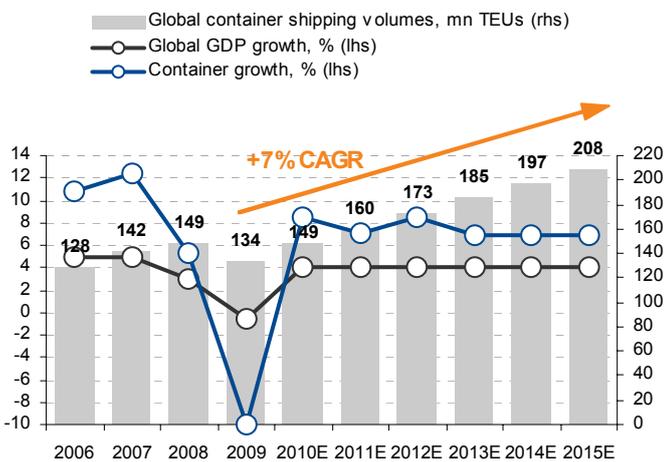
The Container Transportation Market

Due to economic globalization and the growth of foreign trade, especially flows from the South-East to West, container traffic through 2008 grew faster than other segments of the transport industry (8-10% annually) and increased from 137 mn TEUs to 387 mn TEUs over 1995-2008. The level of freight transportation containerization in developing countries reached 50-60%. The main competitive advantage of container traffic is one-stop services and efficiency. Containers can be used to deliver large cargo quantities, such as consumer goods (food and non-food), machinery and chemical products, construction materials, metals and metal products. Moreover, the creation of specialized containers allows transporting of non-traditional container cargoes (liquid cargo, grain, industrial salt and fertilizer). Recently, key container flows have been generated between ports in APR countries, Europe and the US, which makes Russia attractive for an increasing transit flow of goods. Despite very deep decline of container transportation during the crisis, already in 2010 container traffic started to rebound and is estimated to increase by 10.9% in 2010, according to the Drewry Shipping Consultants. Further, the recovery of global consumption and the growth in the level of containerization will increase demand for this type of transportation.

Global Container Market – Reflecting Economic Circumstances

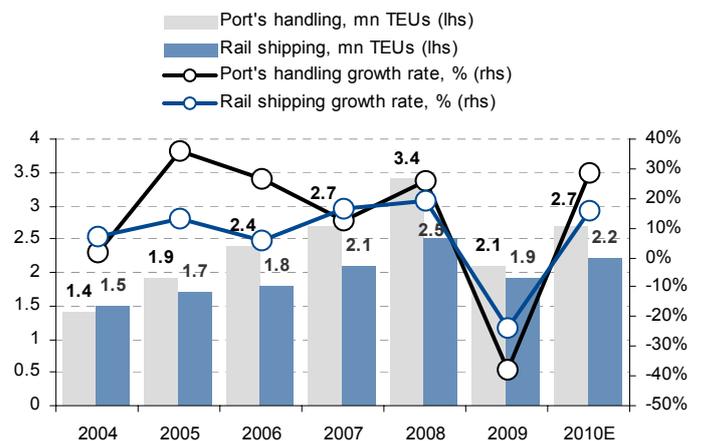
Reflecting the dynamics of the global economy. Usually, container transportation is used to ship cargo that has been tailored for containers, mainly high-value-added industrial goods, which results in the cyclical nature of container traffic and makes it dependent on economic conditions. Thus, during the global economic crisis, (started in 2H2008), after stable 5-6% growth in 2007-2008 global container shipments dropped by 10.3% y-o-y in 2009 to 133.6 mn TEUs. The volume of container turnover in ports fell by 11.4% y-o-y to 471 mn TEUs (vs. 525 mn TEUs in 2008), according to Drewry Shipping Consultants. However, now the global market is showing a gradual recovery and is expected to show a stable 7% CAGR growth rate during 2010-2015, according to A.T. Kearney.

Growth forecast for maritime container market with GDP growth in 2006-2015



Sources: Economic Intelligence Unit, Drewry Shipping Consultants, International Monetary Fund; A.T. Kearney analysis

Growth container transshipment in Russia in 2004-2010E, mn TEUs

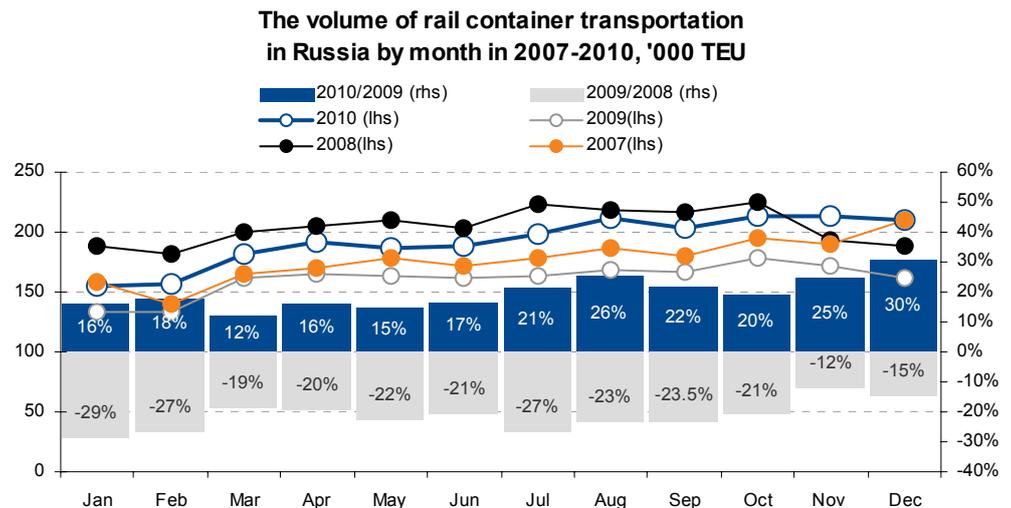


Sources: Association of Russian Ports (ASOP), RBC report, A.T. Kearney analysis

Russian Container Market – High Growth Potential after Deep Decline

Before the crisis the Russian container market outperformed the global trend. During 2000-2008 years, Russian's GDP and external trade demonstrated strong 7% average annual growth rate (share in World GDP increased from 2.6% to 3.2%), as a result Russian railway container transportation grew from 1.0 mn TEUs in 2001 to 2.5 mn TEUs in 2008 (including loaded and empty-run trips), while during 2004-2008 transshipments of containers in Russian seaports grew at 25% CAGR to 3.4 mn TEUs. These strong results were also supported by development of infrastructure and introduction of new container lines.

Railway container transportation in Russia declined by 21% in 2009, but partially got back lost position in 2010. The volumes of Russian container transportation started to decline in autumn 2008 and after a slight rebound in the beginning of the year was flat in 2-4Q2009. Moreover, during this period monthly volumes of traffic were lower than 2007 levels. As a result, total Russian railways container transportation dropped by 21% y-o-y to 1.915 mn TEUs in 2009. Empty-run container traffic lost 22% to 701,000 TEUs, while loaded-trip containers declined 25% to 1,213,000 TEUs. Loaded-trip export containers showed slightly positive dynamics with 1% growth y-o-y to 421,000 TEUs. Empty-run domestic containers remained flat at 533,000 TEUs. Container traffic in Russian ports declined by 35% to 2.2 mn TEUs (3.4 mn TEUs in 2008). At the same time in 2010 thanks to better economic conditions, the Russian container market started to rebound and the volume of cargo container transportation increased by 21% y-o-y and reached 2.3 mn TEU.



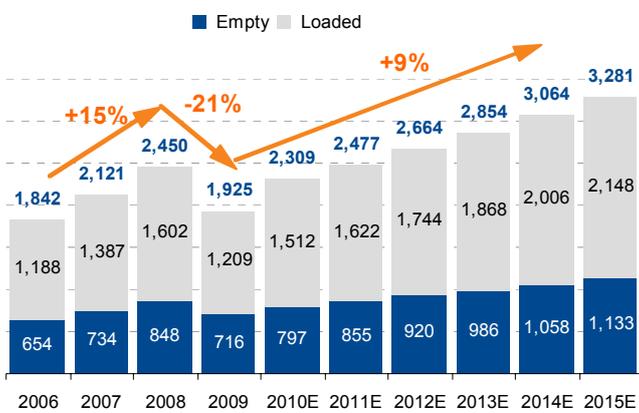
Source: RZhD information center

The large share of imports led to a significant drop in the volume of Russian traffic during the crisis and further growth in 2010. The fall of rail container transportation in Russia significantly exceeded not only domestic transportation market (the cargo load of Russian railway transportation down y-o-y by 15% in 2009), but the total world container transportation as well. That can be explained by a substantial share of loaded import flows in total container transportation (30% in 2008), which dropped by 57% y-o-y from 478,000 TEUs in 2008 to 207,000 in 2009. This significant decrease was largely attributable to falling domestic consumption as purchasing power of the population dropped during the crisis, increasing the cost of imported goods, along with the ruble devaluation. However already in 2010 thanks to the rapid recovery of domestic consumption and the economy as a whole the volume of import flows started to recovery and increased by 45% (include load and unload runs) to 465'000 TEUs, that accounts for 20% of the Russian railway container market.

Future of Russian Container Transportation – Outperforming the World Market

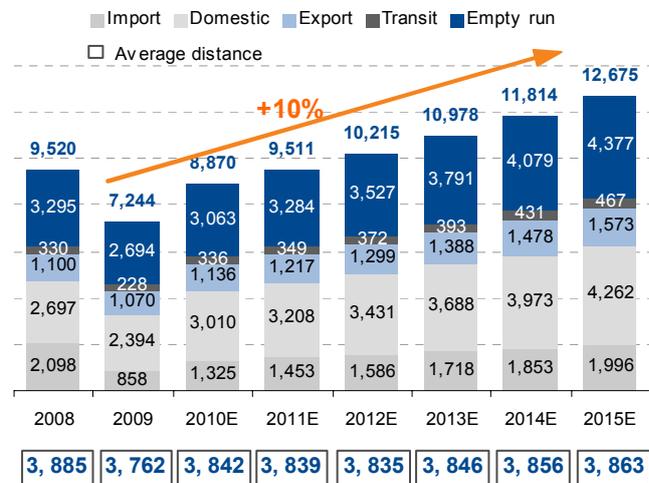
The growth of the container market in developing countries will outperform the overall market. Transportation sector is strongly dependent on the global economic environment, therefore further growth rates of transportation volumes will hinge on the rebound of world and domestic economies. As a result of global economic recovery (up by 4.3% in 2010E vs. 0.5% decline in 2009, according to A.T. Kearny), container cargoes started demonstrating positive performance already in 1H10. Owing to more robust growth of developing economies (BRIC GDP growth is estimated at 5-7% over next 10 years vs. 2-3% for developed countries according to A.T.Kearney), expansion of transportation volumes on EM is likely to outperform growth rates on DM. At the same time, due to higher expected growth rates of real GDP at 4.4% CAGR in 2009-2013 (based on our estimates) with high growth rate of real consumer spending per capita, we think Russia is the most attractive for investments among the BRIC countries.

Russian rail container transportation growth in 2006-2015, '000 TEUs



Sources: RZhD database, A.T. Kearney analysis, A.T. Kearney rail forecast model

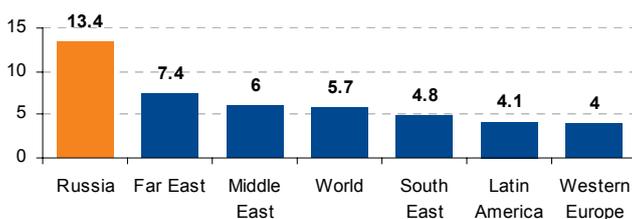
Rail container turnover by type, including empty containers, mn TEU-km



Sources: RZhD database, A.T. Kearney analysis, A.T. Kearney rail forecast model

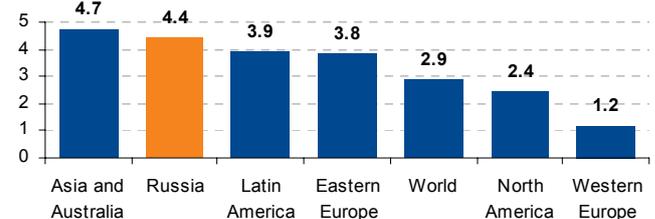
The increase in the import and containerization level will provide stable growth in Russian container traffic. After a deep decline in 2009, the volume of Russian rail container transportation in 2010 increased by 21% y-o-y and reached 2.3 mn TEUs (loaded and empty run), according to RZhD. At the same time average rate of traffic growth during 2010-2015 years will be near 9% (7.2% y-o-y in 2011) and the pre-crisis level will be reached only in 2013. Traffic growth will be achieved due to a rebound in the Russian economy resulting in growing domestic consumption, the increase of import flows (17% CAGR in 2010-2015) and higher level of containerization, as well as the development of sea port and rail infrastructure.

Import/Export growth CAGR 2009-2013E, %



Sources: BMI, Drewry

Real GDP growth CAGR 2009-2013E, %

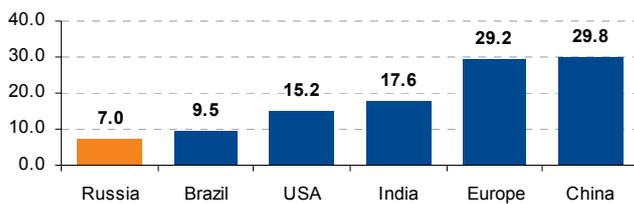


Sources: A.T.Kearney

Containerization Level by Industry – a Growth Driver

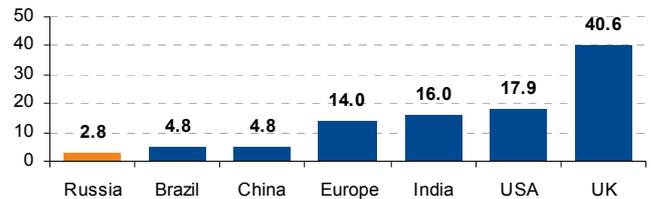
Significant growth potential as compared with other BRIC countries. One of the main factors that determines the growth rate of container transportation in the country is the level of containerization (share of cargo volumes transported in containers in the total cargo volume less bulk cargo). Currently, this indicator in Russia is much lower than in both developed countries and the BRIC countries. Thus, in Russia the level of containerization of general cargo at ports in 2009 amounted to 35%, while average level for the other BRIC countries is about 60%, and in developed countries near 70-80%. However, the difference in the rail containerization level among Russia, Brazil and China is insignificant at 2-3 p.p. (Russia – 2.8% in 2008, China and Brazil - 4.8%). This provides the Russian market with higher growth potential and enhances its attractiveness compared with other developing countries.

Total containerization level of total cargo in 2008, %



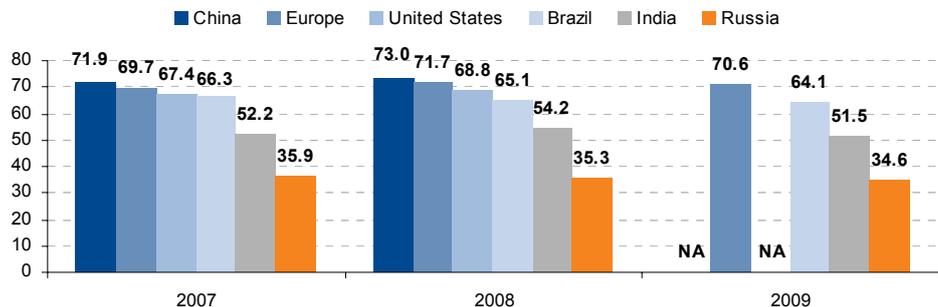
Sources: A.T.Kearney

Rail containerization level of rail cargo in 2008, %



Sources: A.T.Kearney

Port's containerization level for general goods, %



Weight of cargo transported in containers divided by total weight transported without bulk and liquid cargo
Source: A.T. Kearney

Infrastructure development will lead to growth in the containerization level to 3.1% in 2015. To a high degree the low level of containerization in Russia is determined by the structure of national economy, which is oriented to the transportation of export-commodities usually in open-top wagons (dry bulk) or in rail-tanks (liquid bulk). In addition, Russian infrastructure (including container terminals and port facilities) often is not sufficient to the container transportation and needs to be improved. Thus, infrastructure development, change in export structure in favor of industrial goods, as well as increasing number of specialized containers for the transportation of non-traditional container cargo, will drive further growth of containerization level. During 2009-2015 this indicator supported by growth in the containerization level of non-food goods, non-ferrous metals and automotive industry is expected to increase with 2.4% CAGR and will reach 3.1% in 2015.

Containerization level by industry

Industry	Containerization level*	
	2009	2015E
Automotive parts and components	23.6%	37.7%
Chemicals	9.1%	10.6%
Construction materials	2.4%	3.9%
Ferrous metals	1.7%	1.9%
Food	7.6%	7.0%
Machinery and equipment	21.8%	25.3%
Non-ferrous metals	24.4%	27.5%
Non-food consumer goods	35.4%	39.8%
Pulp and paper	40.5%	42.3%
Overall	2.7%	3.1%

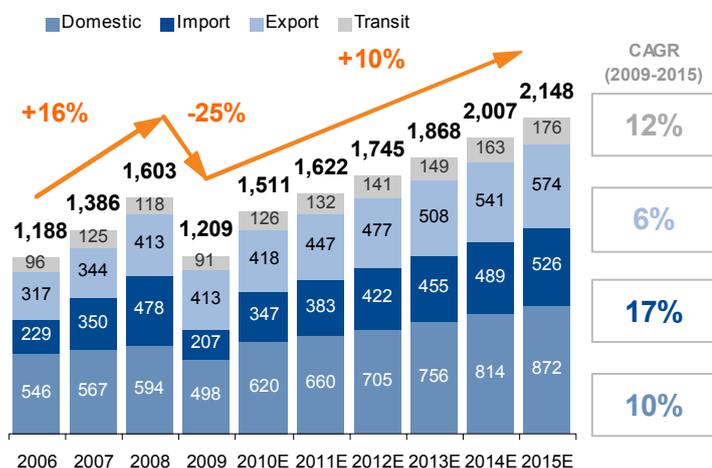
* Based on freight lifted, all types of cargo, excluding coal and oil. Sources: Historical data from RZhD and A.T. Kearney container rail transportation forecast model; A.T. Kearney analysis

Integrated transportation solution – the future of container transportation. Recently, in order to diversify business, railway operators have begun to provide high-value-added integrated services to customers. This allows rail container operators to offer “door-to-door” service, which includes the full range of logistic operations, such as container transportation (marine/road/railway), freight handling and freight forwarding services, and “last mile” delivery. Usually for first/last-mile connectivity, operators use their own fleet or reach agreements with other operators. Thus, carriers provide seamless transportation services and assume the freight forwarding function, which allows them to receive the value added and increase efficiency. Due to strong demand from customers for complex solutions, we expect that, in the future, operators will focus on providing integrated services and that this segment of the market will grow faster than the market as a whole.

