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JSC TransContainer

Results for the second quarter and first half of 2014

JSC "TransContainer" ("TransContainer" or the "Company" together with its consolidated subsidiaries) today publishes its management report together with the reviewed interim condensed financial statements for the second quarter and first half ended 30 June 2014. The financial statements presented in this announcement have been prepared in accordance with the International Financial Reporting Standards (IFRS).

Operating and financial review

Summary

TransContainer is the leading intermodal container transportation company in Russia. As of 30 June 2014, the Company accounted for approximately 45.6% of all rail container transportation in Russia. It owns and operates 27,174 flatcars and 64,670 ISO containers. TransContainer also owns a network of rail-side container terminals located at 46 railway stations across Russia and operates one terminal in Slovakia under a long-term lease agreement. The Company's joint venture JSC KedenTransService ("KedenTransService", or "KDTS") also operates 19 inland rail-side terminals in Kazakhstan. The Company's sales network is comprised of approximately 130 sales outlets across Russia, along with a presence in the CIS, Europe and Asia.

During the first six months of 2014 the rail container transportation market demonstrated volume growth of 7.1% year on year. The Company's rail container transportation volumes in Russia for the six months ended 30 June 2014 increased by 2.2% to 717 thousand twenty-foot equivalent units ("TEU") compared to 701 thousand TEU in the corresponding period of 2013, whilst revenue-generating transportation [\[1\]](#) volumes grew by 4.5% year on year to 557

thousand TEU. Terminal handling volumes in Russia increased by 2.1% year on year to 633 thousand TEU in the reporting period.

For the three months ended 30 June 2014, the increase in the Company's rail container transportation volumes, revenue-generating volumes and terminal handling in Russia was 2.5% year on year, 4.1% year on year and 4.3% year on year respectively.

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

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

During the six months ended 30 June 2014, the Company's total revenue decreased by 3.5% year on year to RUB 17,534 million and adjusted revenue decreased by 16.3% year on year to RUB 10,069 million. EBITDA fell by 16.4% to RUB 4,108 million from RUB 4,916 million in the corresponding period of 2013. Profit for the period reduced by 25.1% to RUB 2,079 million in the first half of 2014 from RUB 2,777 million in the corresponding period last year.

In the second quarter of 2014, the Company's total revenue decreased by 5.5% year on year to RUB 9,074 million, while adjusted revenue fell by 19.0% year on year to RUB 5,185 million. As a result, EBITDA dropped by 33.8% year on year to RUB 1,844 million and the profit for the period decreased by 53.9% year on year to RUB 770 million.

In terms of profitability, the adjusted EBITDA margin in the first six months of 2014 remained flat at 40.8% compared to 40.9% for the first half of 2013, while the net income margin decreased from 23.1% to 20.6% respectively. On a quarterly basis, adjusted EBITDA margin decreased from 43.5% in the second quarter of 2013 to 35.6% in the second quarter of 2014, while the net income margin decreased from 26.1% to 14.8% respectively.

As of 30 June 2014, the Company's total debt was RUB 7,655 million with net debt of only RUB 4,955 million, bringing the Net Debt/ LTM EBITDA ratio to a comfortable level of 53%.

Capital expenditure for six months ended 30 June 2014 increased by 63.2% year on year to RUB 2,083 million. In accordance with the Company's policy, all capital expenditure during the reporting period was financed by the Company's own cash flow.

Recent developments and outlook

The rail container transportation market in Russia continues to grow in the third quarter of 2014 despite increased geopolitical tensions, affirming the management's view of the market's prospects. The Company's management continues to expect the rail container market to demonstrate middle single-digit growth rates for the full year of 2014, subject to any external effects.

Despite the weakening economic environment, increasing levels of competition in the container segment will keep operator tariffs under pressure at least in the near term. In these circumstances the Company's management will focus on business optimisation, improving efficiency and the quality of service.

The Company's management will continue to invest in rolling stock and terminal modernisation, and will pursue suitable M&A opportunities in line with its strategy, subject to changes in the economic environment. In the long term, the Company believes that the Russian container transportation market is fundamentally attractive with significant growth potential, driven by Russia's economic development and containerisation.

Key operating results

Rail container transportation volumes in Russia

The Company's rail container transportation volumes in Russia for the second quarter of 2014 increased by 2.5% to 368 thousand twenty-foot equivalent units ("TEU"), compared to the same period of 2013. This was mainly due to a 7.9% increase in domestic transportation volumes and a 28.8% hike in transit volumes, partly offset by imports, which dropped by 23.6%. A decrease in the Company's import transportation was primarily driven by a slump in Russia's total rail container imports and tightening competition in the segment. The Company's rail container transportation volumes in Russia for the second quarter of 2014 increased by 5.4% from 349 thousand TEU in the first quarter of 2014.

Transportation of containers by TransContainer's fleet in 2Q 2014 (ISO Loaded + Empty), 000' TEU

	2Q 2014	2Q 2013	Change 000' TEU	Percent
Domestic Routes	189.7	175.9	+13.8	+7.9%
Export	93.3	89.6	+3.8	+4.2%
Import	51.8	67.8	-16.0	-23.6%
Transit	33.1	25.7	+7.4	+28.8%
All Routes	367.9	359.0	+9.0	+2.5%

The Company's rail container transportation volumes for the first six months of 2014 amounted to 717 thousand TEU, compared to 701 thousand TEU for the first six months of 2013, up 2.2% year on year. This increase was mainly driven by an improvement in domestic, export and transit transportation volumes, partly offset by a 20.3% decline in imports. Weakness of the Russian Rouble against the US dollar and Euro in the first half of 2014 was a significant trigger in reducing import transportation volumes.

