BRUNSWICK RAIL LIMITED
1Q 2014 RESULTS
MANAGEMENT DISCUSSION AND ANALYSIS
30 May 2014

Management discussion and analysis of financial conditions and results of operations is based on the interim 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 21.5% from US$ 66.3m in 1Q 2013 to US$ 52.0m in 1Q 2014
- Adjusted EBITDA declined by 19.5% from US$ 49.2m in 1Q 2013 to US$ 39.6m in 1Q 2014
- Adjusted EBITDA margin increased to 76.2 % in 1Q 2014 from 74.2% in 1Q 2013
- Profit in 1Q 2014 was US$ 756.0 thousand
- Net cash from operating activities in 1Q 2014 was US$ 35.5m
- Capital expenditures in 1Q 2014 were US$ 67.6m, of which US$ 66.5m was directed toward discretionary growth

Operational Highlights

- The total fleet stood at 25,529 railcars as of 31 March 2014, including 208 railcars on financial lease and 516 undelivered railcars
- The Group continued to diversify its fleet and took delivery of 1,134 new railcars including 629 tank cars, 235 grain hoppers and 270 universal platforms while selling 160 old gondolas as part of the Group’s fleet management programme to reduce the age of the fleet
- The combined effects of the above decreased the share of gondolas in the Group’s portfolio from 60% as at 31 December 2013 to 59% as at 31 March 2014
- The fleet utilization rate remained at 100%
- Average remaining lease tenor is stable at 3.4 years; average fleet age has been reduced to less than 5 years (one of the youngest fleets in the market)

<u>Commenting on the 1Q 2014 results, Brunswick Rail CEO Alex Genin said:</u>

“We continue to successfully navigate through challenging market conditions, thanks to our strong cash-generating business model, underpinned by our long, multi-year client contracts and strong customer base.

“We are pleased to continuously maintain 100% utilization rate, while expanding and diversifying our fleet by acquiring more than 1,000 railcars during the quarter, and growing our client portfolio with the acquisition of three new clients.

“We will continue to execute on our strategy which is to take a prudent look at value-accretive growth opportunities, while ensuring a strong financial position. The long-term potential remains highly attractive and our primary objective is to ensure we are best placed to capitalize as and when the market picks up.”

<u>Nicolas Pascault, CFO of Brunswick Rail added:</u>

“Brunswick Rail’s financial performance, despite the difficult market environment in the first quarter, has once again underscored our leadership position in Russia’s operating leasing market.

“Adjusted EBITDA, although down year-on-year, was nevertheless a robust US$ 39.6m in the first quarter, while our EBITDA margin even improved from 74.2% to 76.2% during the period.

“Following the completion of our corporate reorganization and streamlining of operations, we launched cost-cutting and efficiency programmes primarily focused on reducing overhead and repair costs, while at the same time strengthening internal controls and purchasing procedures.

“All of the 1,134 railcars delivered during the first quarter were attached to long-term contracts with customers. The run-rate annual revenue effect from the expansion of the fleet (including railcars that have been contracted but not delivered) is expected to be about US$ 16.3m, and the full effect should be incorporated in the Group’s results during the second quarter of 2014.

"Management successfully closed the sale of the doubtful receivable at a discount that was less than had been anticipated, resulting in a net IFRS capital gain of US$ 1.6m presented within other operating expenses. This took the total recovery of the doubtful debt to US$ 11m.

"As a result of these measures, including fleet expansion at the bottom of the cycle, the reduction in revenues has been largely compensated by a decrease in property tax, overheads and other operating expenses, while cost of services increased slightly due to a higher number of planned repairs carried out in 1Q, which would lead to a lower number of planned repairs in subsequent periods.

"Another milestone was the US$ 150m preferred share placement with the EBRD, which we completed in March. In addition to enhancing our CAPEX flexibility, the incremental revenue and EBITDA that can be generated from the proceeds should allow for an increase in our level of financing, without putting our key credit ratios under pressure. These accomplishments keep us on track as we build on our position as the largest and most profitable operating lessor in Russia, while providing attractive returns to our shareholders."