The Structure of the Russian Container Market

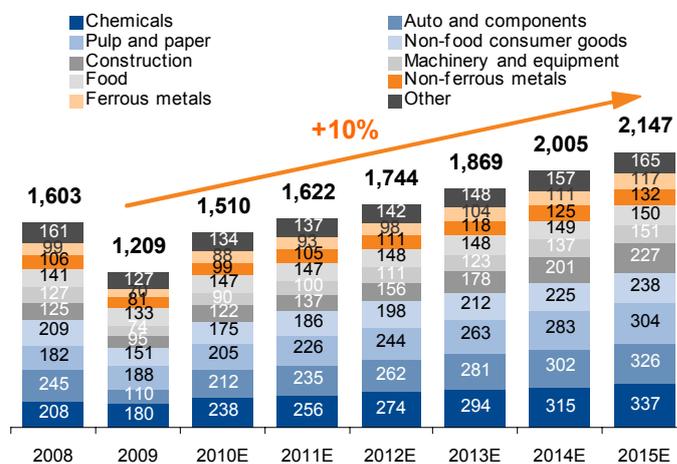
Import flows as the key driver of container transportation growth. RZhD container transportation includes four key directions: import, export, domestic and transit transportation. Significant growth in container traffic was mainly driven by import and export flows (increased by 63% during 2006-2008 according to RZhD), which were supported by Russian economic development. In 2009 they accounted for almost 51% of transportation, and the level of containerization was about 4.5%. However in the future we expect that the growth rate of import would outperform export (17% against 6% CAGR in 2009-2015 respectively) due to low share of high-value-added exported products. Domestic transportation will retain its share of total transportation at the current level (48% in 2010); at the same time, its containerization level is the lowest in the market – only 1.8%.

The growth of rail container transportation by type of directions, '000 TEUs loaded containers



Sources: RZhD database, A.T. Kearney analysis, A.T. Kearney rail forecast model

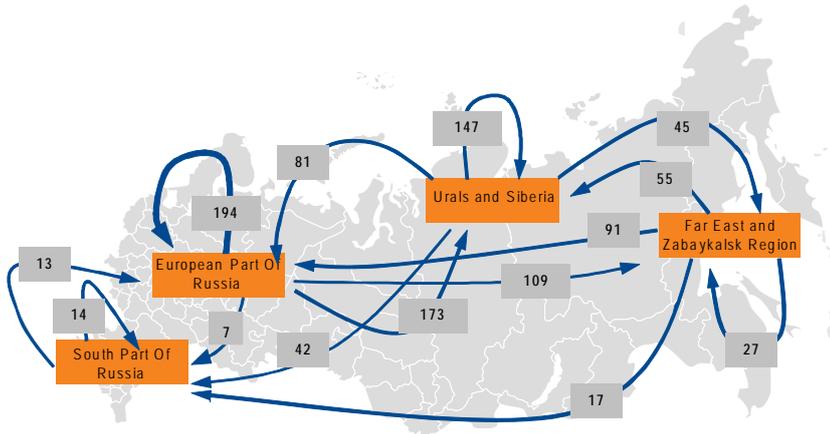
Rail container transportation by industry, '000 TEUs loaded containers



Sources: RZhD database, A.T. Kearney analysis, A.T. Kearney rail forecast model

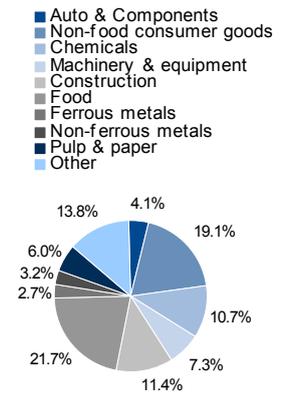
Domestic transportation – stable volume and growth rate. Internal container shipment consists mainly of transportation between European part of Russia and Siberia and Urals, as well as within European part of Russia. It is the most stable segment on the Russian container market; its share in overall transportation varied from 37% to 48% during the 2006-2010 period (41% in 2009, 48% in 2010) according to RZhD. Almost 50% of Russian container traffic accounted for three types of goods: non-food consumer goods (19% in 2009), construction materials (11.4% in 2009), and food (21.7% in 2009). We expect that the main driver of growth in the segment during 2011-2015 will be increasing transportation volumes of non-food consumer goods, chemicals, machinery and equipments, and ferrous metals. At the same time we anticipate that the share of domestic traffic in the overall container transportation to remain at the current level.

Main domestic rail container transportation flows* in 2009, TEUs



Source: Company data
*Loaded and empty run

Container rail-domestic volumes by commodity in TEUs in 2009, %



Source: A. T. Kearney

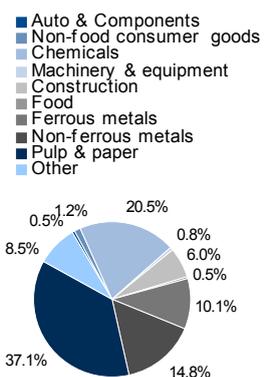
Export transportation – increase in containerization to boost the development. Russian container export flows are directed to the Northwest (the Baltic countries, Finland, etc.), Far Eastern ports and Eastern Europe. The breakdown of Russian export traffic is determined by the structural features of the Russian economy, aimed mainly at transporting semi-finished goods and resource-based products with a low containerization level. Thus 80% of the Russian container export is created by only four types of goods (pulp and paper, chemicals, ferrous and non-ferrous metals). Further diversification of transportation due to both higher level of containerization of bulk cargo and the development of specialized containers will be the main driving factor for the rise in export traffic in Russia.

Main export rail container transportation flows* in 2009, TEUs



Source: Company data
*Loaded and empty run

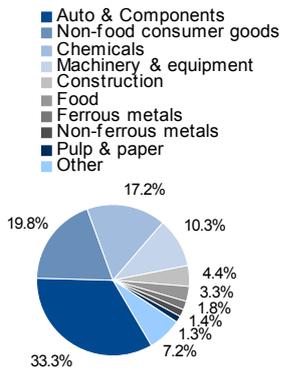
Container rail-export by commodity in TEUs in 2009, %



Source: A. T. Kearney

Import transportation – the main driver of growth in Russian container traffic. The major import flows are generated in the Far East (Asia-Pacific countries) and the Northwest (Eastern Europe, the Baltic countries, Finland, etc.). Before the crisis, this segment showed the highest growth rates (42% CAGR during 2005-2008), while almost 40% of transportation volume was accounted for by automotive components. However, during the economic crisis, loaded import transportation dropped by more than 50% and its share in the total loaded container transportation declined to 17% in 2009 (30% in 2008). After deep decline in 2009 import volume of transportation in 2010 showed strong results and increased by 46% y-o-y backed by recovery of Russian economy and increase in domestic consumer demand. Meanwhile automotive component will show the most significant growth rate maintaining the current structure of import transportation in general.

**Container rail-Import
by commodity in TEUs in 2009, %**



Source: A. T. Kearney

Main import rail container transportation flows* in 2009, TEUs

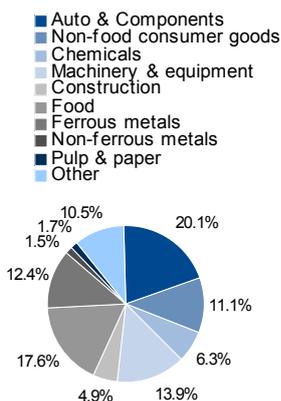


Source: Company data

*Loaded and empty run

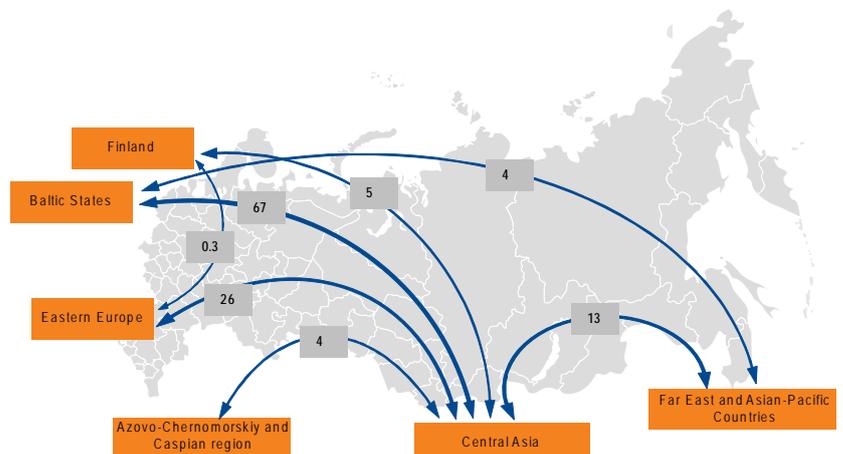
Transit transportation – small, but promising segment. This portion of the container market is mainly represented by shipments between European and Central Asia countries. Transit container transportation network encompasses the major routes connecting the Far East with Kazakhstan and Kazakhstan with Europe (around loaded 120,000 TEUs before the crisis). The distribution of container transit traffic is highly diversified and represents all major cargo types. Due to the growth in the containerization level and the global economic recovery, the transit transportation volumes increased to pre-crisis levels already in 2010. In addition, further optimization of delivery time and costs via the Trans-Siberian transit corridor will allow railway transportation to compete with sea transit routes.

**Container rail-transit volumes
by commodity in TEUs in 2009, %**



Source: A. T. Kearney

Main transit rail container transportation flows* in 2009, TEUs



Source: Company data

*Loaded and empty run

Railway transport assumes a leading position in inland traffic. The container transportation market in Russia includes railway, marine and road traffic. However, due to the structure of the Russian economy, railway transportation dominates total container transportation. Moreover, in the regions with developed river infrastructure, operators also use river transportation, especially in areas that are difficult to access such as Yakutia. However, due to the short navigation season, their share of total turnover is not significant. The choice of transportation mode depends on the following criteria: transportation distance, speed, cost and transportation method.

Type of transport	Main characteristic	+	-
Marine	- export/import through North-West, South and Far East ports are main flows	- Low cost	- Slow
Road	- used for short distance and "Last mile" delivery	- Fast delivery	- Limitation on the distance of transportation
Railway	- Key transport for middle and long distance (near 3,842 km)	- Fast delivery	- Limitation on the distance of transportation

Railway transportation – the most efficient for medium/long distances. Maritime transport holds a leading position in import and export transportation flows. However, despite its low cost, the trip time of marine transportation is much longer than via railway and road routes, additional costs arise as the cargo should be delivered to/from port. Road and railway shipping are the main rivals in the domestic cargo transportation market, although their share of the domestic transportation depends on distance to a significant extent:

- Less than 1000 km: due to the low cost, road transport prevails in the mix of shipments to/ from sea ports (50% in the Far East, and up to 80% each in the south and north-west basins of Russia).
- 1000-1200 km: both types of transportation are aligned to the price, and then the choice will largely depend on the type of goods and etc.
- More than 1200 km: railway transportation is becoming cheaper and achieves maximum efficiency at 3,000 km distance.

However, in some cases the railway's efficient distance reduced to 800 km so far, and thanks to further infrastructure development we expect this trend to continue. Moreover, railway transportation is the only cargo transportation mode in some regions of Russia, for example, east of the Urals.

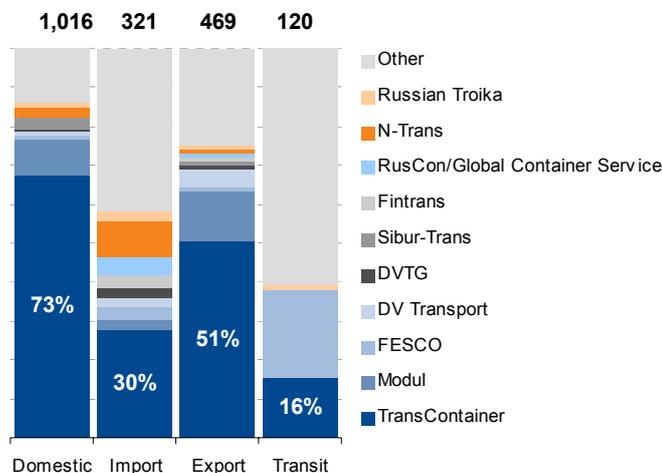
Key Players in the Russian Container Market

High concentration and entry barriers into the Russian rail container market. As a result of high entry barriers associated with high levels of investment in rolling stock and infrastructure, the Russian railway market is highly concentrated. The five largest players account for 70% of the market; 52% of the rail container market is held by a single player – TransContainer. However, this ratio varies depending on the direction of transportation, for example, for internal traffic, TransContainer dominates with 73% of the market, but Fesco dominates on transit routes. The remaining 30% of the market is fragmented with more than 1,000 small players, which creates a lot of growth opportunities for major players through M&A deals.

TransContainer – a leader on the fast growing market. The Company is the largest operator of railway container transportation with 52% stake on the market. Unique asset base gives strong competitive advantages to the Company and allows providing high value end-to-end integrated logistic solutions to its clients (see the next part for details).

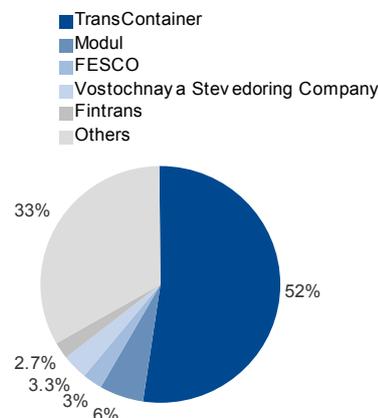
FESCO – one of the largest Russian privately owned integrated transportation and logistic company, providing a full range of services such as shipping, rail trucking and port services. The Group operates diversified assets, which include 47 vessels, 16,000 containers, 3,371 flatcars and three port terminals. Today, FESCO comprises over 100 companies, including JV with RZhD Russian Troyka (50% stake). Rail container transportation of the Company declined in 2009 y-o-y by 22% and amounted to 101,000 TEUs and c.1.4 mn TEUs port throughput (2 mn TEUs in 2008). In spite of FESCO is the third largest rail container operator, this segment gives only 21.3% of FESCO revenue, while the bigger part is coming from liner and freight forwarding services and shipping business (77%). In 2010 company's market share on rail container market was only 4% (according to the RZhD Information center), however we believe that its share will increase as a market recovery.

Russian container market structure by market players, % '000 TEUs



Sources: RZhD database; A.T. Kearney analysis

The structure of rail-based container transportation market in 2010

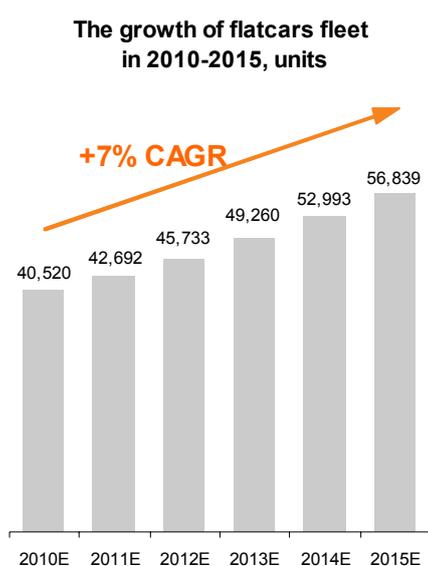


Source: RZhD Information Center

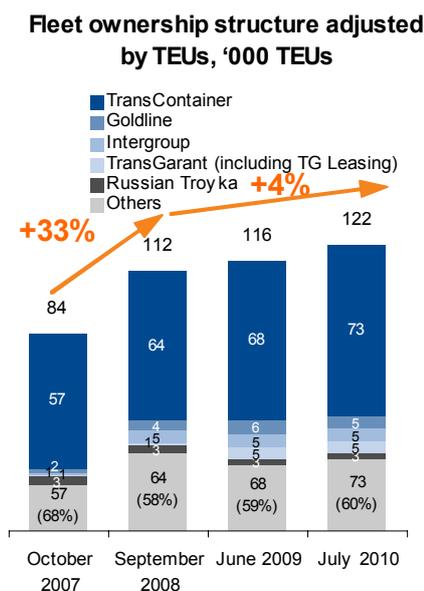
Key owners of containers and flatcars. The rapid growth of the container market in 2007-2008, coupled with the liberalization of the container market has led to increased investment in rolling stock. In 2007-2008 fleet increased by 33% to 112,000 TEUs equivalent (vs. 84 TEUs in 2007). Currently total fleet in Russia amounts to 122,000 TEUs or 41,700 flatcars (1H2010). However, significant investments were made by small private operators and leasing companies. For example, already the second large carrier after TransContainer – Modul – have only 800 own flatcars. Now TransContainer is the largest flatcars fleet owner with 60% of the market, it is 10 times more than the second largest owner Goldline. Further growth of the flatcars number (7% CAGR 2010-2015 according to A.T. Kearney) will be connected with the growth of the transportation volume and the replacement of old fleet (write-off level is 1,300 flatcars per year). Moreover, as a result of the increase the containerization of goods that were not traditionally containerized, we expect to see an increase in specialization container facilities.

Company	Key services, directions	Fleet structure in 2009	Operating results in 2009
TransContainer	-intermodal transportation -railway/road transportation -terminal services -container tracing	-58,362 ISO containers -24,735 flatcars -405 trucks -498 container semi-trailers -47 rail terminals	-handled 1.46 mn TEUs in terminals -1.098 mn TEUs transported
Modul	-intermodal transportation -railway/road transportation -terminal services	-800 flatcars -3 terminals -34 trucks	-470,000 TEUs transported
FESCO	-intermodal transportation - marine /railway/road transportation -terminal services -container tracing	-47 vessels -3 port terminals -16,000 containers -3,371 flatcars (include Russkaya Troyka's 1,439 flatcars)	-handled in ports 1.382 mn TEUs -411,617 TEUs transported
Vostochnaya Stevedoring Company	-stevedoring services (storage dispatch and handling) on Far East and connected with the Trans-Siberian Railway -logistic services	only cargo handling equipment	handling capacity 550,000 TEUs
DVTG	-intermodal transportation -railway cargo transportation (container and railcar) -logistic services -terminal services	-9000 total fleet (include railcars flatcars, containers) -3 railway terminals -1 port	-142,446 TEUs (including subsidiaries) transported -handled 60,000 TEUs in terminals

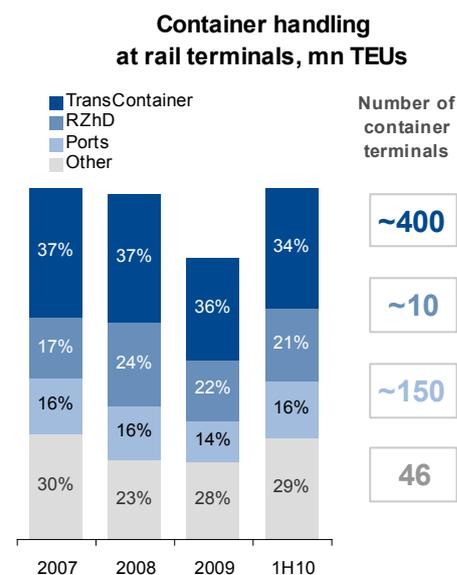
Source: Companies' data



Sources: RZhD database; A. T. Kearney



Sources: RZhD database; A. T. Kearney analysis



Note: Data for terminals handling 20- and 40-foot containers
Source: RZhD database; A. T. Kearney analysis

Railway's terminal market. Rail-side container terminals are one of the most important parts of the railway infrastructure, which largely depends on the rate of containers turnover. Usually terminals provide services of handling and storage of containers, and equipped with railroad tracks for loading and unloading containers on/from railway platforms (railcars). The Russian market of container handling is a highly concentrated with the share of the 10 largest terminals in 2009 accounted for almost 26% of the total handling, while six of these 10 terminals belong to TransContainer (the largest operator of container terminals). Before the crisis, in 2007-2008, the total volume of container handling was about 5.3 mn TEUs per year, but in 2009 it decreased by 23% to 4.0 mn TEUs. We believe that the growth of both private and the state investments in the terminal system will allow to eliminate bottlenecks of the Russian transportation system and will be the driver for further growth of the container market.