Transportation of containers by TransContainer's fleet in 1H 2014 (ISO Loaded + Empty), 000' TEU

	1H 2014	1H 2013	Change 000' TEU	Percent
Domestic Routes	356.9	343.1	+13.9	+4.1%
Export	193.2	180.3	+12.9	+7.1%
Import	105.3	132.2	-26.9	-20.3%
Transit	61.5	45.8	+15.7	+34.2%
All Routes	716.9	701.3	+15.6	+2.2%

The Company's revenue-generating container transportation volumes in Russia amounted to 286 thousand TEU in the second quarter of 2014, up 4.1% compared to the second quarter of 2013. For the first six months of 2014, revenue-generating container transportation volumes grew by 4.5% year on year to 557 thousand TEU.

TransContainer's estimated share of Russia's rail container transportation market for the first six months of 2014 was 45.6%.

Rail container transportation volumes in Kazakhstan

Rail container transportation volumes carried out by KedenTransService ("KDTS"), the joint venture of the Company and Kazakhstan Temir Zholy in Kazakhstan, amounted to 63.4 thousand TEU in the second quarter of 2014, which represents a 1.6 % year on year increase. Rail container transportation volumes for the first six months of 2014 increased by 21.2% to 117.3

thousand TEU, compared to 96.8 thousand TEU for the first six months of 2013, as a result of expansion of the flatcar fleet under operation.

Terminal handling in Russia

In the second quarter of 2014, throughput of the Company's rail container terminal network in Russia increased by 4.3% to 337 thousand TEU compared to 323 thousand TEU for the same period of 2013, reflecting market trends. The terminal throughput was affected by an 81.1% drop in handling medium-duty containers (MDC). This decline is a result of continually phasing out the MDC fleet. At the same time, the influence of this trend is decreasing: MDC handling volumes in the second quarter of 2014 amounted to 1.2 thousand TEU compared to 6.3 thousand TEU in the corresponding period of 2013.

For the first six months of 2014, throughput of the Company's rail container terminal network in Russia amounted to 633 thousand TEU, an increase of 2.1% year on year. MDC handling volumes dropped 82.4% year on year for the same period.

Terminal handling in Kazakhstan

For the first six months of 2014, terminal handling volumes at the cross-border terminals Dostyk and Altynkol amounted to 94.5 thousand TEU, which represents a 51.3% year on year increase driven by an increase in handling yards under KDTS' operation. Terminal handling volumes across the inland terminal network in Kazakhstan decreased by 34.4% year on year to 26.5 thousand TEU amid the weakened economic environment in Kazakhstan and continuing fading out of MDCs. Non-container throughput at KDTS' terminals was down 15.1% year on year to 1.5 million tonnes, primarily due to weak market performance in the first quarter of 2014.

In the second quarter of 2014, terminal handling volumes at the cross-border terminals Dostyk and Altynkol amounted to 51.2 thousand TEU, up 132.4% year on year. Terminal handling volumes across the inland terminal network in Kazakhstan decreased by 22.0% to 15.0 thousand TEU. The reasons for changes in the terminal handling dynamics are the same as discussed above. Non-container throughput at KDTS' terminals decreased by 3.0% year on year to 861 thousand tonnes, mainly due to a decline in handling of non-container cargo at the cross-border terminals resulted from a decline in Chinese imports and transit to the Central Asia.

Asset utilisation

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

In the first half of 2014, container empty runs in Russia improved to a certain extent as a result of the Company's efforts to optimise its fleet utilisation, while the empty run for flatcars remained essentially flat at the comfortable level of 6.5%

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

	1H 2014	1H 2013	2Q 2014	2Q 2013
Turnover of containers, days	31.0	25.5	30.2	25.0
Turnover of flatcars, days	14.2	13.7	13.8	13.3

Empty run ^[2] for containers, %	29.1%	30.0%	30.5%	30.8%
Empty run for flatcars, %	6.5%	6.4%	6.3%	6.7%

Description of Key Consolidated Statement of Comprehensive Income Items

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

RUB million	1H		Year on year change		2Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%
Revenue	17,534	18,162	-628	-3.5%	9,074	9,604	-530	-5.5%
Other operating income	341	347	-6	-1.7%	183	139	+44	+31.7%
Operating expenses	-15,194	-14,783	-411	+2.8%	-8,164	-7,612	-552	+7.3%
Gain from early termination of finance lease	18	32	-14	-43.8%	2	32	-30	-93.8%
Interest expense	-339	-385	46	-11.9%	-162	-177	+15	-8.5%
Interest income	95	141	-46	-32.6%	71	75	-4	-5.3%
Foreign exchange gain, net	33	72	-39	-54.2%	-112	72	-184	-255.6%
Share of result of associates and joint ventures	90	5	+85	+1,700.0%	62	4	+58	+1,450.0%
Profit before income tax	2,578	3,591	-1,013	-28.2%	954	2,137	-1,183	-55.4%
Income tax expense	-499	-814	+315	-38.7%	-184	-468	+284	-60.7%
Profit for the period	2,079	2,777	-698	-25.1%	770	1,669	-899	-53.9%
Attributable to:								
Equity holders of the parent	2,079	2,786	-707	-25.4%	770	1,687	-917	-54.4%
Non-controlling interest	-	-9	+9	-100%	0	-18	+18	-100.0%
Other comprehensive income								
Items that will not be reclassified to profit or loss:								
Remeasurements of post-employment benefit plans	27	-8	+35	-437.5%	-22	-9	-13	+144.4%
Remeasurements of investment property	8	-			17	0	+17	
Items that may be reclassified subsequently to profit or loss:								
Exchange differences	-318	208	-526	-252.9%	-177	153	-330	-215.7%

on translating foreign operations								
Other comprehensive income for the period	-283	200	-483	-241.5%	-182	144	-326	-226.4%
Total comprehensive income for the period	1,796	2,977	-1,181	-39.7%	588	1,813	-1,225	-67.6%
Attributable to:								
Equity holders of the parent	1,796	2,927	-1,131	-38.6%	588	1,755	-1,167	-66.5%
Non-controlling interest	-	50	-50	-100.0%	0	58	-58	-100.0%