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 more than 25,000 railcars (as of 31 March 2014), which represents approximately 2% of the total Russian railcar fleet. For the three months ended 31 March 2014, the Group generated gross revenue of US$ 52.0m and Adjusted EBITDA of US$ 39.6m.

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Financial results – IFRS financial measures

The following table sets forth each of the Group's consolidated income statement line items for the three months ended 31 March 2014 and 31 March 2013:

	1Q 2014	1Q 2013
	(in US$ thousand)	
Gross revenue	**52,036**	**66,302**
Hedging with non-derivatives effect	(5,745)	1,381
Net revenue	**46,291**	**67,683**
Cost of services	(9,638)	(8,301)
Property tax	-	(4,160)
Staff compensation, excluding share based compensation	(2,416)	(3,185)
Other operating expenses	(1,640)	(5,682)
Other operating income	678	22
Operating profit before share based compensation and depreciation	**33,275**	**46,377**
Share-based compensation	(870)	(3,646)
Depreciation	(14,689)	(18,274)
Operating profit	**17,716**	**24,457**
Finance costs	(16,346)	(16,184)
Finance income	177	279
Net foreign exchange translation losses	(467)	(1,392)
Profit before income tax	**1,080**	**7,160**
Income tax expense	(324)	(3,247)
Profit for the period	**756**	**3,913**

Revenue

The following table sets forth the breakdown of the Group's total revenue for the three months ended 31 March 2014 and 31 March 2013:

	1Q 2014	1Q 2013
	(in US$ thousand)	
Full service operating leases	32,704	40,798
Triple-net operating leases	14,574	18,695
Operating lease income	**47,278**	**59,493**
Transportation services income	4,420	6,424
Finance leases	338	385
Gross revenue	**52,036**	**66,302**

The total fleet of Brunswick Rail Limited Group, ("Group") as at 31 March 2014 was 25,529 railcars. During the first three months of 2014 the Group continued to diversify the fleet and took delivery of 1,134 new semi specialized railcars. There were 516 contracted but not delivered railcars as of 31 March 2014. The railcars acquired include 235 grain hoppers, 270 universal platforms and 629 tank cars. In January 2014, 160 old gondolas were sold to a customer as part of the Group's fleet management program to: (i) reduce the fleet age and (ii) diversify the fleet into semi-specialized cars. A total of 100 railcars were transferred during the period from operating leases to the transportation business which, as at 31 March 2014, deploys 2,749 railcars.

In this challenging environment, overall current clients' payment performance remains stable.

Operating lease income decreased by US$ 12,215 thousand, or 20.5% from US$ 59,493 thousand in 1Q 2013 to US$ 47,278 thousand in 1Q 2014. This decrease was primarily driven by gondola spot market daily rate decreasing from 18-19 USD per day on average during the first quarter of 2013 to around US$ 14-15 per day on average during the first quarter of 2014. Other key factors that explain the decrease are: (i) on-going weak transportation volumes, (ii) a continuous surplus of gondolas in the market, and (iii) the Russian Ruble depreciation against the USD by 8.3% during the first quarter of 2014.. The Group's management has been proactive in negotiating with clients and in exchange for rate adjustments has successfully negotiated contract tenor extensions and indexation clauses at the option of the Group. In that respect, the Average Remaining Lease Tenor has increased to 3.4 years compared to 3.1 years at the end of the corresponding period last year. All of the 1,134 railcars delivered during the first quarter were attached to long-term contracts with customers. The run-rate annual revenue effect from the expansion of the fleet (including railcars that have been contracted but not delivered) is expected to be about US$ 16.3m, and the full effect should be incorporated in the Group's results during the second quarter of 2014.

Revenue from full-service operating leases decreased by US$ 8,094 thousand, or 19.8% from US$ 40,798 thousand in 1Q 2013 to US$ 32,704 thousand in 1Q 2014. Revenue from triple-net operating leases decreased by US$ 4,121 thousand, or 22.0% from US$ 18,695 thousand in 1Q 2013 to US$ 14,574 thousand in 1Q 2014.

Decrease in revenue from full-service and triple-net operating leases is comparable and explained by factors described above. Transportation income decreased by US$ 2,004 thousand, or 31.2% from US$ 6,424 thousand in 1Q 2013 to US$ 4,420 thousand in 1Q 2014 as a result of on-going weak transportation volumes in Russian rail freight in 1Q 2014 and further decrease in spot prices.