Company Overview

Brief History and Current Status

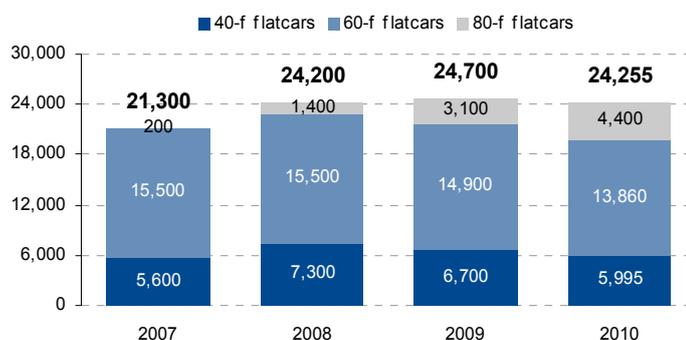
“The Center for Container Transportation” (TransContainer) was established as a branch of JSC RZhD in 2003 in the course of reformation process of RZhD. The Company operated container transportation assets previously operated by regional state enterprises within the Ministry of Railway Transportation. In 2003 RZhD received container freight assets from MRT and in 2003-2006 TransContainer was functioning as a branch of RZhD operating those assets.

In July 2006 TransContainer was established as a separate legal entity. The Company became the leading Russian container operator providing more than half of the total container transportation and managing more than 20,000 of flat cars, 150,000 containers (40,600 ISO containers and 116,000 MDCs) and container terminals at 47 railway stations spread across Russia. TransContainer share on the market exceeded 60%, while the Company owned 69% of the platform park. TransContainer was founded and is developing as a vertically integrated business aimed at providing integrated transportation and freight-forwarding services for customers on a door-to-door basis.

Today TransContainer is Russia’s leading intermodal container transportation and integrated logistic solution Company. The Company manages fleet of 58,784 ISO containers, 24,255 specialized flatcars and over 319 truck tractors. After RZhD, the Company is Russia’s second largest operator of rail-side container terminals situated at 46 railway stations in Russia plus Dobra container terminal on the border between Slovakia and Ukraine on a lease basis. TransContainer’s sales network has 148 offices located throughout Russia and is the largest in the sector. The Company also offers freight-forwarding and logistics services in neighboring countries via 8 overseas representative offices in 7 countries and 28 agents and regional partners in Russia and abroad. TransContainer has 3 JVs and 3 subsidiaries abroad. The Company’s client base includes more than 20,000 regular customers and is widely diversified by industry and region.

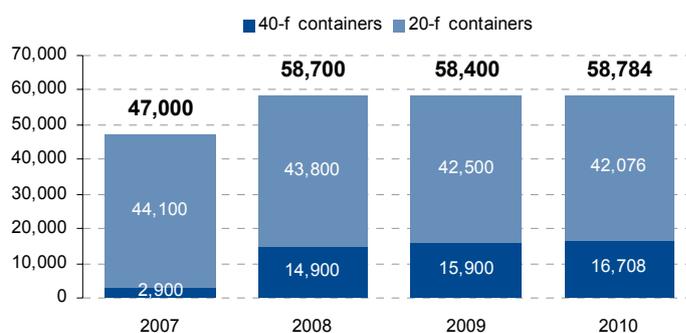
In November 2010 RZhD sold 35%-2 shares of TransContainer through public placement on Russian stock exchanges in the form of local shares and in London in the form of GDRs. During IPO the core shareholder RZhD reduced its stake to 50%+1 share. The two thirds of placement volume were sold to institutional investors in Russia and abroad, while 12.5% were bought by FESCO, which considers this stake as a strategic investment. FESCO is looking to increase its stake in the future up to the controlling one that will allow to establish the largest diversified player on container market. We believe that this may happen, but in a longer period. First of all an opportunity of FESCO to increase its stake in TransContainer will be determined by RZhD decision to reduce further its stake (not lower than 25% according to RZhD) and to allow FESCO to get control over the company. Estimated free float after the placement is 23.05% of TransContainer equity capital (including private investors’ shares, which were bought during the first private placement).

Company's structure of flatcar fleet in 2007-2010, units



Source: Company data

Company's structure of ISO container fleet in 2007-2010, units



Source: Company data

Restructuring Russian Railways

Russian railways reform – from monopoly to competitive market. Reformation process of Russian railway transportation started in 2001 with development and adoption of the legal and regulatory framework in the sector. After audit and valuation of the assets in October 2003 RZhD was formed and became the core operator of the railway transportation assets that became the beginning of the second stage of the reformation program. In 2003-2005 RZhD separated its activity into branches dividing them according to different types of businesses. RZhD set up management accounting by type of activities and business segments. During that phase of the reform selected services were provided with conditions for free competition in the industry that brought first private players on the market.

Stage III – attracting private investors in the segment. The last stage of restructuring process began in 2006 and is aimed at developing free market competition. Railway transportation business segments are to be separated into independently operated subsidiaries. During the third stage of restructuring, RZhD is planning to sell stakes in core rail transportation subsidiaries, as well as to divest equity stakes in certain non-core subsidiaries. The goal of the last stage of the reformation process is to increase competition in the different segments of railway transportation as well as in provision of related services. RZhD will still control infrastructure and the large part of locomotive traction.

Shareholders Structure

When it was created in 2006, Transcontainer was a 100% subsidiary of RZhD. In 2008, RZhD sold 15% of the company to private investors, which was the first transaction to sell a stake in an RZhD subsidiary. EBRD became the owner of 9.25% stake in the Company. The remaining 5.75% was sold to private investors. In November 2010 RZhD sold 35%-2 shares through IPO and reduced its stake to 50%+1 share. During the initial placement FESCO bought 12.5% of TransContainer and became the second largest shareholder after RZhD. The presence of EBRD and now the public status of TransContainer will help improve corporate governance in the company and increase its transparency. TransContainer was the only subsidiary of RZhD privatized first through private placement and then through public offering, while RZhD reduced its stake to 50%+1 share.

Name	Number of shares*	Stake, %
RZhD	6,947,390	50%+1
FESCO	1,736,847	12.5
European Bank for Reconstruction and Development	1,285,267	9.25
NSPF BLAGOSOSTOYANIE	722,528	5.2
Others	3,202,746	23.05
Total	13,894,778	100.00

*TKB Capital calculation

Source: Company data

Board of Directors

The Board of Directors collectively maps out the Company's development strategy and oversees the company's business. The Board of Directors is the heart of TransContainer's corporate management system, which unites highly skilled specialists, who have impressive experience in the transportation industry. Currently, the Board consists of nine members, five of whom are appointed by Russian Railways and Transcontainer; two seats – EBRD and other minority shareholders and two seats – independent members. This Board structure allows the interests of all shareholders to be considered and the most effective management decisions to be reached.

Chairman of the BoD – Dmitry Novikov was born in 1969, in Moscow. He graduated from Moscow Financial Institute, majoring in International Currency and Credit Relations. Mr. Novikov worked in 1992-2002 in Eurofinance commercial bank and Vneshtorgbank, since 2002 he held the position of Vice President at ALROSA in charge of investment business. He joined TransContainer as Chairman of the BoD in 2008, moreover since 2007 he is an adviser to President of RZhd.

Deputy Chairman of the BoD – Alexey Averin was born in 1962, in 1984 he graduated from Moscow State Institute for International Relations, majoring in International Economic Relations. He joined TransContainer in 2008 as a Deputy Chairman of the BoD. Before this he worked within the system of the Ministry of Foreign Affairs until 2005. In 2005 – 2010 he has been the head of International Affairs at RZhd.

CEO – Petr Baskakov was born in 1961, in 1986 he graduated from Moscow Institute of Railway Transportation Engineers (MIIT) (PhD in Technical Sciences), majoring in Process Management in Railway Transportation. Mr. Baskakov has considerable experience in the transportation industry and has been working in the Russian railways' system since 1986. From 2003 to 2006 he worked as a director of the "Center for cargo container traffic "TransContainer", a branch of RZhd, since 2006 to present – General Director of TransContainer. Also he acts as a member of the Shareholder Committee of Trans-Eurasia logistics GmbH and the Russian Union of Industrialists and Entrepreneurs, a member of the Board of Directors of Oy Container Trans Scandinavia Ltd, and a member of the management of the Russian Union of Railway Employers.

FESCO as the second largest shareholder, owing 12.5% in the company, called for an extraordinary shareholders meeting to reelect the Board of Directors of the company. FESCO is planning to propose its CEO Sergei Generalov as its representative in TransContainer BoD, while the chairman of the Group Kirill Rubinskiy may become the second candidate in TC BoD from FESCO. Shareholders register cut-off date was set on January 27, 2011, while ESM will be held on April 18, 2011.

Business overview

The largest integrated operator on rail-based container transportation market. TransContainer offers different types of services including rail-based container transportation services, terminal and agency services, truck deliveries and integrated logistic solutions. TransContainer has a unique asset base allowing it to develop integrated logistic solutions increasing the share of high value-added services in its revenue structure. TransContainer holds 52% of the rail-based container transportation and owns 60% of container fleet in Russia. The Company is developing integrated logistic solutions providing high value-added services to its customers.

Business line	Principal services	Assets as of 31/12/10	Share of net revenue (1H10 IFRS numbers)
Rail-based container transportation	Providing flatcars and containers to customers for delivery using RZhd's infrastructure and locomotive services	24,255 flatcars (60% market share) 58,784 ISO containers (including thermo-containers)	43%
Terminal services	Handling, loading, unloading, storage and transshipment of containers	Nation network of 46 rail-side container terminal in Russia and 1 in Slovakia	15%
Truck services	"Last mile" pick up and delivery services	- over 400 in-house trucks, 496 semi-trailers - access to thousands of third-party trucks	9%
Integrated logistic solutions and freight forwarding	End-to-end intermodal container transportation, handling and freight forwarding: <ul style="list-style-type: none"> - rail-based container transportation - terminal services including value-added services - trucking services - customs clearance - freight forwarding 	<ul style="list-style-type: none"> - control over entire logistic chain is essential - ability to leverage in-house and third-party assets - sophisticated IT/freight management system 	33%

Source: Company data

Assets Base

Unique asset base as competitive strength. TransContainer owns an extensive and unique asset base that underlies its leading role in the market with high entry barriers and allows it to provide high-value, end-to-end integrated logistic solutions to its customers. The company operates a substantial container and flatcar fleet, with 52% of the rail-based container transportation market, while an extensive terminal network allows it to provide handling services. TransContainer constantly expands its asset base to increase transportation volume and expand the number of services provided to its customers. The Company also constantly replaces worn out equipment to improve the quality of its services and reduce repair and maintenance costs.

Fleet (units)

Type of assets	01.01.2009	01.01.2010	31.12.2010
Medium-duty containers (MDCs) 3-5 t	75,680	67,890	62,951*
ISO Containers	58,675	58,362	58,784
Flatcars	24,181	24,735	24,255
Trucks and semi-trailers	960	903	899
Loading equipment	293	273	273*

*estimated preliminary numbers

Flatcars

A diversified fleet of flatcars. TransContainer's flatcar fleet consists of 24,255 units, which represent 60% of total flatcars in Russia. Beginning in 2006, the company began expanding its flatcar fleet to diversify it and replace worn out units. The maximum bearing capacity of a platform depends on its length and varies from 70 to 75 tons. The average age of platforms is 17.7 years compared to a useful life of 32 years. TransContainer is increasing the portion of 80-foot flatcars, which are used for forwarding between key transportation hubs, where the majority of light-weight cargo is shipped.

	Number of units	Bearing capacity	Rationale	Containers combination	Average Age/ Useful life
40-foot flatcars	5,995	60-75 tons	Provides flexibility in terms of containers logistics (the most prevailing cargo is metal)	2 x 20 ft 1 x 40 ft	16/32
60-foot flatcars	13,860	60-72 tons	Increase transportation capacity on high traffic destination	1 x 20 ft + 1 x 40 ft 3 x 20 ft	24/32
80-foot flatcars	4,400	69-70 tons	Transportation of light-weight cargos between the key hubs. Allows per TEU saving on infrastructure and locomotive charges (mainly for import goods, auto parts as a type of cargo)	1 x 40 ft + 2 x 20 ft 2 x 40 ft	2/32

Fleet expansion and optimization. In the next few years TransContainer will continue to increase the portion of 80-foot flatcars, counting on growing import volume. A larger portion of 80-foot flatcars will allow increased efficiency due to lower maintenance and depreciation costs per 1 TEU as well as due to saving on infrastructure and locomotive tariffs. The Company purchased 1,300 of 80-foot platforms in 2010, and is planning to acquire up to 1,300-1,500 per year in the coming years (see Investment Program section for details). The number of 40-foot and 60-foot platforms will be reduced by retiring worn equipment from that received from RZhD. In 2010, 3.6% of the flatcar fleet is aged at least 32 years, and the company is planning to write off 6,600 platforms over the next five years. During 2010, the useful life of 232 flatcars was expanded through capital repair.

Limited facilities of flatcars production not to restrict expansion. The main suppliers of flatcars are Russian and Ukrainian machinery plants, which produce different types of railcars. Growing demand for gondola cars determined by fleet replacement and business expansion by other rail transportation operators may lead to lower capacities of flatcar production that will limit fleet expansion of TransContainer. At the same time current price of flatcars remains flat despite strong price growth of gondola cars. We estimate demand for different types of railcars from Russian operators at more than 300,000 units in coming 5 years (plus approx. 30% of this amount from Ukrainian operators), while total capacities of Russian and Ukrainian producers are approx. 70,000 per year. Thus, railway companies may face a lack of supply on the market in the coming years, but this factor will also drive capacities expansion of machinery plants. Possible switching from production of platform to other types of railcars is a matter of the market and pricing. At the same time TransContainer may extend useful life period of flatcars from 32 up to 42 years partly postponing replacement of old fleet. There is an opportunity to buy out platforms from leasing companies, which are under operating management now. So, we do not consider possible deficit of flatcars as a crucial risk for the Company growth strategy but the increase in their prices may result to the additional costs.

Container Fleet

An extensive container fleet to transport different types of goods. TransContainer's container fleet consists of 121,735 units. The fleet consists of 58,784 ISO containers (including 1,927 thermo-containers), 62,951 medium-duty containers (MDC), and other specialized containers and fitting systems according to the recent information from the company. TransContainer is increasing the portion of ISO containers in its fleet as the most widely used type with even more significant expansion in 40-foot containers. These containers are used for the transportation of light finished goods, mainly for import.

Container fleet (Company data)

Container type, Number of units	Description	Average Age/ Useful life	
ISO Containers 58,784 units	40-foot: 16,708 units	<ul style="list-style-type: none"> - The most widely used container - Primarily used for transportation of light finished goods - TransContainer is focusing on expansion of this type fleet 	3/15
	20-foot: 42,076 units	<ul style="list-style-type: none"> - Used for transportation of heavy and light finished goods and bulk cargo - TransContainer will not expand the volume of containers of this type in the coming years 	13/15
Other types of Containers	MDC: 62,951 units	<ul style="list-style-type: none"> - All containers of this type are leased out to RZhD (nearly obsolete format) - Expected to be decommissioned by 2012 - Transported in gondola cars - Generate revenue through handling at TransContainer terminal 	14/15
	Thermo-Containers: 1,927 units	<ul style="list-style-type: none"> - Used for transportation of heavy and light finished goods and bulk cargo - TransContainer will not expand the volume of containers of this type in the coming years 	2/15
	Specialized Containers and Fitting System	<ul style="list-style-type: none"> - Flexitanks, tank-containers, bulk cargo transportation, fitting systems, open top containers - Key cargo transported grain, fertilizers, hazardous liquids and chemicals 	NA

Renovation of fleet to increase efficiency. Average depletion of container fleet is 73.3% (as of the end 1H2010). TransContainer is planning to acquire about 7,000 ISO containers per year on average in 2011-2015. By 2015 TransContainer is planning to write off 13,500 currently owned ISO containers, while average depletion rate of ISO containers will reduce to 60% by 2015. Main suppliers of containers are Abakanvagonmash (Russia) and Chinese producers.

Large Loading Equipment Fleet

Developing handling services. Loading equipment is used at TransContainer terminals to handle containers providing services to the Company and its clients. The total fleet of large loading equipment consists of 273 units. TransContainer is focusing on expansion of the fleet for ISO containers handling, while cranes for MDCs will be decommissioned as the number of MDCs declining. The Company is also planning to improve productivity and efficiency of its loading equipment increasing their hoisting capacity. Thus, the number of units will decline, but the total capacity will grow in the future. Average depletion rate will reduce to 40% by 2015 vs. 50-85% in 2010.

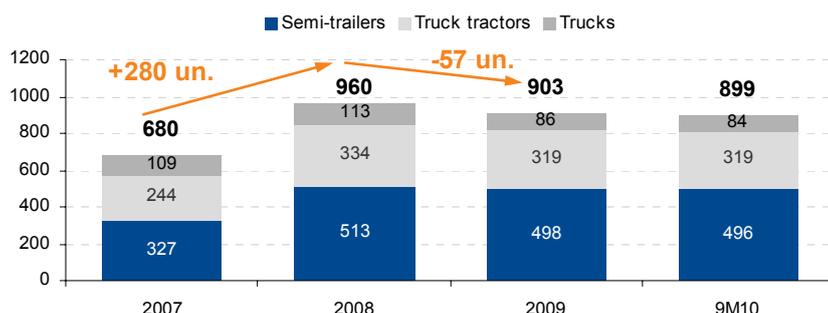
Large Loading Equipment Fleet (01.07.2010)

Equipment Type	N of units	Description	Average Age/ Useful life
Reach Stackers	49	- Designed to handle 20-foot and 40-foot containers - Able to stack 5 levels of containers in height and 3 level in depth	3/7
ISO Cranes	64	- Equipped with spreader facility to handle 20-foot and 40-foot containers - Capacity from 25 to 42 tons	8/12
MDC Cranes	105	- Designed to handle MDCs - Capacity from 6 to 25 tons - The majority of MDC cranes by 2012 as their useful life expires	10/12
Small-size loaders	55	- Designed to handle empty ISO containers - Capacity up to 10 tons - Mainly used in repair shops	4/5

Trucking Fleet

Last-mile delivery. Trucking services are an integral part of TransContainer business model. The total fleet amounts to over 900 units (as of the end 9M2010). Truck deliveries allow the Company to complete end-to-end integrated logistic solution – “last mile delivery”. Trucking services make the Company more flexible in relations with the key customers and reduce dependence on third-party operators. This type of services is mainly developed in the key regions with lack of independent truck operators. In 1H10 delivery by own trucks amounted to 39.3% of the total deliveries (261,000 TEUs). The largest truck fleet is located in West-Siberian branches.