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

In the first half of 2014, the Company's total revenue decreased by 3.5% year on year to RUB 17,534 million and adjusted revenue decreased by 16.3% year on year to RUB 10,069 million. This decrease led to a 16.4% decline in EBITDA to RUB 4,108 million from RUB 4,916 million in the corresponding period of 2013, while the profit for the period fell by 25.1% to RUB 2,079 million in the first half of 2014 from RUB 2,777 million in the corresponding period last year.

In the second quarter of 2014, the Company's total revenue decreased by 5.5% year on year to RUB 9,074 million, while adjusted revenue fell by 19.0% to RUB 5,185 million. As a result, EBITDA dropped by 33.8% year on year to RUB 1,844 million and the profit for the period decreased by 53.9% to RUB 770 million.

Additional financial information

Adjusted Revenue, Adjusted Operating Expenses, EBITDA, Adjusted EBITDA Margin and Adjusted Operating Margin are not recognised under IFRS as measures of financial performance, but are calculated on the basis of IFRS figures and are presented as supplemental indicators of the Company's operating performance. These supplemental measures have limitations as analytical tools, and investors should not consider any of them in isolation, or any combination of them, as a substitute for analysis of our results as reported under IFRS.

RUB million	Year on year change				Year on year change			
	1H 2014	1H 2013	RUB mln	%	2Q 2014	2Q 2013	RUB mln	%
Adjusted Revenue ¹	10,069	12,034	-1,965	-16.3%	5,185	6,401	-1,216	-19.0%
Adjusted operating expenses ²	7,729	8,655	-926	-10.7%	4,275	4,409	-134	-3.0%
EBITDA ³	4,108	4,916	-808	-16.4%	1,844	2,787	-943	-33.8%
Adjusted EBITDA margin ⁴	40.8%	40.9%			35.6%	43.5%		
Total debt	7,655	9,354	-1,699	-18.2%	7,655	9,354	-1,699	-18.2%
Net debt ⁵	4,955	4,223	+732	+17.3%	4,955	4,223	+732	+17.3%

¹Adjusted Revenue is calculated as total revenue less cost of integrated freight forwarding and logistics services.

² Adjusted Operating Expenses are calculated as operating expenses less cost of integrated freight forwarding and logistics services.

³ EBITDA is defined as profit for the period before income tax, interest expense and depreciation and amortisation.

⁴ Adjusted EBITDA Margin is defined as EBITDA divided by Adjusted Revenue.

⁵ Net Debt is calculated as long-term debt, finance lease obligations, short-term debt and current portion of long-term debt less cash and cash equivalents and short-term investments.

Revenue

The following table sets out the breakdown of total revenue for the six months and the three months ended 30 June 2014 and 2013 respectively.

RUB million	1H		Year on year change		2Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%
Integrated freight forwarding and logistics services	13,141	10,766	+2,375	+22.1%	6,786	5,755	+1,031	+17.9%
Rail-based container shipping services	2,608	4,130	-1,522	-36.9%	1,338	2,151	-813	-37.8%
Terminal services and agency fees	994	1,964	-970	-49.4%	528	996	-468	-47.0%
Truck deliveries	477	676	-199	-29.4%	257	362	-105	-29.0%
Other freight forwarding services	141	285	-144	-50.5%	78	153	-75	-49.0%
Bonded warehousing services	118	191	-73	-38.2%	56	98	-42	-42.9%
Other	55	150	-95	-63.3%	31	89	-58	-65.2%
Total revenue	17,534	18,162	-628	-3.5%	9,074	9,604	-530	-5.5%

Total revenue decreased by RUB 628 million, or 3.5%, to RUB 17,534 million for the six months ended 30 June 2014 from RUB 18,162 million for the six months ended 30 June 2013. In the second quarter of 2014, total revenue decreased by 5.5% to RUB 9,074 million. This decrease was primarily due to a deconsolidation of KDTS's revenue. If KDTS's contribution to the revenue for the first half of 2013 and the second quarter of 2013 is eliminated, the Company's total revenue would have increased by 12.9% year on year and by 11.2% year on year, respectively, driven by an increase in integrated freight and transportation services.

Adjusted Revenue

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

RUB million	1H		Year on year change		2Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%

Total revenue	17,534	18,162	-628	-3.5%	9,074	9,604	-530	-5.5%
Cost of integrated freight forwarding and logistics services	7,465	6,128	+1,337	+21.8%	3,889	3,203	+686	+21.4%
Adjusted Revenue	10,069	12,034	-1,965	-16.3%	5,185	6,401	-1,216	-19.0%

Adjusted revenue (as defined above) declined by 16.3% to RUB 10,069 million for the six months ended 30 June 2014 from RUB 12,034 million for the six months ended 30 June 2013. This was primarily due to the deconsolidation of KDTS's costs and revenues, as well as the challenging pricing environment in the Russian rail container transportation market. If KDTS's contribution to the adjusted revenue for the first half of 2013 is eliminated, the Company's adjusted revenue would have decreased by RUB 278 million, or 2.7% year on year.

