BRUNSWICK RAIL LIMITED
9 months 2014 RESULTS
MANAGEMENT DISCUSSION AND ANALYSIS
18 November 2014

Management discussion and analysis of financial conditions and results of operations is based on the interim condensed consolidated financial information of Brunswick Rail Limited and its subsidiaries (together “the Group”) prepared in accordance with International Financial Reporting Standards (“IFRSs”).

Financial Highlights

- Revenue before hedging with non-derivatives (“Gross Revenue”) declined by 18.4% from US$ 196.9m for the nine months ended 30 September 2013 (“9m 2013”) to US$ 160.6m for the nine months ended 30 September 2014 (“9m 2014”)
- Adjusted EBITDA declined by 14.4% from US$ 149.5m in 9m 2013 to US$ 128.0m in 9m 2014
- Adjusted EBITDA margin increased to 79.7% in 9m 2014 from 75.9% in 9m 2013
- Net loss in 9m 2014 was US$ 44.7m largely driven by accumulated net FX exchange differences of US$ 70.8m which were reclassified to the income statement upon de-designation of hedge accounting and declining lease rates
- Net cash from operating activities in 9m 2014 was US$ 131.0m compared to US$ 135.7m in 9m2013
- Capital expenditures in 9m 2014 were US$ 94.3m, of which US$ 89.3m was directed toward discretionary growth

Operational Highlights

- The total fleet stood at 25,474 railcars as of 30 September 2014, including 208 railcars on financial lease. We expect an additional 46 railcars, which have been prepaid, to be delivered pursuant to existing contracts.
- The Group continued to diversify its fleet and took delivery of 1,813 new railcars, while selling 165 old gondolas and 200 old mineral hoppers as part of the Group’s fleet management programme to reduce the age of the fleet and diversify the fleet into specialized cars
- The combined effects of the above decreased the share of gondolas in the Group’s portfolio from 60% as at 31 December 2013 to 58% as at 30 September 2014
- The fleet utilization rate remained at 100%
- Average remaining lease tenor is around 3.0 years; average fleet age is 5.1 years (one of the youngest fleets in the market)

Current Trading and Prospects

- The macroeconomic conditions in Russia, including depreciation of the RUR, appear to us to be very difficult. These conditions have begun to adversely affect our business and will likely continue to adversely impact our business volumes, lease rates, including our ability to finalize leases in dollar rates. The effect is likely to be significant for the business in the short to medium term.
- Given the state of the market in Russia, we believe many borrowers will be looking at the potential impact of the market on their credit facilities and are likely to look for greater flexibility. For the same reasons, Brunswick Rail intends to consult with its banks to explore potential changes to the financial covenants under its credit facility.

<u>Commenting on Q3 2014 interim results, Brunswick Rail CEO Alex Genin said:</u>

“We maintained our strong focus on cash preservation and client retention in the nine months of 2014, as it was difficult to foresee market conditions. The operating environment underwent further deterioration as rail freight volumes continued to track at lower levels, while railcar prices and gondola spot lease rates remained weak. In addition, we saw increased competition from captive leasing companies of railcar producers which continued to supply new cars into the market.

We were again successful in maintaining 100% fleet utilization, while at the same time growing our client portfolio with three new clients in the first nine months of 2014. We further optimized our fleet in accordance with market demand, selling 365 gondolas and mineral hoppers. This also allowed us to reduce the age of our fleet and to further diversify into specialized cars.

Looking ahead, we expect the business environment for the remainder of 2014 and into 2015 to remain extremely difficult, as described in the Current Trading and Prospects section of our Financial Results. We expect that regional geopolitical tensions and the economic backdrop will continue to put pressure on all players in our sector. We are confident that Brunswick Rail's proven and resilient business model will help us to weather the storm."

Nicolas Pascault, CFO of Brunswick Rail, added:

"Despite the current market environment, Brunswick Rail managed to increase its margins in the first nine months of 2014. Adjusted EBITDA amounted to US$ 128.0 million for the period, down 14.4% year-on-year. The Company's results were mainly impacted by accumulated net foreign exchange differences reclassified to the income statement under IFRS because of the fall in our US$-denominated revenue forecast. In addition, financial results were negatively affected by declining lease rates. These key factors led to the net loss of US$ 44.7 million for the period. Net cash generated by operating activities was only slightly down year-on-year, coming in at US$ 131.0 million in the first nine months of 2014.