Truck's fleet structure in 2007- 9M10, units



Source: Company data

Trucking Fleet (01.07.2010)

Equipment type, Number of units	Description	Depreciation	
Trucks: 403 units	Truck Tractors: 319 units	- Designed to carry semi-trailers with 20-foot and 40-foot containers - Trucking capacity of 36 to 42 tons	60%
	Lorries: 84 units	- Used for MDCs deliveries, potentially can be used for 20-foot containers - Trucking capacity of up to 10 tons	81%
Container Semi-trailers: 500 units	For 20-foot containers: 300 units	- Designed to carry 20-foot containers - Capacity 22.8 tons	76%
	For 40-foot containers: 200 units	- Designed to carry 20-foot and 40-foot containers - Capacity of 30 to 33 tons	76%

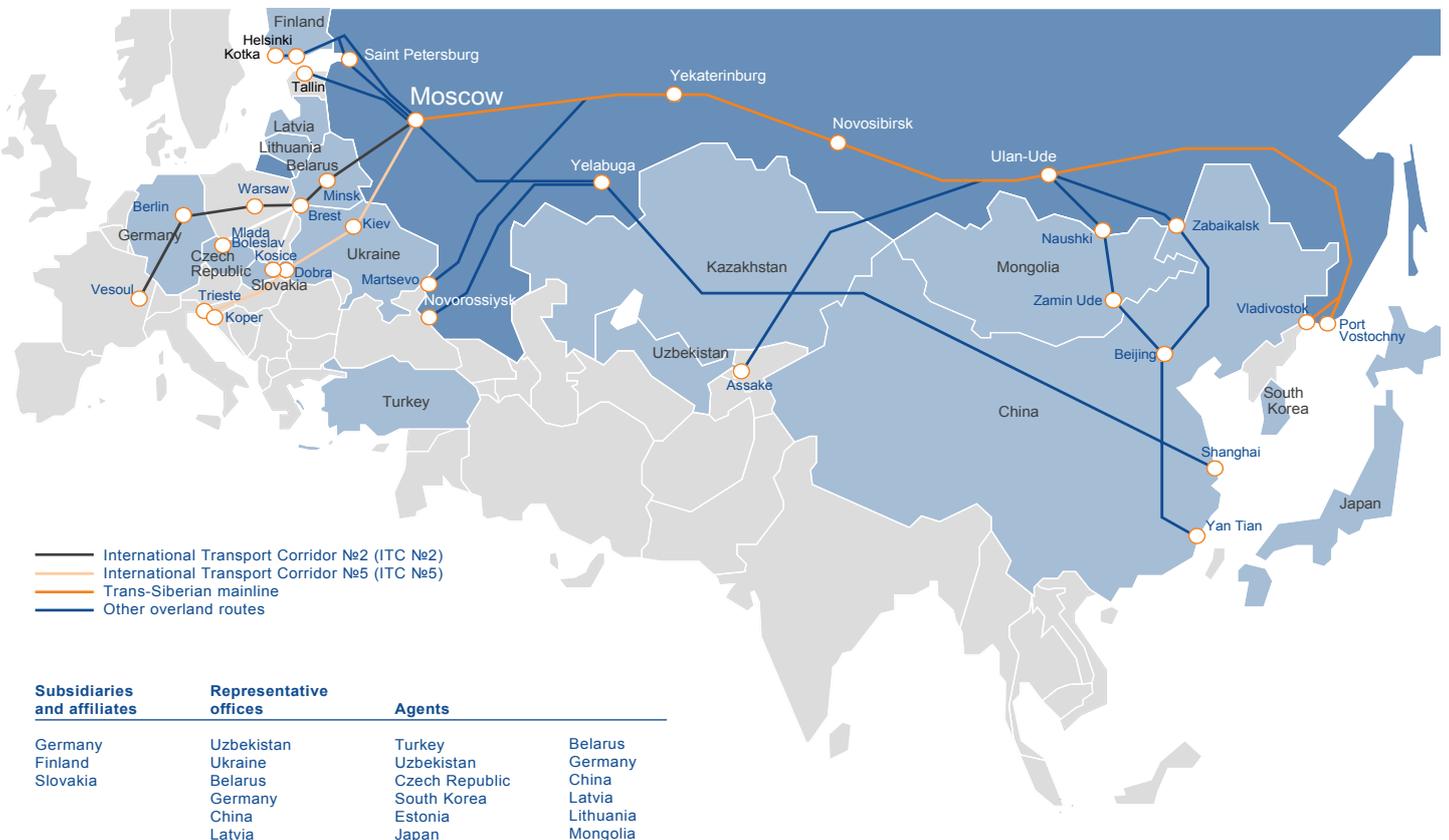
Terminals Network

Developed network of terminals. TransContainer owns and operates a network of rail-side container terminals located at 46 railway stations in Russia and operates one terminal located at Dobra railway station (Slovakia) on the border of Slovakia and Ukraine. TransContainer’s terminal ownership allows it to increase the efficiency of container and flat car management and to rationalize intermodal delivery services to customers. Terminal Ownership enhances the company’s ability to form and run block trains along key routes and to optimize container flows between terminals. Service centers, which are located close to the terminals, are integral part of the sales network.

Growing number of services. At its terminals TransContainer provides services such as loading and unloading, container storage and inspection. Terminals are also equipped with special facilities for refrigerator containers charging. In 2009 TransContainer handled 1.46 mn TEUs at its terminals, or 36% of Russia’s total rail container handling for the year, retaining its leading position in rail-side container terminal handling on Russian railways’ network. The Company’s terminals have “site of common use” status and handle the containers of all market operators. In 2010 the Company handled approx. 1.6 mn TEUs, while the share of the Company in the total container handling reduced to 34% (36% in 2009) due to a rise in the share of container shipments by companies with their own container parks and a gradual reduction of medium-duty containers in the fleet due to scrapping. TransContainer also provides storage pending custom clearance at its terminals, which is high value-added and high-margin service. Availability of this services increased attractiveness of bundled services for importers.

Expansion of capacities in key regions. Total capacity of TransContainer terminals amounts about 4 mn TEUs per annum with the largest capacity at Zabaikalsk. The Company expects to increase the capacity of its terminals network by 2013 by 550,000 TEUs. The majority of investments will be at terminals in Novosibirsk, Krasnoyarsk, Yekaterinburg and Nizhniy Novgorod.

Geography of TransContainer business

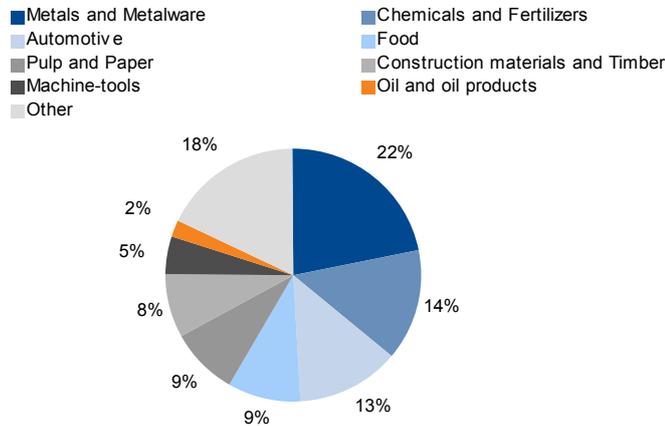


Source: Company data

Diversified Cargo Mix

The market determines cargo flows. The TransContainer cargo mix is determined by trends on domestic and international markets. The largest segment of transported goods is metals and metal products, which represented 22% of the total cargo transportation in 1H10. The second largest type of goods is chemicals and fertilizers, which amount to 14% of total volumes. Metals, metal products, chemicals and fertilizers are mainly exported. The largest imported cargo is auto parts, which are 13% of total cargo. Food is the largest domestic transportation cargo.

Company's containerized cargo transportation in TEUs in 1H10



Source: Company data

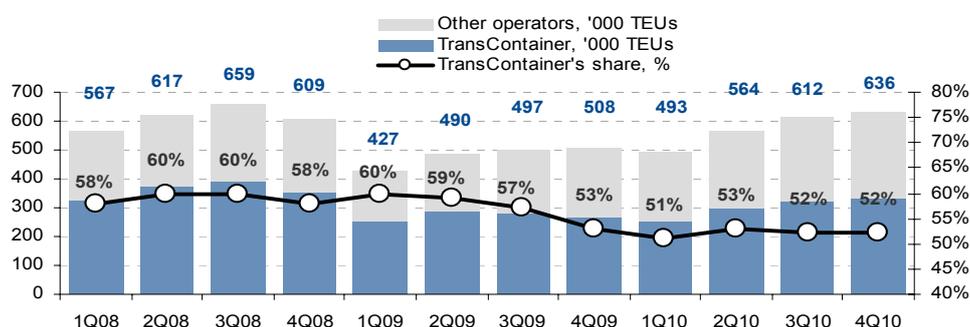
Economic recovery drives growth. After a significant drop in 2009, in 2010 demand for container transportation has been driven by higher volumes of metals, increased domestic consumption and a gradual recovery in the construction sector. Pulp and paper goods and chemicals outperformed the market in 2009, but there is still room for further containerization in this sector. Economic growth along with change in export mix toward manufactured goods will drive container growth. Increased imports will be generated by the increasing number of foreign assembly plants in Russia, which receive components and machinery from abroad. The average import growth rate over the next five years is estimated at 17%, from a base of 319,000 TEUs in 2009 (according to A.T.Kearney). Export growth will be led by the containerization of bulk cargos. Domestic container transportation represents the largest and the most stable segment of container market. Traffic is mainly driven by non-food goods transportation, where most traffic is within European Russia, the Urals and Siberia regions and between those areas.

Operating Numbers – Through Downturn to Growth and Efficiency

Rail-based Container Transportation

Strong position on domestic market helped in crisis year. In 2009, the volume of containers transported by TransContainer's flatcar fleet dropped by 24% to 1.1 mn TEUs compared with the record levels seen in 2008. The Company's share of total rail-based container traffic in Russia fell from 59% to 57%. As container transportation on international routes was strongly affected by the crisis, TransContainer's leading positions on the domestic market acted as a stabilizing factor: domestic shipments decreased by 18.5%, while international shipments fell by 34%. The share of international container traffic in the Company's overall traffic was at 32% in 2009, although TransContainer's share of international container traffic across RZhD's network reduced to 39% from 40% in 2008.

The structure of container transportation volumes quarterly in 2008-2010

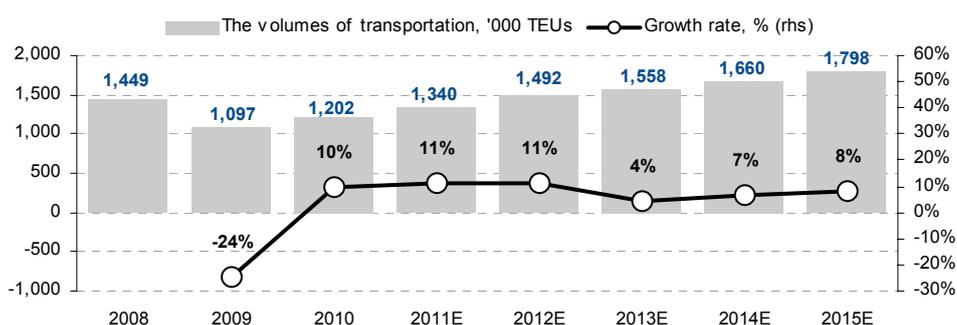


Source: Company data

TransContainer continues optimization of its fleet. In 2009, the Company updated and optimized the structure of its flatcar fleet. Ageing 40- and 60-foot flatcars were written off, while 80-foot flatcars were brought online, lowering expenses from empty flatcars and also reducing the unit cost of repairs and maintenance to rolling stock. By the end of the year, the flatcar fleet had increased by 554 units to 24,700 (including 2,800 under financial and operational leasing agreements). The share of high-capacity 80-foot flatcars more than doubled to 12.4%, up from 5.9% in 2008, and the Company's fleet capacity increased by 3,800 TEUs.

Flexible pricing supported volumes; focus on high-margin operations. In 2009 TransContainer implemented more flexible pricing policy in light of declining volumes and in order to support its customers. The company introduced discounts to its customers and extended payment terms that helped support volumes, but had a negative effect on margins. In 3Q09 TransContainer changed its priorities in pricing policy, giving a higher priority to the most efficient operations. That resulted in a temporary decline in volumes and market share due to aggressive pricing by competitors. In 2010, TransContainer regained its market share on the back of the economic recovery and customer looking for high-quality services.

Company's transportation volumes in 2008-2015E



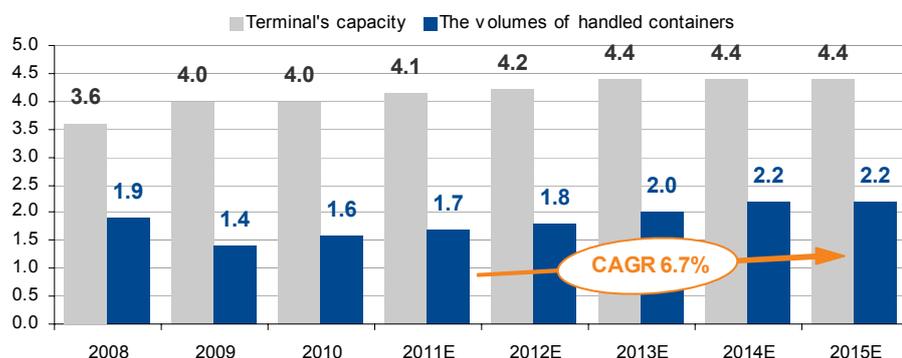
Source: Company data, TKBCapital Estimates

Fleet expansion and higher efficiency will drive volumes up. In 2010-2015, the ISO container fleet will grow by 51% to 114,760 TEUs due to increase in the number of containers and optimization of the fleet structure. The number of flatcars will increase by 30% to 31,265 cars (or 92,500 TEUs). Greater operational efficiency will lead to a recovery in turnover ratios in 2011-2012 to pre-crisis levels and will result in stabilization thereafter. TransContainer share of the Russian container market will grow to 58% outperforming overall dynamics.

Terminal and Agent Services

An extensive terminal network. In 2010 reflecting economic recovery and increasing transportation operations, the TransContainer's volume of handling at its 46 terminals located in Russia increased by 9.5% to 1.6 mn TEUs. Thus company retained its leading position in rail-side container terminal handling on Russian railways' network. However, in spite of the growth of cargo traffic, the TransContainer's market share in 2010 as well as in 2009 continued to decline and dropped from 37% in 2008 to 34% in 2010. Factors affecting handling volumes in 2009 were an increase in the share of container shipments by companies with their own container fleets and a gradual reduction in medium-duty containers in the fleet due to scrapping. In addition, the container terminals' operating results depends on the total volume of transportation in Russia, since the company's terminals are "public use sites" and handle containers from all market operators. So, the volume handled at Company terminals in 2009 fell by 23% y-o-y mainly due to lower transportation volumes across Russia. Over the next several years, TransContainer is planning to increase the capacity of its terminals and will increase the efficiency of handling operations. Utilization of terminal capacity will grow to 50% in 2015, up from 40% in 2010. In 2008, capacity utilization was at 53%, but the lower volume of MDCs will put pressure on the utilization rate in the coming years.

The forecast of TransContainer's terminal capacity growth rate, mn TEUs



Source: Company data, TKB Capital Estimates

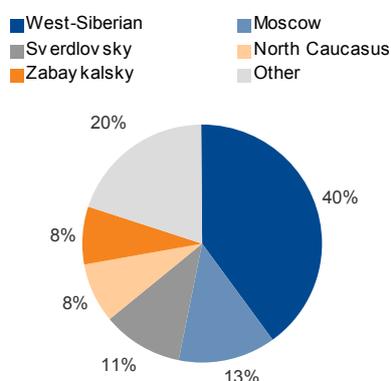
High value-added services to improve efficiency. TransContainer is planning to expand the range of high value-added services provided at its terminals. In addition to handling, the company offers electricity charging for refrigerated containers, preparation of containers for winter transport and cargo tie down. The company owns storage facilities at its terminals where it provides storage pending customs services. These are high value-added services mainly demanded by importers. The cost to provide these services is relatively low, although there is a shortage of customs services providers in the regions. The main players in this market are pending custom clearance providers on highways. In 1H10 TransContainer owned 10 storage facilities with a total storage space of 20,000 sq.m. In 2010-2011 TransContainer is planning to open seven storage facilities at its terminals, which will increase attractiveness of the company's services to importers.

Truck Deliveries

Door-to-door delivery as a promising business. In 2009, TransContainer continued to develop its business of hauling containers from its terminals to customer warehouses by truck for loading/unloading, thus providing door-to-door delivery. In 2009, truck container transportation volume reached 566,000 TEUs, down 19.6% year-on-year. The drop in truck shipments was less than that of terminal handling due to the Company's active marketing of truck delivery services. The share of ISO containers delivered by truck reached 85%. In 1H2010, the volume of truck deliveries reached 261,000 TEUs, of which 39.3% were transported by the company's own trucks.

Effective truck management. The company uses an on-line cargo control system to optimize truck routing and utilization. Expansion of the fleet to transport 20- and 40-foot containers will increase the percentage of revenue from the truck deliveries and help develop integrated logistics. Deliveries by the company's own trucks is mainly increasing in key regions (the five largest operations – West-Siberia, Moscow, Yekaterinburg, North Caucasus, and Zabaikalsk).