Finance lease income hasn't decreased significantly in 1Q 2014 in comparison with 1Q 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$ 5,745 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 relates to non-cash F/X translation losses recycled from other comprehensive income arising from the ruble depreciation vs USD which are not included in EBITDA.

Cost of services

	1Q 2014	1Q 2013
	(in US$ thousand)	
Depot repairs	6,863	5,687
Other transportation services expenses	1,628	1,667
Other railcar expenses	935	125
Transportation services subcontracted	160	753
Railcar insurance	52	69
Total cost of services	**9,638**	**8,301**

Depot repairs

Depot repairs increased by US$ 1,176 thousand, or 20.7%, from US$ 5,687 in 1Q 2013 to US$ 6,863 in 1Q 2014. The main increase was due to a timing effect as a higher number of railcars have undergone planned depot repairs during the first quarter of 2014 compared to the total plan for 2014, partially compensated by a decrease in average depot repair prices in 1Q 2014.

Other transportation services expenses

Other transportation expenses are maintained at the same level and represent the rail tariffs for empty-run.

Other railcar expenses

Other railcar expenses increased by US$ 810 thousand, or 648.0%, from US$ 125 thousand in 1Q 2013 to US$ 935 thousand in 1Q 2014. The main increase is due to one-off railcars re-registration costs in the amount of US$ 596 thousand incurred as a result of the merger of Russian operating companies at the end of 2013.

Transportation services subcontracted

During 1Q 2014 the Group incurred expenses on the transportation services subcontracted in the amount of US$ 160 thousand in comparison with US$ 753 thousand spent in 1Q 2013. The decrease of expenses relates to the decline of demand for freight transportation as well as the increase of own railcars deployed in the transportation business from

2,421 railcars as at 31 March 2013 to 2,749 railcars as at 31 March 2014.

Railcar insurance

Railcar insurance decreased by US$ 17 thousand, or 24.6%, from US$ 69 thousand in 1Q 2013 to US$ 52 thousand in 1Q 2014 due to negotiation of better prices with insurance companies.

Property tax

Property tax decreased by US$ 4,160 thousand, or 100.0% from US$ 4,160 thousand in 1Q 2013 to zero in 1Q 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$ 769 thousand, or 24.1%, from US$ 3,185 thousand in 1Q 2013 to US$ 2,416 thousand in 1Q 2014. The decrease was mostly due to decrease in headcount to achieve efficiency as part of the reorganization project of the Group.

Other operating expenses

Other operating expenses decreased by US$ 4,042 thousand, or 71.1%, from US$ 5,682 thousand in 1Q 2013 to US$ 1,640 thousand in 1Q 2014. The main factor is the recognition of a specific provision for bad debts in the amount of US$ 3,639 thousand in 1Q 2013. No provision for bad debts was created in 1Q 2014.

Other operating income

During 1Q 2014 other operating income amounted to US$ 678 thousand in comparison with other operating income US$ 22 thousand in 1Q 2013. The Group successfully closed the sale of the doubtful receivable for which a provision was recognized in 2013 and a partial reversal of the provision was recognized as income in 1Q 2014.

Share-based compensation

Share-based compensation decreased by US$ 2,776 thousand, or 76.1%, from US$ 3,646 thousand in 1Q 2013 to US$ 870 thousand in 1Q 2014. The decrease relates mainly to shares vested to management during 2013 and changes, where applicable, in the valuation of the plans.

Depreciation

Railcar depreciation decreased by US$ 3,585 thousand, or 19.6%, from US$ 18,274 thousand in 1Q 2013 to US$ 14,689 thousand in 1Q 2014. The decrease is explained by two factors: (1) retranslation effect from functional to presentation currency due to increase of average foreign exchange rate in 1Q 2014 in comparison with 1Q 2013 from 30,4142 to 34,959 and (2) a prospective revision of useful life of wheelsets.

Finance costs

Finance costs, which did not change significantly, increased by US$ 162 thousand, or 1.0%, from US$ 16,184 thousand in 1Q 2013 to US$ 16,346 thousand in 1Q 2014. No new financing was attracted during 1Q 2014.