Through cost cutting, efficiency programmes and lower repair expenses combined, with a reduction in bad debt provisions, we successfully reduced operating expenses across a number of key categories, which contributed to our increased operating profit margin during the period. Additionally, depot repair costs per railcar declined by 15% in the first nine months of 2014, as we were able to achieve higher purchasing efficiency.

In accordance with IFRS, since a substantial proportion of our revenues were denominated in US$ dollars, in November 2012 the Company began using a hedge accounting policy which allowed it to defer recognition of foreign exchange losses or gains as a result of movements in RUR/US$ exchange rates. The recent ongoing fall in the value of the RUR, and management expectations on the proportion of our future dollar denominated revenues led to an adjustment on the income statement since a smaller amount of our dollar denominated obligations is expected to be covered by future dollar denominated revenues. We recognized US$ 70.8m loss as a result.

We have a significant exposure to dollar denominated obligations. The falling proportion of future dollar denominated revenues has led us to consider available hedging instruments to mitigate FX risks. Due to increased FX volatility, the cost of these instruments has risen substantially. The Company is considering entering into hedging instruments once volatility has settled and the price of such instruments has fallen to an appropriate level.

Looking forward, due to significant deterioration of economic and competitive landscapes we expect continued further pressure on volumes and prices, while continued foreign exchange volatility will also affect our profitability."

About Brunswick Rail:

Brunswick Rail is a private railcar operating lessor providing freight railcars to large corporate clients in Russia. Established in 2004, Brunswick Rail currently owns a fleet of ca. 25.5 thousand railcars (as of 30 September 2014), which represents approximately 2% of the total Russian railcar fleet. For the nine months ended 30 September 2014, the Group generated gross revenue of US$ 160.6m and Adjusted EBITDA of US$ 128.0m.

Investor Contacts
Victor Koshkin, Brunswick Rail
+7 (495) 783 6700
VKoshkin@brunswickrail.com

Media Contacts
Anastasia Ermolova, Brunswick Rail
+7 (495) 783 6700
Aermolova@brunswickrail.com

Tom Blackwell, EM
+7 (495) 363 2841
blackwell@em-comms.com

Financial results – IFRS financial measures

The following table sets forth each of the Group's consolidated income statement line items for 9m 2014 and 9m 2013:

	9m 2014	9m 2013
	(in US$ thousand)	
Gross revenue	**160,603**	**196,902**
Hedging with non-derivatives effect	(16,174)	(3,057)
Net revenue	**144,429**	**193,845**
Cost of services	(20,391)	(26,622)
Property tax	-	(11,895)
Staff compensation, excluding share-based compensation	(6,957)	(9,070)
Other operating expenses	(9,714)	(13,832)
Other operating income	2,826	2,133
Operating profit before share-based compensation and depreciation	**110,193**	**134,559**
Share-based compensation	(2,033)	(8,479)
Depreciation and amortisation	(44,669)	(54,037)
Operating profit	**63,491**	**72,043**
Finance costs	(50,485)	(49,193)
Finance income	689	1,063
Revaluation of embedded derivatives on mezzanine	1,194	16,130
Net foreign exchange translation losses	(7,929)	(3,399)
Net foreign exchange differences reclassified on de-designation of hedge accounting	(70,794)	-
(Loss)/ profit before income tax	**(63,834)**	**36,644**
Income tax credit/ (expense)	19,151	(10,605)
(Loss)/profit for the period	**(44,683)**	**26,039**

Revenue

The following table sets forth the breakdown of the Group's total revenue in 9m 2014 and 9m 2013:

	9m 2014	9m 2013
	(in US$ thousand)	
Full service operating leases	104,643	111,884
Triple-net operating leases	40,800	62,890
Operating lease income	**145,443**	**174,774**
Transportation services income	14,173	20,994
Finance leases	987	1,134
Gross revenue	**160,603**	**196,902**

