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PJSC TransContainer

Results for the third quarter and nine months ended 30 September 2016

PJSC "TransContainer" ("TransContainer" or the "Company" together with its consolidated subsidiaries) today publishes its management report together with the unaudited interim condensed consolidated financial statements for the third quarter and nine months ended 30 September 2016. 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 at 30 September 2016, it owns 23,342 flatcars and 67,382 ISO containers. TransContainer also owns a network of rail-side container terminals, located at 45 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. TransContainer's sales network comprises 116 sales outlets in Russia, along with additional outlets across the CIS, Europe and Asia.

In the third quarter of 2016, Russia's container market continued to demonstrate strong performance, driven by both domestic and international segments. The transportation volumes were up 12.4% year-on-year to 830 thousand twenty-foot equivalent units ("TEU"). Domestic transportation volumes grew by 10.4% year-on-year, while international transportation was up 14.6% year-on-year on the back of 14.6% and 28.0% growth in export and transit segments, respectively.

For the first nine months of 2016, the Russian rail container market grew by 8.2% year-on-year to 2,368 thousand TEU. In terms of segment breakdown for the nine month period, domestic transportation volumes surged by 13.0% year-on-year, while export transportation by 5.2% year-on-year. Transit volumes increased by 7.2% year-on-year, while import transportation volumes were down 0.6% year-on-year.

In the third quarter of 2016, container volumes transported by the Company's flatcars and containers (including provision of the Company's containers on the third party flatcars) surged by 12.9% year-on-year to 394 thousand TEU. The key growth drivers were domestic and export transportation, which grew by 12.0% and 24.9%, respectively. For the first nine months of 2016, container volumes transported by the Company's flatcar and container fleet grew by 7.3% year-on-year to 1,118 thousand TEU, mainly as a result of an increase in domestic, export and import transportation.

The continuing market recovery along with the Company's business optimisation measures were the key factors contributing to the improvements of TransContainer's financial performance during the reporting period, as presented in the table below:

	9M		Year-on-year		3Q		Year-on-year	
	2016	9M 2015	change		2016	3Q 2015	change	
			RUB mln	Percent			RUB mln	Percent
Total revenue	36,900	31,065	+5,835	+18.8%	13,357	11,059	+2,298	+20.8%
Adjusted revenue	15,695	15,153	+542	+3.6%	5,738	5,266	+472	+9.0%
Adjusted expenses	13,334	13,083	+251	+1.9%	4,744	4,311	+433	+10.0%
EBITDA	5,298	4,660	+638	+13.7%	2,106	1,856	+250	+13.5%
Adjusted EBITDA margin	33.8%	30.8%			36.7%	35.2%		
Profit for the period	2,641	1,925	+716	+37.2%	1,159	886	+273	+30.8%
Adjusted net profit margin	16.8%	12.7%	4.1%		20.2%	16.8%	3.4%	

In the reporting quarter, the Company's EBITDA increased by 13.5% year-on-year to RUB 2,106 million and the net profit was up 30.8% year-on-year to RUB 1,159 million. Adjusted EBITDA margin grew from 35.2% in the third quarter of 2015 to 36.7% in the reporting quarter of 2016, while net profit margin improved from 16.8% to 20.2%, respectively.

For the nine month period, the Company's EBITDA increased by 13.7% year-on-year to RUB 5,298 million, and profit for the period grew by 37.2% year-on-year to RUB 2,641 million. In terms of margins, adjusted EBITDA margin improved from 30.8% for the nine months in 2015 to 33.8% in the reporting period, while net profit margin was up from 12.7% to 16.8%, respectively.

As at 30 September 2016, the Company's total debt amounted to RUB 8,937 million and its net debt was negative RUB 310 million.

Capital expenditure for the nine months ended 30 September 2016 was RUB 1,326 million, up 49.7% year-on-year. The money was spent primarily on the acquisition of containers and investments in terminal infrastructure. During the reporting period, all capital expenditure was financed by the Company's own cash flow.

Recent developments and outlook

In October and November of 2016, the Russian rail container market continued its robust growth. For the first ten months of 2016, the market expanded by approximately 9.3% year-on-year. Russian container transportation volumes in October reached the highest ever monthly level of 300 thousand TEU. This supports earlier estimates provided by the Company's management regarding the market growth for the full year 2016 to be close to the upper end of the single-digit range.

The Company believes that the key driver of this strong market performance is an improving containerisation process, which leads to an increase in competition among rail operators, as well as between rail and other transportation modes. TransContainer expects the Russian rail container market growth to be continued in the coming year, subject to the macro environment and tariff policies set by the key market players. The Company believes that the market will maintain its significant long-term growth potential driven by the expected recovery of industrial production, consumer demand and further growth in rail cargo containerisation.

With this in mind, the Company's management plans to resume purchases of rolling stock in the coming year to facilitate the market growth, and will continue to focus on further improvement of management efficiency, asset utilisation and the quality of customer service.

Key operating results

Rail container transportation

In the reporting quarter, container volumes transported by the Company's flatcars and containers (including provision of own containers to the third party flatcars) surged by 12.9% year-on-year to 394 thousand TEU. The key growth drivers were domestic and export transportation, which grew by 12.0% and 24.9%, respectively.