Due to the same reasons adjusted revenue declined by 19.0% year on year to RUB 5,185 million in the second quarter of 2014. If KDTS's contribution to the adjusted revenue for the second quarter of 2014 is eliminated, the Company's adjusted revenue would have decreased by RUB 298 million, or 5.4% year on year.

The following table sets out the components of relative contribution to adjusted revenue for the six months ended 30 June 2014 and 2013 respectively.

	1H 2014		1H 2013		Year on year change	
	RUB mln	share, %	RUB mln	share, %	mln	Percent
Adjusted Integrated freight forwarding and logistics services	5,676	56.4%	4,638	38.5%	+1,038	+22.4%
Rail-based container shipping services	2,608	25.9%	4,130	34.3%	-1,522	-36.9%
Terminal services and agency fees	994	9.9%	1,964	16.3%	-970	-49.4%
Truck deliveries	477	4.7%	676	5.6%	-199	-29.4%
Other freight forwarding services	141	1.4%	285	2.4%	-144	-50.5%
Bonded warehousing services	118	1.2%	191	1.6%	-73	-38.2%
Other	55	0.5%	150	1.2%	-95	-63.3%
Total Adjusted Revenue	10,069	100%	12,034	100%	-1,965	-16.3%

The structure of the Adjusted Revenue changed in the first half of 2014 compared to the corresponding period of 2013. The share of rail-based container transportation services in the Adjusted Revenue decreased from 34.3% for the first six months ended 30 June 2013 to 25.9% for the first six months ended 30 June 2014. The share of integrated freight forwarding and logistics services, net of cost of integrated freight forwarding and logistics services, increased to 56.4% from 38.5% as a result of the services mix shifting towards transportation under integrated logistics contracts. The share of terminal services and agency fees decreased from 16.3% to 9.9%, mainly due to a deconsolidation of KedenTransService's results.

The following table sets out the components of relative contribution to adjusted revenue for the three months ended 30 June 2014 and 2013 respectively.

	2Q 2014	2Q 2013	Year on year change
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	RUB mln share, %		RUB mln share, %		RUB mln	Percent
Adjusted Integrated freight forwarding and logistics services	2,897	55.9%	2,552	39.9%	+345	+13.5%
Rail-based container shipping services	1,338	25.8%	2,151	33.6%	-813	-37.8%
Terminal services and agency fees	528	10.2%	996	15.6%	-468	-47.0%
Truck deliveries	257	5.0%	362	5.7%	-105	-29.0%
Other freight forwarding services	78	1.5%	153	2.4%	-75	-49.0%
Bonded warehousing services	56	1.1%	98	1.5%	-42	-42.9%
Other	31	0.6%	89	1.4%	-58	-65.2%
Total Adjusted Revenue	5,185	100%	6,401	100%	-1,216	-19.0%

In the second quarter of 2014, the share of integrated freight forwarding and logistics services, net of cost of integrated freight forwarding and logistics services, in the Adjusted Revenue increased from 39.9% for the three months ended 30 June 2013 to 55.9% for the three months ended 30 June 2014, while the share of rail-based container transportation services decreased to 25.8% from 33.6% as a result of the services mix shifting towards transportation under integrated logistics contracts. The share of terminal services and agency fees decreased from 15.6% to 10.2% due to the deconsolidation of KDTS's results.

Integrated freight forwarding and logistics services

Revenue from integrated freight forwarding and logistics services increased by 22.1% year on year to RUB 13,141 million and by 17.9% year on year to RUB 6,786 for the six months and three months ended 30 June 2014 respectively.

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

	1H		Year on year change		2Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%
Integrated freight forwarding and logistics services	13,141	10,766	+2,375	+22.1%	6,786	5,755	+1,031	+17.9%
Cost of integrated freight forwarding and logistics services	7,465	6,128	+1,337	+21.8%	3,889	3,203	+686	+21.4%
Adjusted revenue from integrated freight forwarding and logistics services	5,676	4,638	+1,038	+22.4%	2,897	2,552	+345	+13.5%

Adjusted revenue from integrated freight forwarding and logistics services grew by 22.4% year on year to RUB 5,676 million for the first half of 2014. In the second quarter of 2014 this revenue item grew by 13.5% year on year to RUB 2,897 million. This increase was primarily due to the Company's business shifting towards providing integrated freight forwarding and logistics services, which was partly offset by the deconsolidation of KDTS's transportation business.

Rail-based container transportation services

Revenue from rail-based container transportation fell by 36.9% to RUB 2,608 million for the six months ended 30 June 2014 from RUB 4,130 million for the same period of 2013. In the second quarter of 2014, revenue from rail-based container transportation decreased by 37.8% year on year to RUB 1,338 million. This decrease resulted from a change in the mix of services shifting towards transportation as part of integrated logistics contracts, as well as from a decrease in average tariffs.

Terminal services and agency fees

Revenue from terminal services, including agency fees, decreased by 49.4% to RUB 994 million for the six months ended 30 June 2014 from RUB 1,964 million for the same period of 2013, while in the second quarter of 2014 revenue from terminal services, including agency fees, fell by 47.0% year on year to RUB 528 million. This decrease was primarily due to the deconsolidation of KDTS's terminal business.

On a stand-alone basis, the revenue from terminal services and agency fees would have increased in the first half of 2014 by RUB 28 million, or 2.9% year on year, while in the second quarter of 2014 the increase would have been of RUB 29 million, or 5.7% year on year. This increase reflects the dynamics of the Company's container terminal handling volumes in Russia which grew by 2.1% year on year in the first half of 2014 and by 4.3% year on year in the second quarter of 2014 respectively.