The structure of truck's fleet by branches, %



Source: Company data

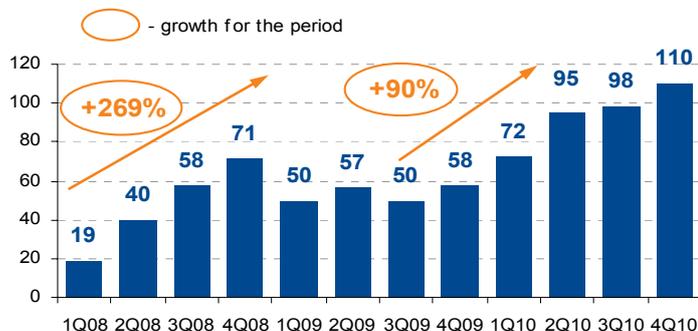
Integrated Logistic Solutions as the Core Element of Business

Integrated logistics services to boost margins. TransContainer focuses on marketing integrated logistics services, including cargo transportation in containers and on flatcars, terminal services, trucking services, intermodal delivery arrangements, cargo security services, customs clearance brokerage and cargo-tracking services. The company's assets provide a unique platform for offering high-margin integrated logistics solutions. Providing integrated services to highly sophisticated customers requires reliability, consistent capacity availability and one-stop delivery from the transportation provider.

Integrated logistic service

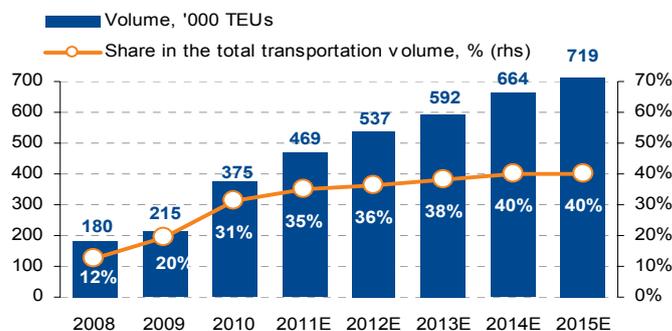
Cargo transportation in TransContainer containers and flatcars	Provision of TransContainer's flatcars and containers
Terminal Services	<ul style="list-style-type: none"> - Container preparation for loading - Container and cargo loading, unloading - Handling and storage
Trucking services	<ul style="list-style-type: none"> - Last-mile transportation solution - Short-distance transportation solution
Intermodal Delivery Arrangement	<ul style="list-style-type: none"> - Organization of international intermodal deliveries via third parties (shippers, trucks) - Route optimization and planning - Accelerated delivery - Alternative route coordination
Cargo security services	<ul style="list-style-type: none"> - Insurance - Security services for cargo in ports, terminals and trains - Special terms for transportation of hazardous cargo
Custom clearance brokerage	<ul style="list-style-type: none"> - Coordination of custom documents flow at ports and terminals - Storage pending customs clearance - In-bond trucking
Cargo tracking services	<ul style="list-style-type: none"> - On-line cargo location information - Custom Responsible Management - Cargo documentation examination

Integrated logistic transportation volumes quarterly 2008-2010, '000 TEUs



Source: Company data, TKB Capital Estimates

The forecast of volumes of integrated logistic services 2008-2015E



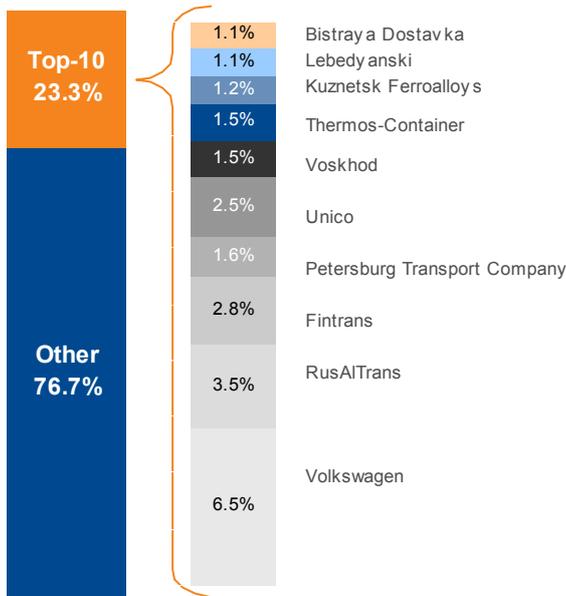
Source: Company data, TKB Capital Estimates

Growing volumes. In 2008 the volume of containers transported at through-rate tariffs grew more than three times between 1Q08 to 4Q08. After a slight fall in 2009 due to poor economic conditions, the volume of integrated services continued to grow and reached 375,000 TEUs in 2010 or 31% of the total transported volumes. In the coming years, TransContainer will focus on developing integrated logistics solutions for its customers as a high-margin service. The company is constantly improving the quality of services provided by introducing information systems, new logistics centers and expanding the number of dedicated customer service centers. Taking into account the customer base and TransContainer's assets, one half of the largest customers may switch to integrated logistics services. At the same time, the company has stated that demand for this type of services from small and medium business is increasing. According to our estimates, the share of integrated transported cargo will increase to 40% of the total cargo (currently 31%) in 2015, generating up to 50% of total revenue.

Customer Base

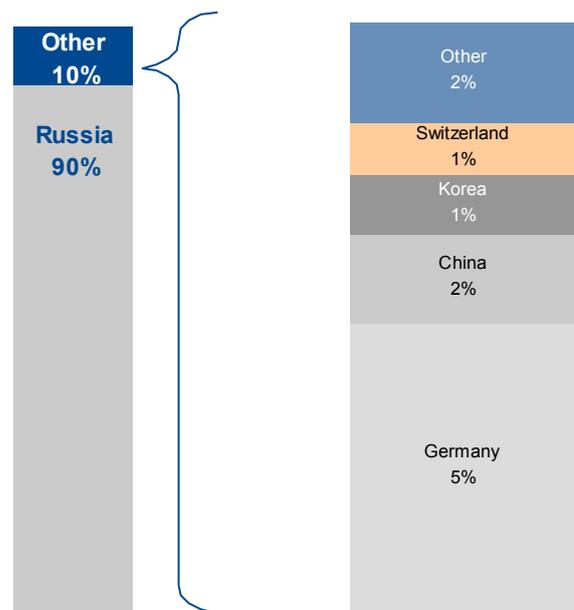
Extensive client base of the company. TransContainer has a broad and diversified customer base. There are some 20,000 regular customers, while the number of served accounts exceeds 200,000. The customer base is highly diversified, with the top 10 customers providing approximately 23% of total sales. The share of the largest customer (Volkswagen) generates 6.5% of total revenue. Local shipping agencies make up the largest segment of the total customer base, but it is constantly declining as the company prefers to work with final customers. The percentage of final customers grew from 36% in 2008 to 41% in 1H2010.

Company's revenue structure by customers in 1H10, %



Source: Company data

Company's revenue structure by regions in 1H10, %



Source: Company data

Geographical diversification. A geographically diversified network allows the customer base to be expanded and customers to be provided with high quality services nationwide. TransContainer is planning to expand its sales network internationally, attracting new customers to generate increased transit flows to Russia. The company is planning to create more joint ventures with international partners to increase import volumes. The main focus is 1,520 space (primarily Ukraine and Kazakhstan). TransContainer is in talks to establish a joint venture with Kazakh National Railways to expand traffic to and from Kazakhstan and Central Asia. Cooperation with China will grow with the expansion of Chinese industry in the western part of country, which will increase the importance of rail connections to Europe (cargo transportation between China to Europe takes 45 days by sea and approx. 16 days by rail).

Cooperation with Volkswagen as an example of an integrated solution for international customers. Currently TransContainer is working with automotive manufactures to provide them with integrated logistics services. TransContainer currently provides integrated logistics solutions to the Volkswagen Russia supply chain. Auto parts are delivered from plants in the Czech Republic and Slovakia to the VW assembling plant in Russia (Kaluga). TransContainer provides containers, transportation on its flatcars starting from the Poland-Belarus border, container handling and cargo tracking services. Among other customers using integrated logistics services are Sollers, KIA Motors, Samsung and Mitsubishi Motors, Peugeot Citroen on providing such services. Non-ferrous metal companies and consumer good companies are the target group of clients to provide integrated logistic solutions.

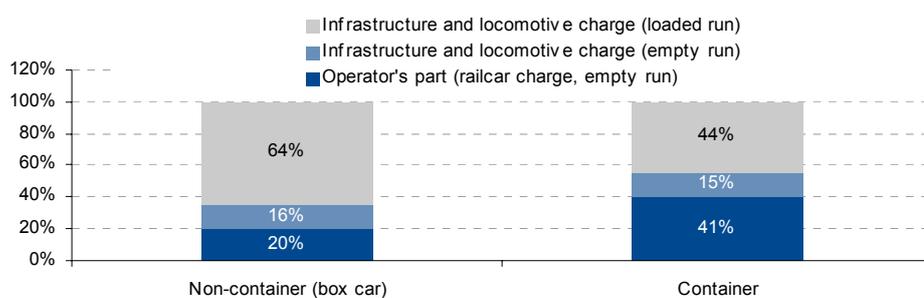
Pricing and Agreements

TransContainer sets prices depending on the type of customer contract. Thus, in the case of standard freight services, prices are set on an itemized base. TransContainer receives payment for the utilization of flatcar, container and terminal services, while third-party services are paid for directly to their provider. Payment for infrastructure and locomotive tariffs goes directly to RZhD. When TransContainer provides integrated service to a customer, the customer pays a single through-rate to the company, which in turn pays for third-party services. Through-rates include payments for sea freight, flatcars, containers, terminal services, railway tariffs and additional services such as stevedoring operations, truck hauling, foreign rail operator services, insurance, delivery planning, cargo tracking, customs clearance, advisory services and other logistics services.

Minor and favorable tariff regulation in price setting. Prices for the services provided by TransContainer are not regulated by the government (other than infrastructure and locomotive rates set by FTS, which in most cases is paid directly to RZhD). For 2011 FTS has set infrastructure and locomotive tariff growth for container transportation at 5% vs. 8% for other types of rail transportation. That means more favorable conditions for containers and corresponds to the policy of faster development container transportation in Russia. Prices for trucking, terminal and transportation services are determined by market competition. Terminals are classified by FTS as public use sites, where TransContainer acts as an agent of RZhD as the terminal owner. Loading, unloading and storage operations were deregulated in 2010, while additional services are not regulated.

Containers are a separate cargo in RZhD's classification system. Containers are considered to be independent cargo in Russian Railways' classification system. Among the three classes of cargo containers transportation is generally priced as Class II (which includes grains, oil and oil products, foods and animals and fertilizers). Thus, containerization of Class III cargos is more efficient and generates high demand from aluminum producers as well as for some type of liquids (Class III includes lubricants, pulp and paper, ferroalloys, non-ferrous metals, metal products and auto parts). TransContainer's ability to form block trains provides an additional advantage in terms of pricing for its customers as RZhD grants discounts for this type of transportation. Speed of delivery by block trains is 2-3 times faster than regular cargo trains. On average, transportation of Class III cargo in containers generates up to 20% discount on RZhD pricing of this type of cargo.

Tariff structure: container vs. non-container rail transportation, %



Source: A.T. Kearney

More flexibility in pricing gives advantages. The structure of the tariff of containers rail is different from other rail segment with lower share of fixed charges for infrastructure and locomotive tariff. Thus, higher flexible part of the price provides opportunity to compete with each other and to optimize the transportation routes. At the same time this difference gives more flexibility in competing with other types of rail transportation of goods suitable for container transportation (mainly goods of class III transported in box cars).

Agreements and contracts. TransContainer sets framework agreements with its customers. These master agreements are usually signed on an annual basis and supplemented with additional agreements on prices and volumes. If a customer ships lower volumes than specified in the agreement, then TransContainer may change the pricing for its services. In the case of integrated logistics solutions, a minimum transported volume is also specified in the framework agreement. The company's customers that do not require frequent services usually apply to a TransContainer service center, where they receive services as soon as possible.

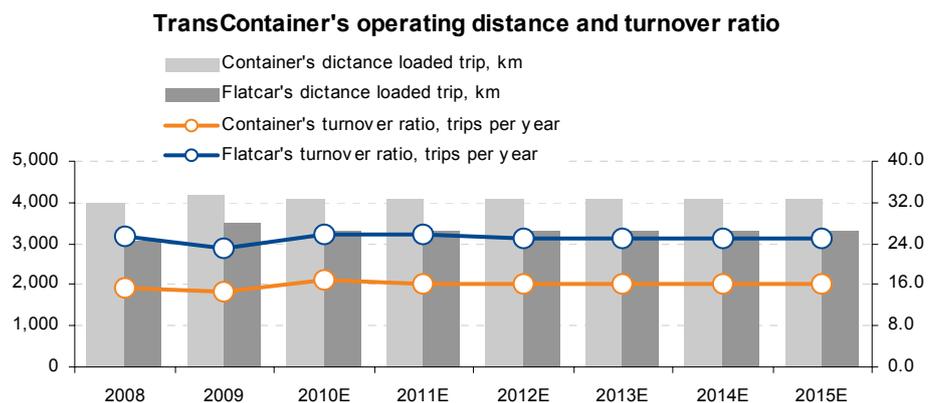
Efficiency Ratios

Average operating distance and fleet turnover as a core indicator of operating efficiency. The average flatcar and container operating distance depends on economic flows and market conditions. Operating distance usually increases with larger import volumes, which means a lower turnover ratio. Taking into account container transportation efficiency compared to other types of transportation, the minimum distance at which the use of railways is advantageous is approx. 1,000 km. Over shorter distances, auto transportation has an advantage given terms and pricing. The turnover ratio shows how many trips a container or a flatcar makes during one year. The average operating distance and turnover ratio are not perfectly correlated as a result of economic conditions and transportation flows.

In 2009, TransContainer's average operating distance was 4,200 km per loaded container trip and 3,600 km per loaded flatcar trip. In 1H2010, these numbers were 4,100 km and 3,300 km, respectively. Efficient transportation flow management and the economic recovery helped to reduce the average operating distance of unloaded container trips, while for flatcars the difference between loaded and unloaded trip distances fell significantly.

Flatcar turnover ratio in 2009 was 23.2 trips per year, while average trip took 15.7 days. In 2010 this ratio reduced to 14.2 days resulting in a higher number of trips per year. The container turnover ratio was at 14.7 trips per year in 2009 with an average trip of 24.8 days. In 2010, the shorter average operating distance resulted in a higher turnover ratio and shorter trips in days. In 2010-2015, we expect the average turnover ratio to reach 25.17 trips per year per flatcar and 16.2 per container, while more intensive traffic will be supported by economic growth and a higher level of containerization.

The empty run ratio will decline with economic growth. The empty-run ratio is calculated as the average empty run divided by total fleet runs. In the flatcar segment, this ratio was 8% in 2009, while in 2010 it grew to 8.8%. A low flatcar empty-run ratio compared to other types of rail transportation (approx. 34% in the gondola segment and 100% for oil tank cars) is determined by various combinations of platforms utilization and the definition of an "empty trip" (a platform with an empty container is considered loaded). In the container segment, the empty-run ratio was 39.1% in 2010. We expect the empty-run ratio to reduce to 7.8% by 2015 in the flatcar segment and to stabilize at 36% in the container segment by 2012.



Source: Company data, TKB Capital Estimates

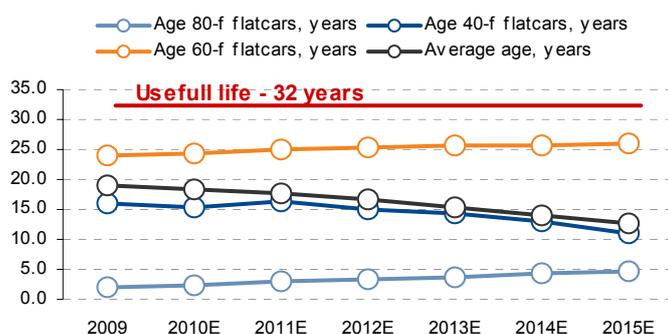
Growth Strategy

Fleet Growth

Volume expansion and efficiency growth as core targets. The company's growth strategy requires an increase in transportation volumes backed by fleet expansion. The company is also betting on an increasing share of high-value-added services such as integrated logistics and intermodal container transportation that will boost operational efficiency and increase profitability. An expansion of the customer base through a larger sales network will help to increase the company's market share and allow it to retain its leading position.

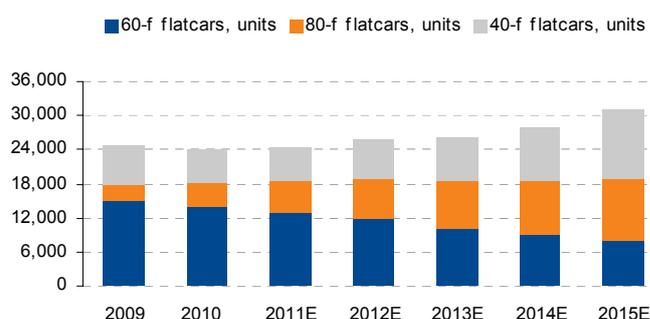
Flatcar fleet expansion – growth and rebalancing to maximize efficiency. According to the Company's investment program and retiring of the old fleet we expect the Company's fleet to grow in the coming years from 24,255 flatcars in 2010 to 31,265 in 2015. An aged fleet will be replaced with new cars that will reduce repair and maintenance costs, while a change in fleet structure will increase platform utilization efficiency. TransContainer will increase the percentage of 80-foot flatcars, which are the most efficient in terms of operations. The average age of flatcars will decline to 12.6 years from 17.7 years in 9M10, while the useful life of a flatcar is 32 years (refurbished useful life is 42 years). A lower average platform age will reduce repair and maintenance costs in the future.

Flatcar fleet age in 2009-2015E



Source: Company data, TKBCapital Estimates

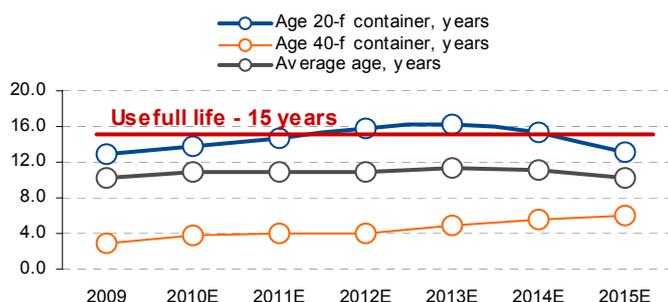
Flatcar fleet in 2009-2015E, units



Source: Company data, TKBCapital Estimates

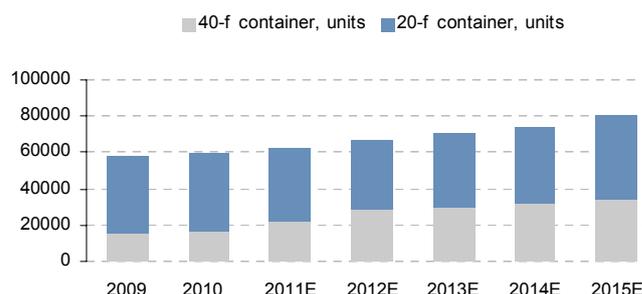
Container fleet growth to meet demand and cargo structure. The container mix will change based on existing market demand. Thus, the company will increase the percentage of 40-foot containers, which are the most widely used type of container and are used for the transportation of light finished goods (for example, auto parts). The percentage of 40-foot containers in the total fleet is expected to grow from 28% in 2010 to 43% in 2015. Some 20-foot containers will be replaced as they retire, but the company is not planning to increase this container type. 20-foot containers are used for the transportation of heavy- and light-finished goods and for bulk cargos. The replacement and expansion of the fleet will reduce the average age of containers, which will lower repair and maintenance costs. Average age of ISO containers will decline from 10.6 years in 1H10 to 10.1 years in 2015.