The total fleet of the Group as at 30 September 2014 was 25,474 railcars. During 9m 2014 the Group continued to diversify the fleet and took delivery of 1,813 new specialized railcars. There were 46 contracted but not delivered railcars as of 30 September 2014. The railcars acquired include 420 grain hoppers, 100 cement hoppers, 150 box cars, 270 universal platforms, 866 tank cars and 7 acid tank cars. During 9m 2014, 165 old gondolas and 200 mineral hoppers were sold to customers as part of the Group's fleet management program to (i) reduce the fleet age and (ii) diversify the fleet into specialized cars. In addition, 13 damaged railcars were retired from service following the receipt of the insurance proceeds. A total of 677 railcars were transferred during the period from operating leases to the transportation business which, as at 30 September 2014, deploys 3,326 railcars.

Operating lease income decreased by US$ 29,331 thousand, or 16.8% from US$ 174,774 thousand in 9m 2013 to US$ 145,443 thousand in 9m 2014. This decrease was primarily driven by remarketing of railcars to lower spot rates, renegotiation with clients and a significant RUR depreciation over the last nine months.

Revenue from full service operating leases decreased by US$ 7,241 thousand, or 6.5% from US$ 111,884 thousand in 9m 2013 to US$ 104,643 thousand in 9m 2014. Revenue from triple-net operating leases decreased by US$ 22,090 thousand, or 35.1% from US$ 62,890 thousand in 9m 2013 to US$ 40,800 thousand in 9m 2014. Revenue from triple-net operating leases decreased more than revenue from full service operating leases, which is in line with the Group's strategy to focus on full-service leases as its principal product.

Transportation income decreased by US$ 6,821 thousand, or 32.5% from US$ 20,994 thousand in 9m 2013 to US$ 14,173 thousand in 9m 2014 as a result of on-going weak transportation volumes in Russian rail freight in 9m 2014 and further decrease in spot prices.

Finance lease income hasn't decreased significantly in 9m 2014 in comparison with 9m 2013. No new finance lease contracts were signed, being consistent with the Group's strategy to discontinue offering this product to its clients.

The Group's gross revenue was adjusted by US$ 16,174 thousand for the effect of hedging with non-derivatives financial liabilities in accordance with IAS 39 which the Group applied from 2012. Hedging with non-derivative losses relate to non-cash F/X translation losses recycled from other comprehensive income as a result of the ruble depreciation against the US Dollar which are presented below in Adjusted EBITDA.

Cost of services

	9m 2014	**9m 2013**
	(in US$ thousand)	
Depot repairs	12,921	17,887
Other transportation services expenses	4,709	3,667
Other railcar expenses	2,417	910
Transportation services subcontracted	180	3,949
Railcar insurance	164	209
Total cost of services	**20,391**	**26,622**

Depot repairs

Depot repairs decreased by US$ 4,966 thousand, or 27.8% from US$ 17,887 in 9m 2013 to US$ 12,921 in 9m 2014. The decrease was mainly due to lower average depot repair costs per railcar which decreased by 15% in 9m 2014 compared to 2013 as a result of management's success in achieving higher purchase efficiency.

Other transportation services expenses

Other transportation expenses increased by US$ 1,042 thousand, or 28.4% from US$ 3,667thousand in 9m 2013 to US$ 4,709 thousand in 9m 2014. Other transportation expenses represent the rail tariffs for empty-run which increased due to the weak transportation market.

Other railcar expenses

Other railcar expenses increased by US$ 1,507 thousand, or 165.6%, from US$ 910 thousand in 9m 2013 to US$ 2,417 thousand in 9m 2014. The main increase is due to one-off railcar re-registration costs in the amount of US$ 1,064 thousand incurred as a result of the merger of Russian operating companies at the end of 2013.

Transportation services subcontracted

During 9m 2014 the Group incurred expenses on transportation services subcontracted in the amount of US$ 180 thousand in comparison with US$ 3,949 thousand spent in 9m 2013. The decrease in expenses relates to the decline of demand for freight transportation as well as the increase of own railcars deployed in the transportation business from 2,687 railcars as at 30 September 2013 to 3,326 railcars as at 30 September 2014.