Agency fees, which are charged for services the Company renders as an agent of Russian Railways, increased by 0.9% to RUB 798 million for the six months ended 30 June 2014, compared to RUB 791 million for the same period of 2013. Agency fees for the second quarter of 2014 increased by 3.9% to RUB 430 million. This increase was broadly in line with container handling volumes at the Company's terminals in Russia.

Truck deliveries

Revenue from truck deliveries decreased by RUB 199 million, or 29.4%, to RUB 477 million for the six months ended 30 June 2014 from RUB 676 million for the same period of 2013. This was due to a 21.7% reduction in container transportation volumes by the Company's own and outsourced truck fleet to 199 thousand TEU in the first half of 2014 from 255 thousand TEU in corresponding period of 2013. The deconsolidation of KDTS's trucking business also contributed to this decrease.

For the same reasons revenue from truck deliveries in the second quarter of 2014 decreased by RUB 105 million, or 29.0%, to RUB 257 million from RUB 362 million in the second quarter of 2013. In the second quarter of 2014, container transportation volumes by the Company's own and outsourced truck fleet decreased by 21.3% year on year to 108 thousand TEU from 137 thousand TEU in the corresponding quarter of 2013.

Other freight forwarding and logistics services

Revenue from other freight forwarding and logistics services, which are freight forwarding and logistics services of a non-integrated nature, fell by 50.5% from RUB 285 million for the six months ended June 2013 to RUB 141 million for the corresponding period of 2013. In the second quarter of 2014, revenue from other freight forwarding and logistics services were down 49.0%

year on year to RUB 78 million. This decrease was primarily due to the Company's business shifting towards providing integrated freight forwarding and logistics services.

Bonded warehousing services

Revenue from bonded warehousing services decreased by RUB 73 million, or 38.2%, to RUB 118 million for the six months ended 31 June 2014 from RUB 191 million for the same period of 2013, primarily due to the deconsolidation of the KDTs bonded warehousing business.

Revenue from bonded warehousing services decreased in the second quarter of 2014 by RUB 42 million, or 42.9%, to RUB 56 million for the reason stated above.

Operating expenses

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

RUB million	1H		Year on year change		2Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%
Cost of integrated freight forwarding and logistics services	7,465	6,128	+1,337	+21.8%	3,889	3,203	+686	+21.4%
Freight and transportation services	2,367	2,085	+282	+13.5%	1,280	974	+306	+31.4%
Payroll and related charges	2,095	2,242	-147	-6.6%	1,141	1,099	+42	+3.8%
Depreciation and amortisation	1,191	940	+251	+26.7%	728	473	+255	+53.9%
Materials, repair and maintenance	906	1,301	-395	-30.4%	489	691	-202	-29.2%
Taxes other than income tax	292	447	-155	-34.7%	146	247	-101	-40.9%
Rent	202	744	-542	-72.8%	106	461	-355	-77.0%
Other operating expenses	676	896	-220	-24.6%	385	464	-79	-17.0%
Total operating expenses	15,194	14,783	411	2.8%	8,164	7,612	+552	+7.3%

TransContainer's total operating expenses increased by RUB 411 million, or 2.8%, to RUB 15,194 million for the six months ended 30 June 2014 from RUB 14,783 million for the six months ended 30 June 2013. This was due to a significant increase in the cost of integrated freight forwarding and logistics services, higher expenses related to freight and transportation services and depreciation which offset the effect of the deconsolidation of the KDTs's business and a decrease in other cost items.

In the second quarter of 2014, the Company's total operating expenses grew by RUB 552 million, or 7.3% year on year, to RUB 8,164 million, driven by an increase in the cost of integrated freight forwarding and logistics services, freight and transportation services, depreciation charges and payrolls, partially offset by a decrease in other expense items.

Cost of integrated freight forwarding and logistics services

Costs of integrated freight forwarding and logistics services increased by 21.8% to RUB 7,465 million for the six months ended 30 June 2014 from RUB 6,128 million for the same period of 2013. This was predominantly driven by an increase in transportation volumes under integrated logistics contracts and higher volume of outsourced transportation services involved in TransContainer's integrated logistics solutions.

For the same reason costs of integrated freight forwarding and logistics services increased in the second quarter of 2014 by 21.4% to RUB 3,889 million from RUB 3,203 million in the corresponding quarter of 2013.

Adjusted operating expenses

The following table sets out adjusted operating expenses for the six months and three months ended 30 June 2014 and 2013 respectively.

RUB million	1H		Year on year change		2Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%
Total operating expenses	15,194	14,783	+411	+2.8%	8,164	7,612	+552	+7.3%
Cost of integrated freight forwarding and logistics services	7,465	6,128	+1,337	+21.8%	3,889	3,203	+686	+21.4%
Adjusted operating expenses	7,729	8,655	-926	-10.7%	4,275	4,409	-134	-3.0%

Adjusted operating expenses, as defined above, decreased by 10.7% to RUB 7,729 million for the six months ended 30 June 2014 from RUB 8,655 million for the same period of 2013, primarily as a result of the deconsolidation of KDTS's business. For the same reason adjusted operating expenses decreased by 3.0% to RUB 4,275 million in the second quarter of 2014 from RUB 4,409 million in the second quarter of 2013.