Container fleet age in 2009-2015E



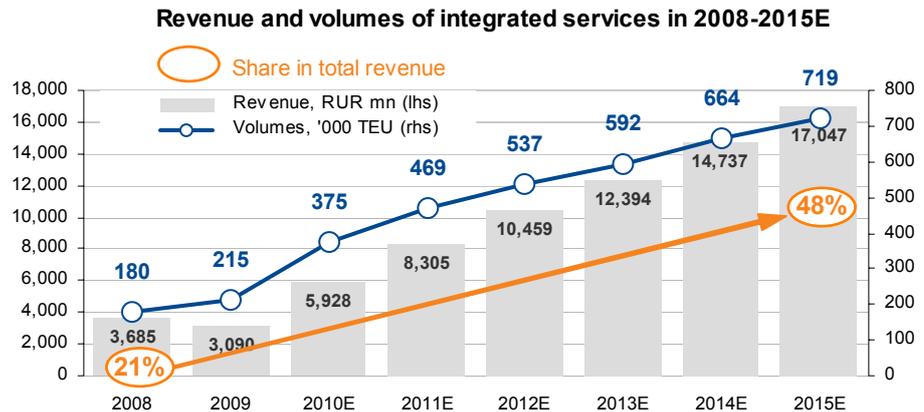
Source: Company data, TKBCapital Estimates

Container fleet in 2009-2015E, units



Source: Company data, TKBCapital Estimates

Integrated logistic services as the future of container transportation. TransContainer's unique asset base allows the company to develop integrated logistics solutions, providing the full range of services to its customers. Door-to-door delivery involves handling, rail transportation, trucking and other value-added services such as storage pending customs clearance, customs brokerage, cargo tracking, cargo security, etc. From 2008 through 1H2010, the revenue from the integrated logistics solutions grew from RUR3.7 bn (\$148 mn approx.) to RUR2.46 bn (\$82 mn approx.) (for a half a year). By 2015, we expect these services to generate up to 48% of total revenue compared to 33% in 1H2010. Currently TransContainer offers integrated logistics solutions mainly to auto assembling plants and will expand this service to pulp&paper and non-ferrous metals companies.



Source: Company data, TKBCapital Estimates

Customer base expansion. TransContainer has developed a sales network in Russia and in neighboring countries (mainly the CIS). The company has over 138 sales offices and 10 customer service centers spread across Russia. International sales usually go through agents and regional partners. 14% of total revenue is generated through the Moscow sales center, where TransContainer works directly with its largest customers. A regional distribution network is designed to expand its geographic footprint and provide both standard services and integrated logistics solutions. The service centers are usually located in major regions and at large customer sites. The company is in the process of the acquisition of 67% stake in KDTs (17% of which will be bought by the Kazakh railway later) a leading private operator of cargo handling terminal facilities and provider of freight forwarding and logistics services in Kazakhstan. Moreover, TransContainer established a JV with China Railway International Multimodal Transport to expand import and transit flows. All these measures will allow company to significantly increase the transported cargo flows between China and Europe.

Growing flows from China to Europe as strategic route. Strategic goal of the company is to expand traffic from Western part of China to Europe and European part of Russia where railway transportation can compete with sea freight. Transportation by land is more expensive comparing to the sea way (approx. 1.5-2 times), but it takes approx. 16 days vs. 45 days by sea. Shorter time of delivery may be crucial for some types of high value-added goods, while counting the costs of transportation delivery to and from sea ports reduce difference in prices between rail and sea transportation. Expansion of industrial facilities in China towards western board will also increase importance and advantages of rail transportation to European part. At the same time, the lack of container infrastructure facilities at Kazakhstan-China board, organizational issues and necessity to have core clients delivering goods on this direction via rail postpone growth of container flows on this route. Cooperation with Kazakh and Chinese railway and container transportation companies will help developing rail-based container flows from China to Europe and European part of Russia in coming years. Corresponding plans on expansion of container transit flow from China to Europe were announced by RZhD that may help accelerate the process of infrastructure expansion to develop container business.

Development of TransContainer's sales Network



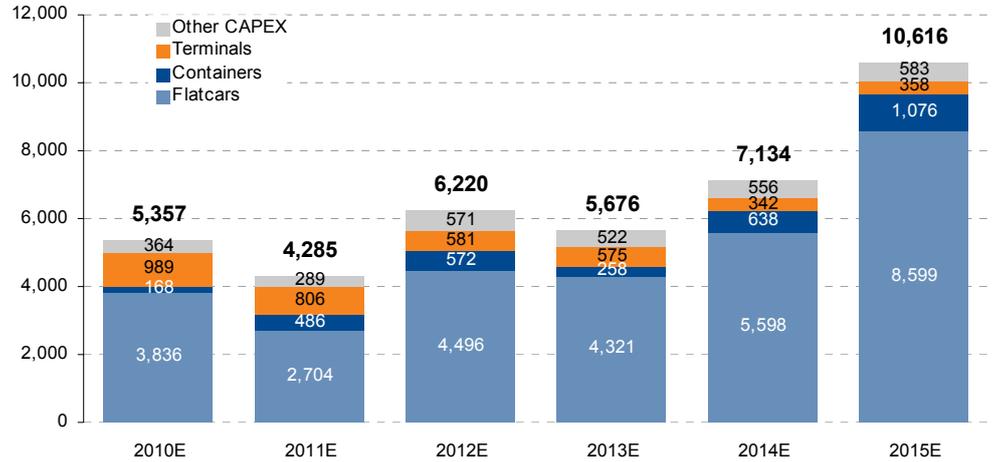
Source: Company data

Specialized containers and block trains to increase profitability. In addition to the improvement in efficiency ratios due to lower empty runs and an optimization of fleet turnover, TransContainer is developing specialized container transportation (initially, thermo-container transportation). The company provides additional high-value-added services required for transportation of specialized containers. Specialized container transportation amounted to 6,800 TEUs in 1H10, showing moderate growth from period to period. Transportation in block trains also improves operating profitability as RZhD grants a discount for such trains. In 9M10, the TEUs block trains volume reached 198,000, and in 2010, this number is estimated at 300,000 TEUs or 27% of total transported cargo. Block train transportation saves time and optimizes deliveries.

Investment Program

A significant investment program to expand operations and increase efficiency. TransContainer's total 2010-2015 CapEx program is estimated at RUR39 bn (\$1.3 bn approx.) (excluding VAT) and is designed to expand fleet and terminal capacities. TransContainer is planning to acquire 14,200 flatcars and approx. 36,200 containers over six years, strengthening its market position and ensuring its leading role in Russian railway container transportation. Expansion of terminal capacity will help increase the volume of integrated services provided to the customers, while the main focus will be on terminals in key regions to debottleneck overloaded hubs.

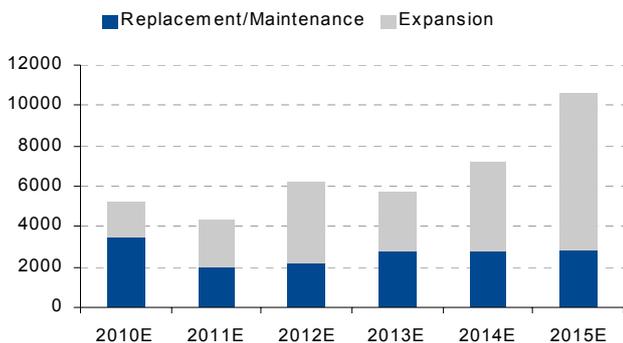
TransContainer CAPEX by classes of assets in 2010E-2015E, RUR mn



Source: Company investment program, TKB Capital Estimates

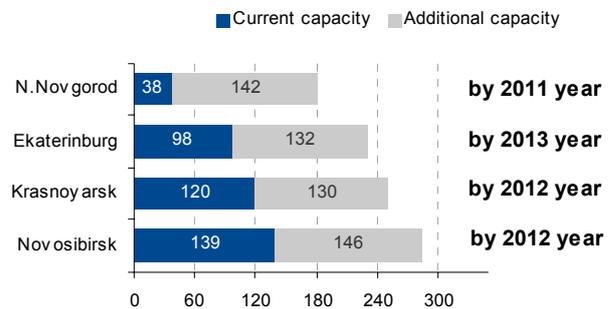
Fleet renovation and optimization. TransContainer will spend 41% of total CapEx on fleet and terminal replacement and maintenance. Container replacement and optimization is estimated at about RUR3bn (\$100 mn approx.), which will mainly be spent on 20-foot containers. The purchase of 40-foot containers is designed to optimize the fleet to better reflect demand and cargo makeup. In the flatcar segment, TransContainer will replace retiring 40-foot platforms, while old 60-foot platforms will mainly be written off to optimize the flatcar mix. The average age of platform fleet will decline to 12.6 years from 18.6 years in 1H10, while average age of 40-foot railcars will fall to 10.9 years, compared to 16 years in 1H10, with a useful railcar life of 32 years.

CAPEX: replacement and expansion, RUR mn



Source: Company data, TKB Capital Estimates

Terminal's capacity expansion in particular regions' 000 TEUs (ISO capacity)



Source: Company investment program

Terminals expansion in key regions. TransContainer is planning to spend RUR3.7 bn on terminal expansion and maintenance. The company is planning to add 550,000 TEUs of capacity in Novosibirsk, Krasnoyarsk, Yekaterinburg and Nizhny Novgorod which will more than double terminal capacity in these regions in 2011-2013. Maintenance costs are estimated at RUR1.7 bn (\$57 mn approx.) in 2010-2015.

Low Debt Burden

A strong financial position with Net Debt/EBITDA at 1.7. Trancontainer has a relatively low debt burden. At the end of 1H10, the company's total debt was RUR7.4 bn (\$237 mn approx.), while cash and financial investments totaled RUR755 mn (\$25 mn approx.), resulting in net debt of RUR6.6 bn (\$220 mn approx.). Most debt consisted of two issues of five-year ruble bonds with maturity in 2013 and 2015, with no put option before maturity. The average interest rate on debt is 10.3%. The first major maturity is expected in 2013. As of June 30, 2010 the ratio of net debt to EBITDA was 1.8, which is a strong level that will allow debt financing to be increased in the future. We estimate net debt to EBITDA at the end of 2010 at 1.7. Strong relations with the controlling shareholder (RZhD) allow funding to be attracted at low costs.

Debt overview as of 30 June 2010

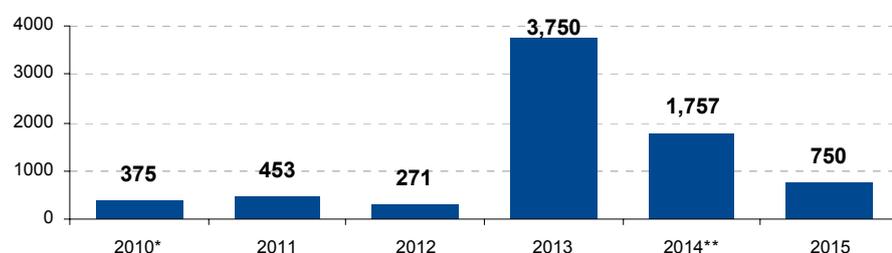
	Size at fair value*, RUR mn	Size at cash repayment basis, RUR mn	Average nominal interest, %	Maturity
Term loan				
Alfa Bank	257**	257**	12.0%	Dec-2014
Russian bonds:				
Series 1	2,981	3,000	9.5%	Feb-2013
Series 2	2,975	3,000	8.8%	Jun-2015
Finance Leases:				
Sberbank Leasing	635	526	15.5 -16.7%	Sep-2012
Finance Business Group	230	82	14.6-14.8%	Aug-2011
GILK	216	381	18.8%	Dec-2012
Accrued Interest	110	110		
Total debt	7,404	7,356		

* IFRS accounts

**The loan was repaid in full in 2010

Source: company data

Debt maturity in 2010E-2015E (as of June 30, 2010), RUR mn



* Including accrued interest; ** The loan was repaid in full in 2010

Source: Company data

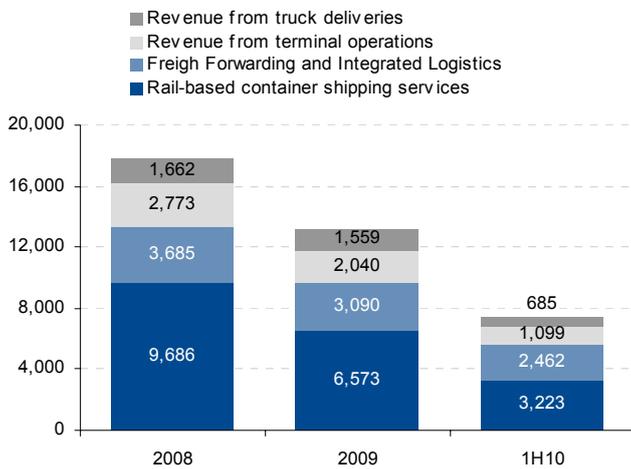
The percentage of finance leasing to decline. In 1H10 TransContainer purchased on its balance assets leased under two finance lease agreements, which were concluded in 2009. Lower rates on financial markets have reduced the attractiveness of finance lease, which cost 14.6-18.8% (nominal interest rates). Finance lease obligations fell from RUR1,980 mn (\$65 mn) at the end of 2009 to RUR1,081 mn (\$35 mn) on June 30, 2010. Most finance lease contracts were concluded with Sberbank. We expect that over the next five years TransContainer will use finance leasing to expand its fleet, but the volume will depend on market conditions. According to our estimates, the percentage of assets leased pursuant to a finance lease will not exceed 7% of total PP&E.

Financials

Revenue

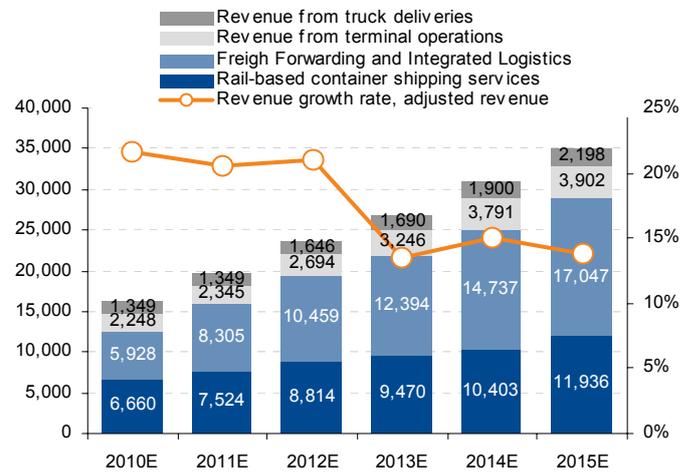
The revenue structure is changing as new services are added. TransContainer's revenue is generated by the sale of the rail-based container shipping services, integrated logistics services, terminal operations and truck services provided by the company. Net revenue does not include payments to third parties, as they generated both revenue and expenses. Most net revenue comes from rail-based container shipping services, which include rail transportation of cargo in the group's own containers or third-party rail transportation containers using TransContainer's own flatcars. Despite the important role of these operations, their percentage is constantly declining as they are replaced by more efficient types of services. The second major source of revenue is integrated logistics and freight forwarding services, which grew from 10% in 2007 to 33% in 1H10. This segment includes payments for transportation, terminal and trucking services provided by the group under through-rate agreements, net of third-party operations. Other two revenue sources are terminal and trucking services, included in integrated logistics services, which explains their declining percentage.

TransContainer's revenue structure in 2008-1H10, RUR mn



Source: Company data

Revenue structure in 2010E-2015E, RUR mn



Source: TKB Capital Estimates

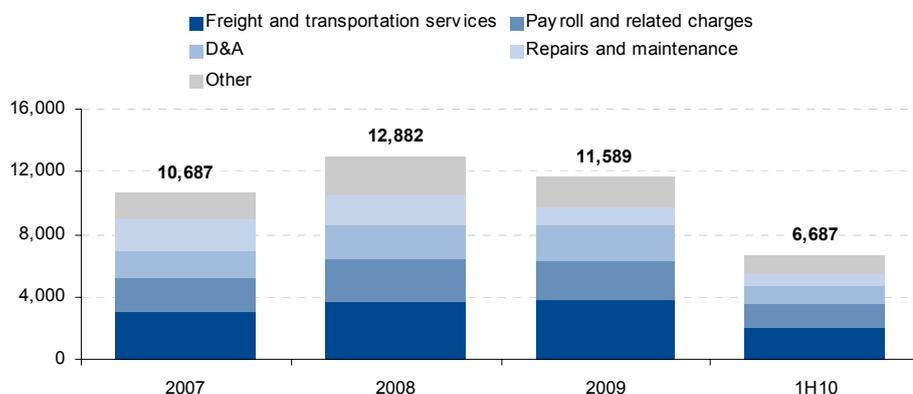
Sales growth with fleet expansion, better market conditions and operational optimization. In 1H10, the company's total sales grew by 29% comparing to 1H09 results. Market recovery, fleet expansion and an increasing share of high value-added services helped increase sales, but the numbers are still below pre-crisis levels. TransContainer increased its prices by 5-10% in 1H10. 2H10 was more active in terms of volumes on the back of economic recovery, growing domestic demand and imports, and transportation volume increased by 17.4% comparing to 1H10. An expansion of the number of customers paying through rates will provide additional support.

Net revenue to grow at a CAGR 16.7% in 2010-2015. We estimate net revenue growth in 2010-2015 at 117% or of CAGR 16.7%. The core drivers for increased sales are fleet expansion, changes in revenue mix and higher transportation prices due to the economic recovery and a higher demand for container services. The company's substantial asset base will allow the provision of all types of services, which will help expand the customer base and develop long-term relationships with core customers. Adjusted revenue per loaded TEU will increase by 44% during the forecasted period due to both higher prices and the higher share of value-added services in the sales structure.

Costs

Stable cost composition. Here and below we address net operating costs, less third-party services expenses in integrated solutions (which generate both revenue and expenses). The company's net operating costs include freight and transportation services, payroll and related expenses, materials, repair and maintenance costs, depreciation and amortization and other costs related to the company's operations.

TransContainer's costs structure in 2008-1H10, RUR mn



Source: Company data

Freight and transportation services. The largest segment of operating costs is freight and transportation services, which include RZhD's charges for empty runs (approx. 80% of costs), idle railcars and payment to third parties for use of their fleet (which is a relatively small portion). Efficient transportation flow management will reduce empty runs and the tariffs for empty runs paid to RZhD. The empty-run ratio in the flatcar segment was 8.8% in 2010 vs. 10.5% in 2008. We expect the empty-run level to stabilize at 7.6%-7.8% in 2013-2015, reflecting a more stable economic situation and an increase in loading on return trips. This ratio differs from those for the gondola and rail tank car business, as a flatcar with an empty container is not considered empty. During 2007-2008, freight rail services generated 28-29% of net operating costs, while in 2009 the percentage grew to 33% due to weak economic conditions. Assuming a 7.6-8.3% empty-run ratio, the percentage of these costs will total 28-30% of net operating expenses in 2011-2015.

