

Operating Expenses

The structure of the Company's operating expenses for 2018 and 2017 respectively is given below.

Operating Expenses

Item	2018		2017			
	RUB mln	share of operating expenses, %	share of revenue, %	RUB mln	share of operating expenses, %	share of revenue, %
Third-party charges related to principal activities	45,671	68.3	59.3	37,785	64.7	57.6
Payroll and related charges	6,422	9.6	8.3	5,809	9.9	8.9
Freight and transportation services	5,407	8.1	7.0	6,549	11.2	10.0
Materials, repair, and maintenance	3,427	5.1	4.5	3,182	5.4	4.9
Depreciation and amortisation	2,927	4.4	3.8	2,668	4.6	4.1
Taxes other than income tax	725	1.1	0.9	581	1.0	0.9
Rent	410	0.6	0.5	279	0.5	0.4
Other expenses	1,897	2.8	2.5	1,585	2.7	2.4
Total operating expenses	66,886	100.0	86.9	58,438	100.0	89.1

The Company's operating expenses increased by RUB 8,448 million, or 14.5% year-on-year, to RUB 66,886 million compared to RUB 58,438 million in 2017. This rise was due to a significant increase in the third-party charges related to principal activities.

Third-party Charges Related to Principal Activities

Costs of third-party charges related to principal activities increased from RUB 37,785 million to RUB 45,671 million, up 20.9% year-on-year. This was primarily driven by a higher volume of the Company's operations, tariff indexing by the Russian Railways and other subcontractors, and growth in international transportations with the involvement of outsourced transportation services. The weakening of the Russian rouble against the US dollar and Euro in 2018 had an impact on the cost of currency payments with foreign railway administrations and sea shipping companies.

Adjusted Operating Expenses

In 2018, adjusted operating expenses, as defined in the Adjustments and Additional Financial Information section above, grew by 2.7% year-on-year, from RUB 20,653 million to RUB 21,215 million. This was primarily due to the increase in payroll costs and costs for taxes other than income tax, as well as an increase in rent payments.

Adjusted Operating Expenses Structure and Dynamics for 2018 and 2017

Item	2018		2017		Change for period	
	RUB mln	%	RUB mln	%	RUB mln	%
Payroll and related charges	6,422	30.3	5,809	28.1	+613	+10.6
Freight and transportation services	5,407	25.5	6,549	31.7	(1,142)	(17.4)
Materials, repair, and maintenance	3,427	16.2	3,182	15.4	+245	+7.7
Depreciation and amortisation	2,927	13.8	2,668	12.9	+259	+9.7
Taxes other than income tax	725	3.4	581	2.8	+144	+24.8
Rent	410	1.9	279	1.4	+131	+47.0
Other expenses	1,897	8.9	1,585	7.7	+312	+19.7
Adjusted operating expenses	21,215	100.0	20,653	100.0	+562	+2.7

Freight and Transportation Services

Expenses related to freight and transportation services decreased by RUB 1,142 million, or 17.4% year-on-year, to RUB 5,407 million for the full year of 2018. This is due to several reasons: 1) thanks to the Company's efforts on optimisation of the fleet management, the savings on empty run costs offset the impact of tariff indexation by the Russian Railways; 2) due to changing the customers' preferences towards the integrated freight forwarding and logistics services.

Payroll and Related Charges

Payroll and related charges increased by RUB 613 million, or 10.6% year-on-year, from RUB 5,809 million in 2017 to RUB 6,422 million in 2018. This increase was mainly due to the base salary indexing and performance-linked payments on the back of improved financial and operating results. The growth was partially offset by a decrease in the average headcount from 3,533 to 3,502 employees.

Depreciation and Amortisation

Depreciation and amortisation increased by RUB 259 million, or 9.7% year-on-year, to RUB 2,927 million compared to RUB 2,668 mln in 2017, reflecting an increase in capital expenditures in 2018, and also the contribution of CJSC Logistics-Terminal and LLC SpecTransContainer consolidation.

Materials, Repair, and Maintenance

Expenses related to materials, repair, and maintenance were up by 7.7% year-on-year to RUB 3,427 million for the full year of 2018, compared to RUB 3,182 million in 2017. This was mainly due to an increase in the number of flatcar repairs resulted from a higher fleet utilisation. The other factor was a higher average repair price also contributed to this increase mainly as prices for flatcars components went up amid the growing customer demand in Russia.