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

RUB million	1H		Year on year change		2Q		Year on year change	
	2014	2013	RUB mln	%	2014	2013	RUB mln	%
Freight and transportation services	2,367	2,085	+282	+13.5%	1,280	974	+306	+31.4%
Payroll and related charges	2,095	2,242	-147	-6.6%	1,141	1,099	+42	+3.8%
Depreciation and amortisation	1,191	940	+251	+26.7%	728	473	+255	+53.9%
Materials, repair and maintenance	906	1,301	-395	-30.4%	489	691	-202	-29.2%
Taxes other than income tax	292	447	-155	-34.7%	146	247	-101	-40.9%
Rent	202	744	-542	-72.8%	106	461	-355	-77.0%
Other expenses	676	896	-220	-24.6%	385	464	-79	-17.0%
Adjusted operating	7,729	8,655	-926	-10.7%	4,275	4,409	-134	-3.0%

expenses

Freight and transportation services

Expenses relating to freight and transportation services increased by RUB 282 million, or 13.5%, to RUB 2,367 million for the six months ended 30 June 2014. If the deconsolidation effect is eliminated, costs related to freight and transportation services would have increased by 10.6% year on year, due to a rise in empty run costs incurred from container transportation in the CIS countries. The higher number of empty runs was driven by increased volumes of transit transportation by the Company's rolling stock, and the devaluation of the Russian Rouble. This increase was partially offset by a decrease in the container empty run ratio in Russia from 30.0% to 29.1%.

In the second quarter of 2014, expenses relating to freight and transportation services grew by 306 million, or 31.4%, to RUB 1,280 million. If the deconsolidation effect of KDTS is eliminated, this increase would have been of RUB 197 million, or 18.2%, also driven by an increase in volumes of transit transportation by the Company's rolling stock through CIS countries by 28.8% in the second quarter of 2014.

Payroll and related charges

Payroll and related charges decreased by RUB 147 million, or 6.6%, to RUB 2,095 million for the six months ended 30 June 2014 from RUB 2,242 million for the same period of 2013, primarily due to the deconsolidation of KDTS. If the deconsolidation effect is eliminated, payroll and related charges would have increased by 11.3% year on year, mainly due to base salary indexing and payments of performance-related bonuses in the first half of 2014. This increase, however, was partially offset by a 12.7% decrease in TransContainer's average headcount from 4,716 to 4,117 employees.

In the second quarter of 2014, payroll and related charges grew by RUB 42 million, or 3.8% year on year, to RUB 1,141 million, despite the deconsolidation effect of KDTS and a 13.8% decrease TransContainer's average headcount. This increase was resulted mainly due to a bonus payment paid in the second quarter of 2014 for the Company's performance in the previous quarter. The base salary indexing also contributed to the growth.

Depreciation and amortisation

Depreciation and amortisation increased by RUB 251 million, or 26.7%, to RUB 1,191 million in the first half of 2014 from RUB 940 million for the same period of 2013, despite the deconsolidation of KDTS. This was mainly due to an increase in depreciation and amortisation charges resulting from acquiring fixed assets between 30 June 2013 and 30 June 2014. Revising the useful life of the rolling stock was also a factor that led to depreciation charges increasing by RUB 220 million.

For the same reason depreciation and amortisation grew in the second quarter of 2014 by RUB 255 million, or 53.9% year on year, to RUB 728 million.

Materials, repair and maintenance

Expenses related to materials, repair and maintenance fell by 30.4% to RUB 906 million for the first six months of 2014 from RUB 1,301 million for the same period of 2013, due to the

deconsolidation of KDTS. A fall in the number of flatcar repairs, especially in the number of the most expensive overhaul repairs, was also a contributing factor.

In the second quarter of 2014, expenses related to materials, repair and maintenance decreased by 29.2% year on year to RUB 489 million due to the factors described above.

Taxes other than income tax

Taxes other than income tax decreased by 34.7% to RUB 292 million for the six months ended 30 June 2014 from RUB 447 million for the same period of 2013, primarily due to the deconsolidation of KDTS. Excluding the deconsolidation effect, taxes other than income tax would have decreased by 6.5% year on year due to VAT settlements.

In the second quarter of 2014, taxes other than income tax decreased by 40.9% year on year to RUB 146 million due to the deconsolidation of KDTS. Excluding the deconsolidation effect, taxes other than income tax would have decreased by 6.2% year on year, primarily due to VAT settlements.

Rent

Rent expenses fell by RUB 542 million, or by 72.8%, to RUB 202 million for the six months ended 30 June 2014 period from RUB 744 million in the same period of 2013, as a result of the deconsolidation of KDTS. On a stand-alone basis, the Company's rent expenses would have increased by RUB 70 million, or 53.2%, primarily due to an increase in a number of flatcars rented under operating lease contracts increasing to 200 units in the first half of 2014 from 70 units in the first half 2013.

In the second quarter of 2014, rent expenses decreased by 77.0% year on year to RUB 106 million as a result of the deconsolidation of KDTS. If this effect would have been eliminated, rent expenses would have increased in the second quarter of 2014 by RUB 41 million, or 63.2% year on year, due to an increase in a number of flatcars rented under operating lease contracts.

Other operating expenses

Other operating expenses are an aggregate of various expense items such as security, consulting expenses, fuel and energy, licences and software, communication services, loss of sale of fixed assets and so on. Other expenses fell by 24.6% to RUB 676 million for the first six months of 2014 from RUB 896 million in the first half of 2013, primarily due to the deconsolidation of KDTS. Excluding the deconsolidation effect, other operating expenses would have decreased by 7.8% year on year, as a result of improved cost control.

In the second quarter of 2014, other operating expenses decreased by RUB 79 million, or 17.0% year on year, resulting from the deconsolidation of KDTS. On the stand-alone basis other operating expenses would have increased by RUB 10 million, or 2.7% year on year.