Payrolls and related charges. The second largest operating cost is payroll and related expenses. In 1H10, the percentage of this item grew to 23% vs. 21% in the previous period. This growth is attributable to postponing staff expenses in 2009 to later periods. Weak market conditions in 2009 led to staff being temporarily placed on leave without pay, while the recovery in transportation volumes in 2010 allowed employees to be called back and increase payrolls. In the later period, staff costs will grow, reflecting an expansion of operations, while the share of corresponding costs is expected to reach 23-25% of net operating expenses.

Repair and maintenance costs. Repair and maintenance costs reflect repair of flatcars and containers.

- **Flatcars.** Flatcars are usually serviced at RZhD maintenance yards and depots. Depot repair is carried out every 160,000 km or every 2 years, while a major overhaul is required after 17 years of operations. Major repair costs are approx. RUR 90,000 (\$2,900) per flatcar, while the number of TransContainer repaired cars totalled 11,000 units in 2008 and 8,000 units in 2009. The average cost of operational repair is approx. RUR 8,000 (\$260) per car and the number of repaired cars totalled 14,000 in 2008 and 10,000 in 2009. The smaller number of repairs in 2009 compared to 2008 is due to the cost optimization program, as the company was able to reduce the number of flatcars in use due to weak demand. These costs were postponed until 2010 and we have already seen the effect in 1H2010, when flatcars were again operating, which resulted in higher repair costs.

- Containers.** Containers are usually repaired at repair facilities located at TransContainer terminals and at other in-house repair facilities. Maintenance is performed as frequently as needed, while major repair is required every five years. The average cost of operational repairs is RUR 2,000 (\$65 approx.) per ISO container. Major repair costs approx. RUR 20,000 per container. In 2009, the number of repairs also fell compared to 2008 – operational repairs to 23,000 units compared to 26,000 in 2008, major repairs to 5,000 vs. 8,000 in 2008. In 2010, repair costs will increase, reflecting the backlog from 2009. MDCs require major repairs every four years and maintenance as frequently as needed. MDCs container are repaired at the company's in-house facilities.

Fleet replacement and mileage-based repair system to reduce repair costs. The reduction in fleet age will help to cut repair costs in the future (see the table below). Another opportunity to reduce repair costs is the transition to a 250,000 km system (vs. the current 160,000 km system), which is already authorized in Russia. At the same time, in 1H10 higher transportation volumes and the 2009 repair backlog led to an increase in repair costs of 33% to RUR763 mn (\$25 mn) vs. RUR572 mn (\$17 mn) in 1H2009. Over the longer term, we expect this item to stabilize at 12% of net operating expenses.

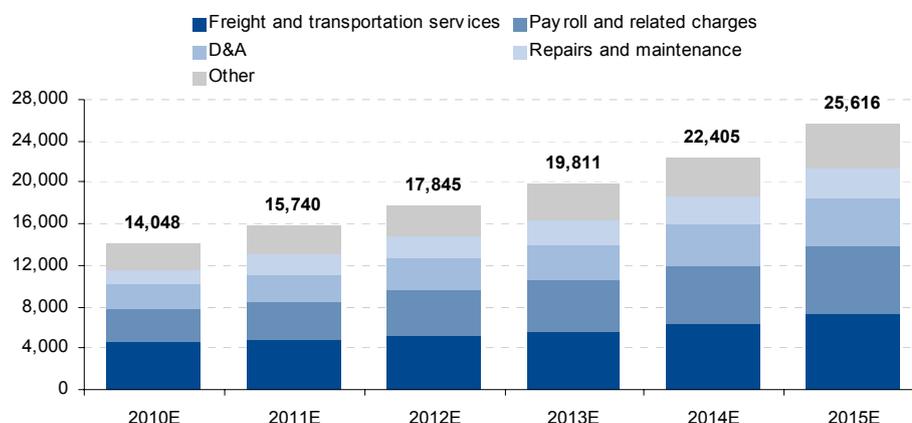
Depreciation and amortization. Depreciation is charged on a straight-line basis over the estimated useful life of each item of property, plant and equipment. Land is not depreciated. The useful life of different asset type is provided below. In 2009, the percentage of DD&A in operating costs grew to 19%, while in a longer period, this item was estimated at 19-20%.

Asset class	Estimated useful life, years
Buildings	20-80
Constructions	10-45
Containers	10-15
Flatcars	28-32
Cranes and loaders	5-15
Vehicles	3-10
Other equipment	2-25

Source: Company data

Other costs. Other operating costs include rental expenses (offices, etc), taxes other than income taxes (mainly property taxes), security and consulting services, fuel costs, communication costs, licenses and software, etc. Other operating costs total 16-17% of net operating expenses.

TransContainer's net costs structure in 2010E-2015E, RUR mn

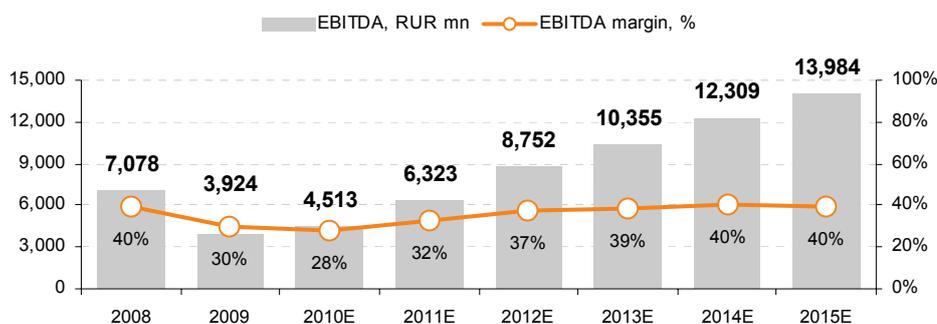


Source: Company data, TKB Capital Estimates

Interest expenses and incomes. TransContainer had interest-bearing liabilities of RUR7.4 bn (\$246 mn) as of the end of 1H10 (see section on Debt Burden for details). The average interest rate on debt is 10.3%, while the average rate of finance lease liabilities is 14.6-18.8%. The company purchased on its balance some leased assets in 1H10 given the favorable conditions on capital markets and the relatively expensive lease contracts. In the future, the percentage of leased equipment will be determined by market conditions. Interest income was generated by short-term investments of RUR93 mn (\$3.1 mn) as of the end of 1H10.

EBITDA and EBITDA margin. In 2008, TransContainer had a strong EBITDA margin of 39.8% (based on adjusted EBITDA and net revenue) that was driven by favorable market conditions. In 2009 the efficiency ratio was lower at 29.6%, which is still a strong ratio considering the weak market situation. (Taking into account total revenue of the group, EBITDA margin was 34.5% in 2008 and 23.9% in 2009). In 1H10, efficiency was lower due to higher costs as we discussed above, while the EBITDA margin declined to 25.4% (based on net revenue). In our calculations, we used an EBITDA margin calculated based on the group's net revenue. We expect that TransContainer will reach pre-crisis levels of almost 40% in 2013-2014, and we believe that this level will be sustainable over a longer period.

TransContainer's EBITDA and EBITDA margin in 2008-2015E



Source: Company data, TKB Capital Estimates

Net profit and retained earnings. 2009 was a challenging year for the Company due to poor market conditions. The company's net profitability fell to 4.4% (based on net revenue) vs. 20% in 2008. Net profit declined to RUR589.6 mn (\$18.6 mn) vs. RUR3,570 mn (\$144 mn) in 2008. Container transportation market recovery helped the company improve results in 1H10 compare to 1H09, but higher operating costs in 2010 due to a backlog from 2009 negatively affected the bottom-line. We expect net income in 2010 to be at RUR935.6 mn (\$31 mn approx.), which reflects a net margin of 6%. We estimate that the Company will reach pre-crisis profitability of 20% in 2014-2015, which will be sustainable over the longer term.

Financials Estimates in 2010-2015

INCOME STATEMENT

m n RUR	2009	1H10	2010E	2011E	2012E	2013E	2014E	2015E
Net revenue, including	13,262	7,469	16,186	19,523	23,612	26,800	30,831	35,083
Rail-based container shipping services	6,573	3,223	6,660	7,524	8,814	9,470	10,403	11,936
Freight Forwarding and Integrated Logistics	3,090	2,462	5,928	8,305	10,459	12,394	14,737	17,047
Terminal services	2,040	1,099	2,248	2,345	2,694	3,246	3,791	3,902
Truck services	1,559	685	1,349	1,349	1,646	1,690	1,900	2,198
Net operating costs, including	(11,589)	(6,687)	(14,048)	(15,740)	(17,845)	(19,811)	(22,405)	(25,616)
Freight and transportation services	(3,832)	(2,031)	(4,655)	(4,739)	(5,229)	(5,548)	(6,293)	(7,293)
Payroll and related charges	(2,437)	(1,538)	(3,125)	(3,777)	(4,519)	(5,056)	(5,757)	(6,650)
DD&A	(2,250)	(1,114)	(2,376)	(2,539)	(2,985)	(3,366)	(3,884)	(4,516)
Repairs and maintenance	(1,182)	(763)	(1,511)	(2,010)	(2,063)	(2,530)	(2,782)	(3,010)
Other operating costs	(1,888)	(1,241)	(2,381)	(2,675)	(3,049)	(3,312)	(3,690)	(4,146)
EBITDA Adjusted	3,924	1,896	4,513	6,323	8,752	10,355	12,309	13,984
EBIT	1,674	782	2,137	3,783	5,768	6,989	8,425	9,467
Net interest income/(expenses)	(906)	(468)	(968)	(847)	(934)	(924)	(945)	(905)
EBT	768	314	1,170	2,936	4,833	6,065	7,480	8,562
Income tax	(178)	(118)	(234)	(587)	(967)	(1,213)	(1,496)	(1,712)
Net income	590	196	936	2,349	3,867	4,852	5,984	6,850

RATIOS

%	2009	1H10	2010E	2011E	2012E	2013E	2014E	2015E
Net adjusted revenue growth y-o-y	-26%	-75%	22%	21%	21%	14%	15%	14%
Adj. EBITDA growth y-o-y	-45%	9%	15%	40%	38%	18%	19%	14%
Adj. EBITDA margin (to net revenue)	30%	25%	28%	32%	37%	39%	40%	40%
Net margin (to net revenue)	4%	3%	6%	12%	16%	18%	19%	20%
Net Debt/Adj. EBITDA	1.5	1.8	1.7	1.0	0.7	0.4	0.2	0.1

Source: Company data, TKB Capital estimates

2010 Operating Results Review

Focus on the high value-added segments. TransContainer's transportation volume showed continuing improvement and increased by 9.5% y-o-y to 1.2 mn TEU thanks to the market recovery. At the same time TransContainer showed weaker results than the market due to stronger base in 2009 and optimization of transportation flows of the company (in 2010 total railway container transportation volumes grew by 21% y-o-y to 2.3 mn TEU in Russia). The main driver of TransContainer transportation volumes in 2010 was an increase in import flows, which is one of the most profitable segments. Import container cargo rose by 98.6% y-o-y to 190'000 TEU vs. 96'000 TEU in 2009. Domestic transportation still contributes the largest share of 60% of the total flows, while its volume reduced by 3.6% to 719'000 TEU in 2010 on the back of high competition on these routes. Throughputs of TransContainer's terminals amounted to 1.6 mn TEU (growth at 9.5% y-o-y). The company continued focusing on the high-margin services, thus share of the integrated logistics solutions in the total transportation volume increased to 31% and reached 375'000 TEU in 2010 (+77.7% y-o-y) vs. 211'000 TEU in 2009.

Further economic recovery and growing demand for container transportation services will increase volume transportation. Strong market recovery, fleet expansion and increasing share of high value-added services helped to increase company's transportation volumes in 2010, but the numbers are still below pre-crisis levels. Moreover better economic conditions coupled with growth in container transportation in block-trains (grew over 9M10 by 154% y-o-y to 197'800 TEU) helped the company to improve its efficiency ratios with container empty runs declined from 41.4% in 2009 to 39.1% in 2010. At the same time flatcar empty run increased to 8.8% in 2010 (vs. 8% in 2009). We believe that further increase in domestic consumption, import flows and containerization level will support company's operating results and efficiency, thus we expect to see pre-crisis level already in 2012 (at 1.5 mn TEU).

TransContainer's 2010 operating results.

Transportation volumes, TEU '000	2010	2009	y-o-y,%	4Q10	4Q09	y-o-y, %	3Q10	q-o-q, %
Domestic	719	746	-3.6%	197	185	6.5%	188	4.8%
Export	264	237	11.4%	72	56	28.6%	66	9.1%
Import	190	96	97.9%	56	24	133.3%	54	3.7%
Transit	29	19	52.6%	8	5	60.0%	8	0.0%
Total transportation volumes	1,202	1,098	9.5%	333	270	23.3%	316	5.4%
Including Integrated logistic services, TEU '000	375	211	77.7%	110	58	89.7%	98	12.2%
Share of integrated logistic services in total vol.	31%	19%		33%	21%		31%	
Terminal handling, TEU '000	1,599	1,460	9.5%	433	385	12.5%	439	-1.4%
Turnover of container, days	21.8	27.7		21.3	30.9		20.8	
Turnover of flatcar, days	14.2	15.7		13.4	14.9		13.6	
Container's empty run ratio, %	39.1%	41.4%		36.9%	41.9%		40.0%	
Flatcar's empty runs ratio, %	8.8%	8.0%		7.7%	7.6%		9.6%	

* based on net revenue
Source: Company Data

Valuation

We estimated 12M TP of TransContainer shares and GDRs at \$120 and \$12 that means 24% and 22% upside and BUY recommendation. We used several methods to estimate the fair value of TransContainer. Thus, we applied DCF model based on the Company's fleet expansion and macro indicators, which we consider as the core calculations. We also derived a fair price based on comparison with the Russian and international peers. Finally we considered an asset-based approach to value the company. TransContainer shares have grown by 21% (22.5% for GDRs) since the IPO in November 2010. TransContainer's GDRs are traded now with EV/EBITDA 2011E 7.1 vs. 10.4 on average for its EM peers and 7.7 for DM peers. Multiples valuation determines 23% upside potential for TransContainer shares, while assets based approach gives valuation of the company at \$1.5 bn that support our DCF based target price.

DCF Method

Macroeconomic assumptions. We used the following macroeconomic assumptions to create a financial model of TransContainer. Container market conditions will be determined both by macro factors and the development of container transportation, which we discussed above (see the section the Global Container Market). Macro indicators such as price indices will dictate the changes in price of services purchased and provided along with cost inflation. RZhd tariffs will affect payments to the railway monopoly mainly for empty runs.

Macro Indicators

Macro Indicators		2010	2011E	2012E	2013E	2014E	2015E
Average FX rate	RUR/\$	30.37	28.40	28.80	29.90	30.55	30.15
End-of-period FX rate	RUR/\$	30.48	28.30	29.00	30.80	30.30	30.00
GDP growth	y-o-y	4.0%	4.3%	4.1%	3.6%	3.3%	3.9%
Russia CPI	y-o-y	8.8%	8.4%	7.5%	7.1%	6.9%	6.6%
Russia PPI	y-o-y	12.0%	9.1%	9.6%	6.5%	5.5%	6.8%
Oil price Brent	\$/bbl	78.20	90.00	87.00	89.00	91.00	92.00
RZD tariffs change	y-o-y	9.4%	5.0%	7.0%	7.0%	7.5%	8.0%

Source: Ministry of Economic Development, TKB Capital estimates

Operating assumptions. We based our forecasts of TransContainer financials on the company's plans to expand its fleet. Better economic conditions will support operating efficiency, resulting in a higher turnover ratio, fewer empty runs and higher demand for integrated logistics services. The low level of containerization in Russia, the company's highly developed asset base and the expansion of Transconatiner operational footprint will determine business growth and increase in operating efficiency. We look at 2011-2015 as a growth period, which will be followed by stabilization and lower investments in operational expansion.

	2011E	2012E	2013E	2014E	2015E
Transportation volumes, TEU '000	1,340	1,492	1,558	1,660	1,798
Including Intagrated logistic services, TEU '000	469	537	592	664	719
Net Sales per TEU, RUR	14,569	15,830	17,205	18,573	19,507
Container's turnover ratio, trips per year	16.2	16.2	16.2	16.2	16.2
Flatcar's turnover ratio, trips per year	25.7	25.2	25.2	25.2	25.2
Container's empty run ratio, %	37%	36%	36%	36%	36%
Flatcar's empty runs ratio, %	8.3%	8.1%	7.8%	7.8%	7.6%

Efficiency will reach pre-crisis level in 2013-2014, CAPEX will continue growing.

We expect that the company will reach pre-crisis level of EBITDA margin at 40% (based on net revenue) in 2013-2014. We feel that this level is sustainable (assuming stable economic conditions). TransContainer's investment program will determine growth period through 2015 with stabilization in the following years. CAPEX will total approx. 30% of net revenue over the forecasted period aimed to expand and replace the fleet. Thus, in our DCF model we forecasted period for 2011-2016 years with terminal value thereafter.

WACC calculation

Beta	1.2
Risk free rate	7.0%
Risk premium	5.5%
Cost of equity	13.6%
Share of equity capital	0.8
Cost of debt	9.5%
Tax rate	20%
Cost of debt adj for taxes	7.6%
Share of debt	0.2
WACC	12.55%

Source: TKB Capital estimates

WACC at 12.55%, terminal growth at 2%, 12MTP at \$120 per share. We estimated WACC at 12.55% based on risk free rate at 7%, equity risk premium of 5.5% and Beta 1.2. Pre-tax cost of debt is estimated at 9.5%. In our DCF model we used terminal growth rate at 2%. According to our valuation 12M target price of TransContainer was set at \$120 (\$12 per GDR).