Railcar insurance

Railcar insurance decreased by US$ 45 thousand, or 21.5%, from US$ 209 thousand in 9m 2013 to US$ 164 thousand in 9m 2014 due to negotiation of lower premiums with insurance companies.

Property tax

Property tax decreased by US$ 11,895 thousand, or 100.0% in 9m 2014 due to a change in tax legislation in respect of movable property (including railcars) which is exempted from property tax.

Staff compensation, excluding share-based compensation

Staff compensation decreased by US$ 2,113 thousand, or 23.3%, from US$ 9,070 thousand in 9m 2013 to US$ 6,957 thousand in 9m 2014. The decrease was mostly due to a reduction in headcount to achieve efficiencies as part of the reorganization project of the Group.

Other operating expenses

Other operating expenses decreased by US$ 4,118 thousand, or 29.8%, from US$ 13,832 thousand in 9m 2013 to US$ 9,714 thousand in 9m 2014. The decrease is mainly attributable to the reversal of a specific provision for bad debts of an operating lease client in the amount of US$ 6,934 thousand recorded in 9m 2013 and the implementation of cost efficiency programs during 2014. The decrease was partly offset by new provision for bad debts on receivables from suppliers of railcars in the amount of US$ 4,088 thousand recorded in 9m 2014.

Other operating income

During 9m 2014 other operating income amounted to US$ 2,826 thousand compared to other operating income of US$ 2,133 thousand in 9m 2013. The Group successfully closed the sale of a doubtful receivable for which a provision had been recognized in 2013 and this resulted in a net gain of US$ 1,590 thousand being recognized in 9m 2014. In addition a US$ 1,347 thousand gain from the aforementioned sale of railcars was recorded within other operating income.

Share-based compensation

Share-based compensation decreased by US$ 6,446 thousand, or 76.0%, from US$ 8,479 thousand in 9m 2013 to US$ 2,033 thousand in 9m 2014. The decrease relates mainly to shares granted to management which vested during 2013 and changes, where applicable, in the valuation of the plans.

Depreciation and amortisation

Depreciation decreased by US$ 9,368 thousand, or 17.3%, from US$ 54,037 thousand in 9m 2013 to US$ 44,669 thousand in 9m 2014. The decrease is explained by two factors: (i) retranslation effect from functional to presentation currency due to an increase in the average foreign exchange rate in 9m 2014 (35.39) compared to the foreign exchange rate for 9m 2013 (31.62) and (ii) a prospective revision of the useful life of wheelsets.

Finance costs

Finance costs increased by US$ 1,292 thousand, or 2.6%, from US$ 49,193 thousand in 9m 2013 to US$ 50,485 thousand in 9m 2014.

In July 2014 the Group signed a syndicated loan facility for over RUB 8 billion with a group of international banks. The two-year loan facility will bear interest of three-month MosPrime plus 2.2% margin in year one and 2.7% margin in year two. The facility is secured by way of a pledge on the Group's equipment.

On 15 August 2014 the Group drew down the first tranche of the new syndicated loan facility to allow it to refinance the VTB Leasing finance lease obligation in the amount of approximately RUB 4 billion.

Finance income

Interest income decreased by US$ 374 thousand, or 35.2%, from US$ 1,063 thousand in 9m 2013 down to US$ 689 thousand in 9m 2014. This change was primarily due to a decrease in bank deposits.

Revaluation of embedded derivatives on mezzanine

The Group's US$ 60m mezzanine facility contains certain derivatives which are measured at fair value on each reporting date using an option pricing model based on the Black-Scholes model. As a result of change in estimates, the fair value gains recognized on these embedded derivatives during 9m 2014 amount to US$ 1,194 thousand which is lower than the fair value gains of US$ 16,130 thousand recoded in 9m 2013.

Net foreign exchange translation losses

In 9m 2014 the Group recognized net foreign exchange translation losses in the amount of US$ 7,929 thousand in comparison with net foreign exchange translation losses in 9m 2013 in the amount of US$ 3,399 thousand. FX losses recognized in 9m 2014 are due to depreciation of RUB against US$. The impact of FX losses is mitigated by the application of hedge accounting with non-derivatives pursuant to IAS 39.