Interest expense

Interest expenses decreased by RUB 46 million, or 11.9%, to RUB 339 million for the first six months of 2014 from RUB 385 million for the same period of 2013, mainly due to the scheduled amortisation of series 2 bonds in the total amount of RUB 1,500 million in December 2013 and in June 2014.

For the same reason interest expense in the second quarter of 2014 decreased by RUB 15 million, or 8.5% year on year, to RUB 162 million for the three months ended 30 June 2014 from 177 million for the three months ended 30 June 2013.

Interest income

Interest income decreased by RUB 46 million, or 32.6%, to RUB 95 million in the first half of 2014 from RUB 141 million for the same period of 2013, due to a decrease in cash balances in deposit accounts compared to the first half of 2013.

Interest income in the second quarter of 2014 decreased insignificantly by RUB 4 million, or 5.3% year on year, due to fluctuations in cash balances in deposit accounts.

Profit before income tax

Profit before income tax decreased by RUB 1,013 million, or by 28.2%, from RUB 3,591 million for the six months ended 30 June 2013 to RUB 2,578 million for the six months ended 30 June 2014.

In the second quarter of 2014, profit before income tax decreased by RUB 1,183 million, or by 55.3% year on year, from RUB 2,137 million for the three months ended 30 June 2013 to RUB 954 million for the three months ended 30 June 2014.

Income tax expenses

Income tax expenses decreased by RUB 315 million, or 38.7%, to RUB 499 million in the first six months of 2014 from RUB 814 million for the same period of 2013, primarily due to the deconsolidation of KDTS, as well as a decrease in non-deductible tax expenses.

Income tax expenses decreased by RUB 284 million, or by 60.7% year on year, from RUB 468 million for the three months ended 30 June 2013 to RUB 184 million for the three months ended 30 June 2014 for the same reason as stated above.

The effective tax rate for the six months ended 30 June 2014 decreased to 19.4% compared to 22.7% in the same period of 2013, while on the quarterly basis the effective tax rate was 19.3% and 21.9% respectively.

Total profit and comprehensive income for the period

As a result of the factors discussed above, the profit for the six months ended 30 June 2014 decreased by RUB 698 million, or 25.1%, to RUB 2,079 million compared to RUB 2,777 million for the same period of 2013. Taking into account the exchange differences relating to foreign operations and other effects, the total comprehensive income for the reporting period was down 39.7% and totalled RUB 1,796 million, compared to RUB 2,977 million for the first six months of 2013.

The profit for the three months ended 30 June 2014 decreased by RUB 899 million, or 53.9% year on year, to RUB 770 million from RUB 1,669 million for the same period of 2013. Taking into account the exchange differences relating to foreign operations and other effects, the Company generated the total comprehensive loss of RUB 182 million in the second quarter of 2014 compared to the total comprehensive profit in the amount of RUB 144 million in the second quarter of 2013.

Liquidity and Capital Resources

As of 30 June 2014, the Company's net cash and cash equivalents amounted to RUB 2,700 million and the Company's current liabilities exceeded current assets by RUB 335 million.

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

Cash flows

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

RUB million	1H 2014	1H 2013
Net cash provided by operating activities	3,570	3,465
Net cash used in investing activities	-2,028	-3,147
Net cash used in/ provided by financing activities	-760	120
Net increase in cash and cash equivalents	782	438
Net cash and cash equivalents at the end of the period	2,700	1,829

Cash flow generated by operating activities

Cash flow generated by operating activities increased by RUB 105 million, or 3.0%, to RUB 3,570 million for the six months ended 30 June 2014 from RUB 3,465 million for the same period of 2013. The decrease in operating profit before working capital changes by RUB 1,103 million, or 28.2% was offset by changes in working capital and a decrease in interest paid and income tax expense.

Cash flow used in investing activities

Cash flow used in investing activities decreased by RUB 1,119 million, or 35.6%, to RUB 2,028 million for the six months ended 30 June 2014 from RUB 3,147 million for the same period of 2013. This was primarily due to an increase in the net result of short-term investments, represented by bank deposits, from negative RUB 1,960 million for the six months ended 30 June 2013 to positive RUB 1 million for the six months ended 30 June 2013. This offset an increase in capital expenditures from RUB 1,276 million to RUB 2,083 million respectively.

Cash flow used in financing activities

Cash flow generated by financing activities turned to negative RUB 760 million in the first six months of 2014 from positive RUB 120 million for the same period of 2013, primarily due to net redemptions of long-term borrowings.

Capital Expenditure

Capital expenditure increased by RUB 807 million, or 63.2%, to RUB 2,083 million in the first half of 2014 from RUB 1,276 million in the first half of 2013. The majority of the capital expenditure was spent on acquiring new flatcars and ISO containers, as well as on construction and other investments. In particular, during the reporting period, the Company acquired 3,492 ISO containers, 1,245 80 foot flatcars and 200 40 foot flatcars.

Planned capital expenditure for 2014

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

The total capital expenditure in 2014 is budgeted at RUB 5.3 billion (excluding VAT), subject to market conditions, of which up to RUB 2.9 billion may be spent on acquiring new flatcars; up to RUB 0.95 billion on upgrading and modernising the Company's key rail-side terminals; up to RUB 0.5 billion on acquiring new containers; up to RUB 0.5 billion on purchasing new cranes and other lifting equipment and up to RUB 0.45 billion on other capital expenditure items such as trucks, IT and other equipment. The actual level of capital expenditure amount is subject to the market environment and the Company's financial conditions.