DCF Valuation

000 RUR	2011E	2012E	2013E	2014E	2015E	2016E
EBIT	3,783,472	5,767,562	6,988,793	8,425,498	9,467,448	9,490,329
EBIT adjusted by Income Taxes	3,196,245	4,800,879	5,775,860	6,929,479	7,754,955	7,772,223
DD&A	(2,539,455)	(2,984,518)	(3,366,144)	(3,883,571)	(4,516,161)	(4,986,758)
CAPEX	(4,285,000)	(6,220,400)	(5,675,672)	(7,133,772)	(10,616,070)	(4,874,161)
Change in Working Capital	(429,054)	(2,755)	80,474	62,791	(123,609)	(129,600)
FCF	1,879,754	1,567,751	3,385,859	3,616,487	1,778,655	8,014,421
WACC	12.5%	12.5%	12.5%	12.5%	12.5%	12.5%
Discounting factor	1.00	0.89	0.79	0.70	0.62	0.55
Discounted FCF	1,879,754	1,392,950	2,672,918	2,536,659	1,108,474	4,437,764
Total discounted FCF in forecasted period						14,028,520
Terminal growth rate						2.0%
Terminal FCF						77,492,853
Discounted terminal FCF						42,909,529
EV						56,938,049
Net debt 2010E						7,459,689
Market Cap 2011E						49,478,360
Market Cap 2011E, \$'000						1,649,279
Market Cap 2012E						54,507,862
Market Cap 2012E, \$'000						1,816,929
Market Cap 12M, \$'000						1,678,152
N of shares, 000						13,895
12M Target Price, \$/share						120
Swap ratio: shares per GDR						0.1
12M Target Price, \$/GDR						12

Source: TKB Capital estimates

Sensitivity Analysis of the Company valuations

		Terminal growth rate					
		0.5%	1.0%	1.5%	2.0%	2.5%	3.0%
WACC	10.0%	1,876	1,955	2,044	2,143	2,256	2,384
	10.5%	1,790	1,862	1,941	2,030	2,130	2,243
	11.0%	1,713	1,778	1,849	1,929	2,018	2,119
	11.5%	1,642	1,702	1,767	1,839	1,919	2,009
	12.0%	1,578	1,633	1,692	1,758	1,830	1,911
	12.5%	1,520	1,570	1,625	1,685	1,750	1,823
	12.55%	1,514	1,564	1,618	1,678	1,743	1,815
	13.0%	1,466	1,513	1,563	1,618	1,678	1,744
	13.5%	1,417	1,513	1,506	1,557	1,612	1,672
	14.0%	1,371	1,411	1,454	1,501	1,552	1,607

Source: TKB Capital Estimates

Comparison with Russian and International Peers

Comparison with international peers. EM railway companies are traded with 2011E EV/EBITDA of 10.4 and for 2012E of 9.3. EM rail transportation companies are represented mainly with Chinese and Indian operators working in various rail freight transportation segments. EM companies are traded with a premium to their DM counterparts at 2011E EV/EBITDA of 7.7 and for 2012E of 7.2. TransContainer is currently traded with EV/EBITDA 2011E at 7.1 and 2012E at 5.2 that means discount to both DM and EM on 2011E level, while on 2012E TransContainer's discount is 28%-44%. Comparing to the Russian transportation companies (here we considered Globaltrans and FESCO as the closest competitors) strong growth profile of TransContainer determines lower multiples comparing to Globaltrans, while FESCO looks more expensive due to lower profitability.

Implied EV/EBITDA 2011E gives 9.1. Based on our 12M target price of \$120 per share implied EV/EBITDA 2011E equals 9.1, while P/E 2011E is estimated at 21.3, at the same time for 2012E these ratios will be 6.6 and 13 respectively. Strong growth profile determines lower multiples for the following years that makes the stocks attractive in a long-term prospect.

Company	Country	P/E			EV/EBITDA		
		2010E	2011E	2012E	2010E	2011E	2012E
TransContainer	Russia	44.2	16.5	10.1	10.6	7.1	5.2
<i>Premium/(discount) to DM</i>		138%	8%	-23%	19%	-9%	-28%
<i>Premium/(discount) to EM</i>		132%	1%	-28%	-10%	-32%	-44%
Russian Market							
Globaltrans	Russia	12.9	9.6	8.3	8.6	6.8	5.9
FESCO	Russia	91.0	20.9	14.7	9.1	7.7	6.3
Developed Markets							
Union Pacific*	USA	16.6	14.4	12.5	8.4	7.5	6.7
Norfolk Southern	USA	15.4	13.7	12.1	8.3	7.4	6.8
CSX Corp*	USA	17.4	14.6	12.9	8.6	7.6	7.0
East Japan Railway	JAPAN	15.5	13.8	12.4	7.2	7.0	6.7
West Japan Railway	JAPAN	18.4	19.0	14.5	6.7	6.3	6.0
Central Japan Railway	JAPAN	12.9	11.5	10.4	7.3	7.2	7.1
Canadian Pacific Railway*	CANADA	17.9	14.5	12.6	9.8	8.4	7.5
Canadian National Railway*	CANADA	16.2	15.3	13.8	10.4	9.0	8.3
VTG AG	GERMANY	16.1	13.0	11.3	5.8	5.3	5.1
Kansas City Southern*	USA	30.8	18.4	15.1	10.6	8.9	7.9
Genesee & Wyoming*	USA	26.7	19.3	16.8	15.0	10.5	9.6
Average DM		18.5	15.2	13.1	8.9	7.7	7.2
Emerging Markets							
China Railway Tielong	CHINA	38.0	31.7	25.2	25.2	21.9	18.7
Daqin Railway	CHINA	13.1	10.9	10.0	7.8	7.0	6.5
Guangshen Railway	CHINA	16.1	15.1	14.0	7.7	7.3	6.7
Sinotrans	CHINA	11.3	8.6	7.1	4.6	3.6	3.0
Container Corp of India	INDIA	16.9	15.2	14.0	13.5	12.2	11.6
Average EM		19.1	16.3	14.0	11.8	10.4	9.3

*Actual 2010 data

Source: Bloomberg, TKB Capital estimates

Asset Based Approach

According to assets based approach TransContainer is valued at \$1.5 bn vs. our target value at \$1.68 bn, premium is justified. TransContainer owns a unique asset base that will allow it to grow its business and which creates high entry barriers into the segment. A major container and platform fleet, as well as its terminals, are difficult and expensive to replicate. We estimate the replacement costs of the company's assets based on their age. With respect to terminals, we used a price of RUR7,000 per TEU as an average based on the market price for construction and expansion of terminal capacity taking into account the excess capacity at existing facilities. Construction of new terminals to replicate TransContainer's existing network would take a long time, which also increases the value of these assets, but the 50% capacity utilization rate means that the importance of the 46 terminals varies. Asset based valuation gives estimated value of the company at \$1.5 bn that means 12% discount to our DCF based valuation, which we consider to be justified due to successful management of the assets and cash flow generation.

Asset-based approach

	Units	Average age, years	Useful life, years	Estimated price, RUR	Value, mn RUR
Containers 20-foot	42,544	13	15	30,000	1,276
Containers 40-foot	16,708	3	15	100,000	1,671
Platforms 40-foot	5,995	16	32	700,000	4,197
Platforms 60-foot	13,860	24	32	500,000	6,930
Platforms 80-foot	4,400	2	32	1,800,000	7,920
Terminals, capacity '000 TEUs	4,000			7,000	28,000
Other assets					2,000
Total					51,994
Less Net Debt					44,534

* price of expansion or building new terminal capacities

Appendix

BALANCE SHEET

m n RUR	2009	1H10	2010E	2011E	2012E	2013E	2014E	2015E
Inventories	133	150	161	180	204	226	256	293
Trade and other receivables	1,941	1,940	2,288	2,208	2,671	3,031	3,487	3,968
Prepayments	2,263	2,204	2,164	2,611	3,157	3,584	4,123	4,691
Cash and cash equivalents	449	662	365	2,156	3,731	5,573	7,879	7,609
Other current assets	241	152	393	396	290	241	241	241
TOTAL CURRENT ASSETS	5,028	5,108	5,371	7,551	10,053	12,656	15,986	16,802
PP&E, net	23,097	24,534	26,025	27,732	30,933	33,197	36,398	42,449
Other non-current assets	2,617	2,554	2,767	2,767	2,767	2,767	2,767	2,767
Total NON-CURRENT ASSETS	25,713	27,088	28,791	30,499	33,699	35,963	39,165	45,215
TOTAL ASSETS	30,741	32,196	34,162	38,050	43,752	48,619	55,150	62,017
Short-term borrowings	3,152	109	-	-	3,152	320	3,000	-
Trade and other payables	3,172	3,453	3,741	4,391	5,227	5,803	6,563	7,503
Taxes other than income tax payable	170	232	187	200	223	239	262	306
Finance lease obligations	794	506	648	324	81	61	46	34
Other short-term liabilities	320	426	442	582	633	676	791	890
Total CURRENT LIABILITIES	7,608	4,726	5,019	5,497	9,316	7,098	10,661	8,733
Long-term borrowings	1,520	6,232	6,672	8,172	6,520	9,200	6,700	9,200
Finance lease obligations	1,115	575	648	324	243	182	137	103
Other non-current liabilities	2,055	2,025	2,138	2,258	2,394	2,492	2,621	2,784
Total NON-CURRENT LIABILITIES	4,689	8,832	9,458	10,754	9,157	11,874	9,457	12,087
Share and additional capital	13,895	-	13,895	13,895	13,895	13,895	13,895	13,895
Reserves	(1,938)	(1,937)	(1,538)	(1,538)	(1,538)	(1,538)	(1,538)	(1,538)
Retained earnings	6,486	6,680	7,329	9,443	12,923	17,289	22,675	28,840
Total EQUITY	18,443	18,638	19,685	21,799	25,279	29,646	35,032	41,197
TOTAL EQUITY & LIABILITIES	30,741	32,196	34,162	38,050	43,752	48,619	55,150	62,017

INCOME STATEMENT

m n RUR	2009	1H10	2010E	2011E	2012E	2013E	2014E	2015E
Net revenue, including	13,262	7,469	16,186	19,523	23,612	26,800	30,831	35,083
Rail-based container shipping services	6,573	3,223	6,660	7,524	8,814	9,470	10,403	11,936
Freight Forwarding and Integrated Logistics	3,090	2,462	5,928	8,305	10,459	12,394	14,737	17,047
Terminal services	2,040	1,099	2,248	2,345	2,694	3,246	3,791	3,902
Truck services	1,559	685	1,349	1,349	1,646	1,690	1,900	2,198
Net operating costs, including	(11,589)	(6,687)	(14,048)	(15,740)	(17,845)	(19,811)	(22,405)	(25,616)
Freight and transportation services	(3,832)	(2,031)	(4,655)	(4,739)	(5,229)	(5,548)	(6,293)	(7,293)
Payroll and related charges	(2,437)	(1,538)	(3,125)	(3,777)	(4,519)	(5,056)	(5,757)	(6,650)
DD&A	(2,250)	(1,114)	(2,376)	(2,539)	(2,985)	(3,366)	(3,884)	(4,516)
Repairs and maintenance	(1,182)	(763)	(1,511)	(2,010)	(2,063)	(2,530)	(2,782)	(3,010)
Other operating costs	(1,888)	(1,241)	(2,381)	(2,675)	(3,049)	(3,312)	(3,690)	(4,146)
EBITDA Adjusted	3,924	1,896	4,513	6,323	8,752	10,355	12,309	13,984
EBIT	1,674	782	2,137	3,783	5,768	6,989	8,425	9,467
Net interest income/(expenses)	(906)	(468)	(968)	(847)	(934)	(924)	(945)	(905)
EBT	768	314	1,170	2,936	4,833	6,065	7,480	8,562
Income tax	(178)	(118)	(234)	(587)	(967)	(1,213)	(1,496)	(1,712)
Net income	590	196	936	2,349	3,867	4,852	5,984	6,850

CASH FLOW STATEMENT

m n RUR	2009	1H10	2010E	2011E	2012E	2013E	2014E	2015E
Profit before tax	768	315	1,170	2,936	4,833	6,065	7,480	8,562
DD&A	2,250	1,114	2,376	2,539	2,985	3,366	3,884	4,516
Interest expense (income), net	910	464	968	847	934	924	945	905
Other adjustments	(300)	21	(220)	(152)	(140)	(184)	(194)	(198)
Change in Working Capital	(445)	(127)	481	429	3	(80)	(63)	124
Cash from operating activities	3,182	1,787	4,774	6,600	8,614	10,091	12,052	13,909
Interest paid	(832)	(552)	(1,003)	(883)	(970)	(960)	(981)	(941)
Tax paid	(183)	(164)	(234)	(587)	(967)	(1,213)	(1,496)	(1,712)
Net CF from operating activities	2,167	1,071	3,537	5,129	6,678	7,918	9,575	11,256
Capital expenditure	(3,107)	(2,385)	(5,357)	(4,285)	(6,220)	(5,676)	(7,134)	(10,616)
Proceeds from disposal of PP&E	135	215	220	152	140	184	194	198
Other adjustments	(76)	43	36	36	36	36	36	36
Net CF from/(used in) investment activities	(3,048)	(2,127)	(5,101)	(4,097)	(6,044)	(5,456)	(6,903)	(10,382)
Proceeds from borrowings	7,896	2,997	3,200	1,500	1,500	3,000	500	2,500
Dividends paid	(268)	-	(59)	(94)	(235)	(387)	(485)	(598)
Repayments of finance lease obligations	(337)	(858)	(860)	(648)	(324)	(81)	(61)	(46)
Repayments on borrowings	(6,280)	(1,263)	(1,200)	-	-	(3,152)	(320)	(3,000)
Other adjustments	-	404	400	-	-	-	-	-
Net CF from/(used in) financing activities	1,012	1,280	1,481	758	941	(620)	(366)	(1,144)
Net Debt	5,988	6,667	7,460	6,521	6,122	4,047	1,861	1,585

RATIOS

%	2009	1H10	2010E	2011E	2012E	2013E	2014E	2015E
Net adjusted revenue growth y-o-y	-26%	-75%	22%	21%	21%	14%	15%	14%
Adj. EBITDA growth y-o-y	-45%	9%	15%	40%	38%	18%	19%	14%
Adj. EBITDA margin (to net revenue)	30%	25%	28%	32%	37%	39%	40%	40%
Net margin (to net revenue)	4%	3%	6%	12%	16%	18%	19%	20%
Net Debt/Adj. EBITDA	1.5	1.8	1.7	1.0	0.7	0.4	0.2	0.1

BALANCE SHEET

mn \$	2009	1H10	2010E	2011E	2012E	2013E	2014E	2015E
Inventories	4	5	5	6	7	7	8	10
Trade and other receivables	64	62	75	78	92	98	115	132
Prepayments	75	71	71	92	109	116	136	156
Cash and cash equivalents	15	21	12	76	129	181	260	254
Other current assets	8	5	13	14	10	8	8	8
TOTAL CURRENT ASSETS	166	164	176	267	347	411	528	560
PP&E, net	764	786	854	980	1,067	1,078	1,201	1,415
Other non-current assets	87	82	91	98	95	90	91	92
Total NON-CURRENT ASSETS	850	868	945	1,078	1,162	1,168	1,293	1,507
TOTAL ASSETS	1,016	1,032	1,121	1,345	1,509	1,579	1,820	2,067
Short-term borrowings	104	3	-	-	109	10	99	-
Trade and other payables	105	111	123	155	180	188	217	250
Taxes other than income tax payable	6	7	6	7	8	8	9	10
Finance lease obligations	26	16	21	11	3	2	2	1
Other short-term liabilities	11	14	15	21	22	22	26	30
Total CURRENT LIABILITIES	252	151	165	194	321	230	352	291
Long-term borrowings	50	200	219	289	225	299	221	307
Finance lease obligations	37	18	21	11	8	6	5	3
Other non-current liabilities	68	65	70	80	83	81	86	93
Total NON-CURRENT LIABILITIES	155	283	310	380	316	386	312	403
Share and additional capital	459	-	456	491	479	451	459	463
Reserves	(64)	(62)	(50)	(54)	(53)	(50)	(51)	(51)
Retained earnings	214	214	240	334	446	561	748	961
Total EQUITY	610	597	646	770	872	963	1,156	1,373
TOTAL EQUITY & LIABILITIES	1,016	1,032	1,121	1,345	1,509	1,579	1,820	2,067

INCOME STATEMENT

mn \$	2009	1H10	2010E	2011E	2012E	2013E	2014E	2015E
Net revenue, including	417	248	533	687	820	896	1,009	1,164
Rail-based container shipping services	207	107	219	265	306	317	341	396
Freight Forwarding and Integrated Logistics	97	82	195	292	363	415	482	565
Terminal services	64	37	74	83	94	109	124	129
Truck services	49	23	44	47	57	57	62	73
Net operating costs, including	(365)	(222)	(463)	(554)	(620)	(663)	(733)	(850)
Freight and transportation services	(121)	(68)	(153)	(167)	(182)	(186)	(206)	(242)
Payroll and related charges	(77)	(51)	(103)	(133)	(157)	(169)	(188)	(221)
DD&A	(71)	(37)	(78)	(89)	(104)	(113)	(127)	(150)
Repairs and maintenance	(37)	(25)	(50)	(71)	(72)	(85)	(91)	(100)
Other operating costs	(59)	(41)	(78)	(94)	(106)	(111)	(121)	(138)
EBITDA Adjusted	124	63	149	223	304	346	403	464
EBIT	53	26	70	133	200	234	276	314
Net interest income/(expenses)	(29)	(16)	(32)	(30)	(32)	(31)	(31)	(30)
EBT	24	10	39	103	168	203	245	284
Income tax	(6)	(4)	(8)	(21)	(34)	(41)	(49)	(57)
Net income	19	7	31	83	134	162	196	227

TransContainer financials are calculated in US Dollar terms using historical RUR/USD exchange rate or TKB Capital macro assumptions (see above)

CASH FLOW STATEMENT

mn \$	2009	1H10	2010E	2011E	2012E	2013E	2014E	2015E
Profit before tax	24	10	39	103	168	203	245	284
DD&A	71	37	78	89	104	113	127	150
Interest expense (income), net	29	15	32	30	32	31	31	30
Other adjustments	(9)	1	(7)	(5)	(5)	(6)	(6)	(7)
Change in Working Capital	(14)	(4)	16	15		(3)	(2)	4
Cash from operating activities	100	59	157	232	299	337	394	461
Interest paid	(26)	(18)	(33)	(31)	(34)	(32)	(32)	(31)
Tax paid	(6)	(5)	(8)	(21)	(34)	(41)	(49)	(57)
Net CF from operating activities	68	36	116	181	232	265	313	373
Capital expenditure	(98)	(79)	(176)	(151)	(216)	(190)	(234)	(352)
Proceeds from disposal of PP&E	4	7	7	5	5	6	6	7
Other adjustments	(2)	1	1	1	1	1	1	1
Net CF from/(used in) investment activities	(96)	(71)	(168)	(144)	(210)	(182)	(226)	(344)
Proceeds from borrowings	249	100	105	53	52	100	16	83
Dividends paid	(8)	-	(2)	(3)	(8)	(13)	(16)	(20)
Repayments of finance lease obligations	(11)	(29)	(28)	(23)	(11)	(3)	(2)	(2)
Repayments on borrowings	(198)	(42)	(40)	-	-	(105)	(10)	(100)
Other adjustments	-	13	13	-	-	-	-	-
Net CF from/(used in) financing activities	32	43	49	27	33	(21)	(12)	(38)
Net Debt	198	214	245	230	211	131	61	53

TransContainer financials are calculated in US Dollar terms using historical RUR/USD exchange rate or TKB Capital macro assumptions (see above)

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