Net foreign exchange translation differences reclassified on de-designation of hedge accounting

Due to continuing market downturn in Q3 2014, the on-going geopolitical instability and the US and EU sector sanctions imposed in July 2014, the proportion of US$-denominated revenue, which is designated for hedge accounting as a hedged item, is decreasing as more customers are renegotiating their contracts in RUB or switch from US$ to RUB contracts. Furthermore, customers are requiring decreases in US$ daily rates due to further RUB depreciation.

The significant decrease in expected US$ revenue as at 30 September 2014 resulted in hedge ineffectiveness and required restructuring of the hedge accounting. De-designation of the hedge was implemented as follows: (i) revised the Group's US$ revenue forecast, (ii) calculated the proportion of the hedge instrument that would be unhedged based on the revised US$ revenue forecast and (iii) reclassified the ineffective portion of accounting hedging reserve to the income statement.

As a result an amount of US$70.8m (before tax) was proportionately reclassified to income statement.

Loss before income tax

The Group's loss before income tax for 9m 2014 amounted to US$ 63,834 thousand which is primarily due to reclassification of foreign exchange losses from other comprehensive income to income statement due to partial de-designation of hedge accounting.

Income tax credit

The Group includes companies incorporated in Bermuda, Cyprus, Ireland and Russia with income tax rates of 0%, 12.5%, 25% and 20%, respectively. The Group's income tax credit for 9m 2014 amounted to US$ 19,151 thousand. The Group's income tax is in line with the Group's results for 9m 2014 and accrued based on the estimated average annual effective income tax rate.

Loss for the period

The Group's loss for 9m 2014 amounted to US$ 44,683 thousand. The decrease in the Group's profitability was due to those factors discussed above.

Financial results – non-IFRS financial measures

The following table sets forth each of the Group's non-IFRS financial measures for 9m 2014 and 9m 2013:

	9m 2014	**9m 2013**
Adjusted EBITDA (in US$ thousand)	127,995	149,511
Adjusted EBITDA Margin (in %)	79,7	75,9

Adjusted EBITDA

Adjusted EBITDA is a measure used by the Board to assess the performance of the operating segments of the Group, since Adjusted EBITDA is a key performance indicator in terms of how the business is perceived by investors and how much cash it is generating. Adjusted EBITDA is defined as earnings before interest, tax, depreciation and amortisation and other non-cash charges, exceptional and non-recurring items.

	9m 2014	**9m 2013**
	(in US$ thousands)	
(Loss)/profit for the period	**(44,683)**	**26,039**
plus / (minus)		
Income tax (credit)/ expense	(19,151)	10,605
Net foreign exchange differences reclassified on de-designation of hedge accounting	70,794	-
Net foreign exchange translation losses	7,929	3,399
Revaluation of embedded derivatives on mezzanine	(1,194)	(16,130)
Finance income	(689)	(1,063)
Finance costs	50,485	49,193
Depreciation and amortisation	44,669	54,037
Share-based compensation	2,033	8,479
Professional services associated with preparation to a potential IPO process	564	-
Railcars re-registration costs	1,064	-
Property tax	-	11,895
Hedging with non-derivatives effect	16,174	3,057
Adjusted EBITDA	**127,995**	**149,511**

Adjusted EBITDA decreased by US$ 21,516 thousand or 14.4% from US$ 149,511 thousand in 9m 2013 to US$ 127,995 thousand in 9 months 2014. The decrease is mainly due to the decrease in revenue for the reasons described above which were largely compensated for by a decrease in the cost of services and other operating expenses.

Adjusted EBITDA Margin

Adjusted EBITDA Margin is a measure used by the Board to assess the operating profitability of the Group. Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by gross revenue, expressed as a percentage. Adjusted EBITDA Margin shows the cost efficiency of the Group and shows its ability to cover long term debts. Adjusted EBITDA Margin increased from 75.9% in 9m 2013 to 79.7% in 9m 2014 partly as a result of the settlement of doubtful receivable in 9m 2014 for which provision had been made in 9m 2013.