Taxes Other Than Income Tax

Taxes other than income tax increased from RUB 581 million to RUB 725 million, up 24.8% year-on-year, mainly due to an increase in the amount of accrued value added tax (VAT) for international transportation, justifiability of the application of 0% rate for which has not been documented.

Rent

Rental payments increased by RUB 131 million, or 47.0% year-on-year, from RUB 279 million to RUB 410 million, due to the increase of operational leasing of the flatcars.

Other Operating Expenses

Other operating expenses are an aggregate of various expense items such as security, consulting expenses, fuel and energy, licences and software, communication service and loss of sale of fixed assets, etc. In 2018, other operating expenses increased from RUB 1,585 million to RUB 1,897 million, up 19.7% year-on-year. This primarily resulted from an increase in fuel, licences, and software and was partially offset by a decrease in consulting expenses and security costs.

Interest Expenses

Interest expenses increased by RUB 251 million, or 39.6% year-on-year, from RUB 634 million in 2017 to RUB 885 million in 2018, mainly due to an increase in principal.

Interest Income

Growth of interest income by RUB 164 million, or 54.5% year-on-year, from RUB 301 million in 2017 to RUB 465 million in 2018, was mainly driven by an increase in the balances in deposit accounts due to the lag of actual capital expenditures from the target ones.

Profit before Income Tax

As a result of the reasons described above, the Company's profit before income tax increased by RUB 3,806 million, or 46.6% year-on-year, from RUB 8,172 million in 2017 to RUB 11,978 million in 2018.

Income Tax Expenses

Income tax expenses increased by RUB 831 million, or 50.7% year-on-year, from RUB 1,638 million in 2017 to RUB 2,469 million in 2018, due to an increase in taxable profit.

Total Profit and Comprehensive Income for the Period

As a result of the factors discussed above, the profit for the full year of 2018 increased by RUB 2,975 million, or 45.5% year-on-year, to RUB 9,509 million compared to RUB 6,534 million for the same period of 2017. Taking into account the exchange rate differences relating to foreign operations, as well as other effects, the total comprehensive income of the Company for the reporting period increased by 50.9% and amounted to RUB 9,821 million, compared to RUB 6,508 million for the full year of 2017.

Liquidity and Capital Resources

As of 31 December 2018, the Company's net cash and cash equivalents amounted to RUB 9,527 million, while its current assets exceeded current liabilities by RUB 7,727 million.

The Company's business is asset and capital-intensive and requires substantial capital expenditure for the purchase of flatcars and containers, for the development and modernising its terminals and other assets. During the reporting period, the Company's operations and its capital expenditures were financed from its own cash flows.

Cash flows

Company's Cash Flows Structure, 2018-2017, RUB mln

Item	2018	2017
Net cash provided by operating activities	11,390	8,466
Net cash used in investing activities	(7,197)	(6,568)
Net cash provided by financing activities	663	(3,282)
Net increase in cash and cash equivalents	4,856	(1,384)
Foreign exchange effect on cash and cash equivalents	500	30
Net cash and cash equivalents at the end of the period	9,527	4,171

Cash Flow Generated by Operating Activities

Cash flow generated by operating activities increased by RUB 2,924 million, or 34.5% year-on-year, from RUB 8,466 million in 2017 to RUB 11,390 million in 2018, mainly due to an increase in operating profit, as discussed above.

Cash Flow Used in Investing Activities

Cash flow used in investing activities increased by RUB 629 million, or 9.6% year-on-year, from RUB 6,568 million in 2017 to RUB 7,197 million in 2018. This primarily resulted from an increase in capital expenditures from RUB 6,869 million to RUB 7,032 million, respectively, and from completing the deal to acquire CJSC Logistics-Terminal.

Cash Flow Used in Financing Activities

Cash flow used in financing activities increased by RUB 3,945 million, or 120.2% year-on-year, to RUB 663 million, compared to negative RUB 3,282 million in 2017. It was mainly due to the issue of RUB-denominated bonds in the amount of RUB 6 billion in January 2018.

Capital Expenditure

Capital expenditure increased by RUB 136 million, or 2.0% year-on-year, from RUB 6,896 million in 2017 to RUB 7,032 million in 2018. The majority of the capital expenditure was spent on acquiring new ISO containers and flatcars.

Planned Capital Expenditure for 2019

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