Finance income

Interest income decreased by US$ 102 thousand, or 36.6%, from US$ 279 thousand in 1Q 2013 to US$ 177 thousand in 1Q 2014. The decrease was primarily due to a decrease in bank deposits.

Net foreign exchange translation losses

In 1Q 2014 the Group recognized net foreign exchange translation losses in the amount of US$ 467 thousand in comparison with net foreign exchange translation losses in 1Q 2013 in the amount of US$ 1,392 thousand. The decrease is explained partly by a retranslation effect from functional to presentation currency, due to a higher average exchange rate in 1Q 2014 and partly from the application of hedge accounting with non-derivatives pursuant to IAS 39 to mitigate the exposure to foreign currency risk.

Profit before income tax

Profit before income tax decreased by US$ 6,080 thousand, or 85.0%, from US$ 7,160 thousand in 1Q 2013 to US$ 1,080 thousand in 1Q 2014. The decrease was mainly due to decline in operational results and foreign exchange translation losses (non-cash) as explained above partially compensated by reduction in property tax and depreciation.

Income tax expense

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 expense decreased by US$ 2,923 thousand, or 90.0% from US$ 3,247 thousand in 1Q 2013 to US$ 324 thousand in 1Q 2014. The decrease in the Group's tax charge was mainly due to the decrease in profitability of the Group in 1Q 2014.

Profit for the period

The Group's profit for the 1Q 2013 and 1Q 2014 amounted to US$ 3,913 thousand and US$ 756 thousand respectively. The decrease in the Group's profitability was due to the factors discussed above.

Financial results – non-IFRS financial measures

The following table sets forth each of the Group's non-IFRS financial measures for the three months ended 31 March 2014 and 31 March 2013:

	1Q 2014	1Q 2013
Adjusted EBITDA (in US$ thousand)	39,616	49,156
Adjusted EBITDA Margin (in %)	76.2	74.2
Adjusted Net Profit (in US$ thousand)	6,131	7,826

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 amortization and other non-cash charges, exceptional and non-recurring items.

	1Q 2014	1Q 2013
	(in US$ thousands)	
Profit for the period,	**756**	**3,913**
plus / (minus)		
Income tax expense	324	3,247
Net foreign exchange translation losses	467	1,392
Finance income	(177)	(279)
Finance costs	16,346	16,184
Depreciation	14,689	18,274
Share-based compensation	870	3,646
Railcars re-registration costs	596	-
Property tax	-	4,160
Hedging with non-derivatives effect	5,745	(1,381)
Adjusted EBITDA	**39,616**	**49,156**

Adjusted EBITDA decreased by US$ 9,540 thousand or 19.5% from US$ 49,156 thousand in 1Q 2013 to US$ 39,616 thousand in 1Q 2014. The decrease is mainly due to the decrease in revenue for the reasons described above which was largely compensated by a decrease in property tax, overheads and other operating expenses while costs of services increased due to a higher number of planned repairs carried out in Q1 2014 which would lead to a lower number of planned repairs in subsequent periods.

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 74.2% in 1Q 2013 to 76.2% in 1Q 2014. The increase of Adjusted EBITDA Margin resulted from the settlement of bad debts in 1Q 2014, no new provision was created under trade and other receivables in 1Q 2014.

Adjusted Net Profit

The Board utilizes an additional reporting measure to assess the profitability of the Group, whereby they adjust profit / (loss) for the period for items management believes are non-recurring or not directly embedded within the core operating business cycle of the Group.

	1Q 2014	1Q 2013
	(in US$ thousand)	
Net profit for the period	**756**	**3,913**
Net foreign exchange translation losses	467	1,392
Share-based compensation	870	3,646
Railcars re-registration costs	596	-
Hedging with non-derivatives effect	5,745	(1,381)
Related tax effect	(2,303)	256
Adjusted net profit	**6,131**	**7,826**

Adjusted net profit for the period decreased by US$ 1,695 thousand or 21.7% from US$ 7,826 thousand in 1Q 2013 to US$ 6,131 thousand in 1Q 2014 which demonstrates mainly the impact of softening in transportation industry on the core operating financial performance of the Group as discussed above.