Capital resources

The Company's operations and capital expenditure have historically been financed from internally generated cash flow and proceeds from issuing domestic debt. As of 30 June 2014, the Company's financial indebtedness consisted of two outstanding bond issues, financial lease obligations and other borrowings in an aggregate amount of RUB 7,655 million, compared to RUB 8,438 million as of 31 December 2013. As of 30 June 2014, the Company's net debt was RUB 4,955 million.

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

RUB-denominated bonds series 2

On 10 June 2010, the Company issued non-convertible five-year amortising bonds for a total amount of RUB 3,000 million at a par value of RUB 1,000 each. Net proceeds from the issuance after the deduction of related offering costs amounted to RUB 2,975 million. The annual coupon on the bonds for five years is 8.8% with interest paid semi-annually. The series 2 bonds will be redeemed in four equal semi-annual instalments during the fourth and fifth year. The Company made the first principal repayment in December 2013 in the amount of RUB 750 million.

As at 30 June 2014, the carrying value of the bonds amounted to RUB 1,490 million (RUB 2,236 million as at 31 December 2013) and this amount was included as short-term debt in the interim condensed consolidated statement of financial position. The amount of accrued interest is RUB 9 million (RUB 18 million as at 31 December 2013), and was included as short-term debt in the interim condensed consolidated statement of financial position.

RUB-denominated bonds series 4

On 1 February 2013, the Company issued non-convertible five-year bonds for a total amount of RUB 5,000 million at a par value of RUB 1,000 each. Net proceeds from the issuance after the

deduction of related offering costs amounted to RUB 4,988 million. The annual coupon rate of the bonds for five years is 8.35% with interest paid semi-annually.

The series 4 bonds will be redeemed in four equal semi-annual instalments within the fourth and fifth years. As a result, these bonds are classified as long-term borrowings as at the reporting date. As at 30 June 2014, the carrying value of the bonds amounted to RUB 4,990 million (RUB 4,988 million as at 31 December 2013).

The amount of accrued interest is RUB 172 million (RUB 175 million as at 31 December 2013) and has been included as short-term debt in the interim condensed consolidated statement of financial position.

Other borrowings

On 23 May 2011, the Company borrowed funds from LLC TrustUnion AM for the principal amount of RUB 514 million at an interest rate of 9.5% per annum with a five year maturity to finance the acquisition of the Company's ordinary shares for a share option plan for the Company's management. The outstanding debt was RUB 469 million as at 30 June 2014.

Working Capital

The Company's working capital is defined as the difference between its current assets and current liabilities. The table below sets out the key components of TransContainer's working capital for the six months ended 30 June 2014.

RUB million	30 June 2014	31 December 2013
Current assets		
Inventory	331	358
Trade and other receivables	1,307	1,621
Prepayments and other current assets	2,838	3,435
Prepaid income tax	40	114
Short-term investments	-	1
Cash and cash equivalents	2,700	1,883
Total current assets	7,216	7,412
Current liabilities		
Trade and other payables	3,657	3,216
Short-term debt and current portion of long-term debt	1,671	1,693
Income tax payable	101	77
Taxes other than income tax payable	323	372
Provisions	19	19
Finance lease obligations, current maturities	167	66
Dividends payable	1,117	
Accrued and other current liabilities	496	834
Total current liabilities	7,551	6,277
Working capital	-335	1,135

Working capital decreased by RUB 1,470 million to negative RUB 335 million at the end of the reporting period from RUB 1,135 million as at 31 December 2013. This was primarily due to a RUB 1,117 million increase in dividends payable and a RUB 441 million increase in trade and other payables, accompanied with a RUB 597 million decrease in prepayments and other current assets.

Downloads

The consolidated financial statements for the six months ended 30 June 2014 are available via the National Storage Mechanism at: <http://www.hemscott.com/nsm.do> or at the Company's website: <http://www.trcont.ru>

Conference call

TransContainer will host an analyst conference call on Friday, 29 August 2014, at 12:00 UK time / 15:00 Moscow time. Dial in details are as follows:

UK Free Call Dial In	0800 694 0257
Russia Dial In (from a landline) Conference ID	810 8 002 097 2044 91043371

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

UK Free Call Dial In	0800 953 1533
Russia Dial In Replay Access Code	8 499 677 1064 91043371#

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About TransContainer

TransContainer (LSE ticker: TRCN) is the leading intermodal container transportation company in Russia. It is the market leader in Russia by flatcar fleet size, container transportation by rail and rail-side container terminal throughput. As of 30 June 2014, it operated 27,174 flatcars and 64,670 ISO containers. It owns a network of 46 rail-side container terminals in Russia, 19 rail-side terminals in Kazakhstan (through its joint venture company KedenTransService) and operates one terminal in Slovakia. Company's sales network comprises more than 130 sales offices across Russia as well as presence in the CIS, Europe and Asia. TransContainer is listed at Moscow Exchange and LSE. Company's major shareholder is JSC Russian Railways with 50%+2 shares.

Legal Disclaimer

Some of the information in this announcement may contain projections or other forward-looking statements regarding future events or the future financial performance of the Company. You can identify forward-looking statements by terms such as 'expect', 'believe', 'anticipate', 'estimate', 'intend', 'will', 'could', 'may' or 'might', the negative of such terms or other similar expressions.

JSC "TransContainer" wishes to caution you that these statements are only predictions and that actual events or results may differ materially. JSC "TransContainer" does not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in projections or forward-looking statements of JSC "TransContainer", including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia, rapid technological and market change in the industries JSC "TransContainer" operates in, as well as many other risks specifically related to JSC "TransContainer" and its operations

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

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

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