Transportation of containers using TransContainer's assets in 3Q 2016 (ISO Loaded + Empty), 000' TEU

	3Q 2016	3Q 2015	Change 000' TEU	Percent
Domestic Routes	225.0	200.9	+24.1	+12.0%
Export	85.7	68.6	+17.1	+24.9%
Import	64.3	61.5	+2.9	+4.7%
Transit	18.7	17.7	+1.0	+5.9%
All Routes	393.8	348.7	+45.1	+12.9%

Container volumes transported by the Company's flatcar fleet in the third quarter of 2016 increased by 5.3% year-on-year to 362 thousand TEU from 343 thousand TEU a year earlier. The Company's revenue-generating¹ container transportation volumes in Russia amounted to 307 thousand TEU in the third quarter of 2016, up 18.5% year-on-year.

For the first nine months of 2016, container volumes transported by the Company's flatcar and container fleet grew by 7.3% year-on-year to 1,118 thousand TEU, mainly as a result of an increase in domestic, export and import transportation. Transit volumes were down 25.1% year-on-year due to a reduced number of auto vehicles produced in Uzbekistan and Kazakhstan.

Transportation of containers using TransContainer's assets in 9M 2016 (ISO Loaded + Empty), 000' TEU

	9M 2016	9M 2015	Change 000' TEU	Percent
Domestic Routes	636.9	578.6	+58.3	+10.1%
Export	262.5	237.6	+25.0	+10.5%
Import	169.2	159.5	+9.7	+6.1%
Transit	49.7	66.3	-16.6	-25.1%
All Routes	1,118.3	1,042.0	+76.3	+7.3%

Container volumes transported by the Company's flatcar fleet for the nine months of 2016 decreased by 0.3% year-on-year to 1,033 thousand TEU from 1,036 thousand TEU in the corresponding period of 2015. The Company's revenue-generating container transportation volumes in Russia amounted to 861 thousand TEU for the first nine months of 2016, up 10.7% year-on-year.

Terminal handling

In the third quarter of 2016, the Company's throughput in the Russian rail container terminal network amounted to 319 thousand TEU, remaining at the level of the third quarter of 2015. For the first nine months of 2016, the Company's container terminal throughput was down 0.2% year-on-year to 897 thousand TEU compared to 900 thousand TEU for the corresponding period of 2015. This resulted from a decrease in unloading of containers, which, in turn, was associated with a slowdown in import transportation, as well as a decrease in marshalling of containers due to a higher share of block-train transportation.

Asset utilisation

In the third quarter and the first nine months of 2016, flatcar empty run ratio improved compared to the previous year, while container empty runs increased insignificantly. Flatcar turnover improved on the back of continuing market recovery, while the container turnover marginally deteriorated.

	3Q 2016	3Q 2015	9M 2016	9M 2015
Turnover of containers. days	32.7	31.7	35.8	34.4
Turnover of flatcars. days	13.5	15.1	14.1	15.2
Empty run ² for containers. %	34.0%	33.8%	32.0%	31.1%
Empty run for flatcars. %	6.3%	7.3%	6.8%	7.3%

¹ Transportation of clients' containers by the Company's rolling stock and own loaded containers by its own and third-party flatcars

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

Description of Key Consolidated Statement of Comprehensive Income Items

The following table sets out the Company's results for the nine months and the three months ended 30 September 2016 and 2015.

Summary of the Company's key results for the nine months and the three months ended 30 September 2016 and 2015, respectively:

RUB million	Year-on-year change				Year-on-year change			
	9M 2016	9M 2015	RUB mln	%	3Q 2016	3Q 2015	RUB mln	%
Revenue	36,900	31,065	+5,835	+18.8%	13,357	11,059	+2,298	+20.8%
Other operating income	511	487	+24	+4.9%	168	159	+9	+5.7%
Operating expenses	-34,539	-28,995	-5,544	+19.1%	-12,363	-10,104	-2,259	+22.4%
Operating profit	2,872	2,557	+315	+12.3%	1,162	1,114	+48	+4.3%
Interest expense	-290	-384	+94	-24.5%	-77	-115	+38	-33.0%
Interest income	190	107	+83	+77.6%	103	38	+65	+171.1%
Foreign exchange gain, net	-167	-97	-70	+72.2%	-31	21	-52	-247.6%
Share of result of associates and JVs	545	249	+296	+118.9%	225	72	+153	+212.5%
Other financial results, net	0	14	-14	-100.0%	0	0	+0	
Profit before income tax	3,150	2,446	+704	+28.8%	1,382	1,130	+252	+22.3%
Income tax expense	-509	-521	+12	-2.3%	-223	-244	+21	-8.6%
Profit for the period	2,641	1,925	+716	+37.2%	1,159	886	+273	+30.8%
Other comprehensive income (net of income tax)	-482	-569	+87	-15.3%	-49	-411	+362	-88.1%
Total comprehensive income for the period	2,159	1,356	+803	+59.2%	1,110	475	+635	+133.7%

Adjustments and additional financial information

The majority of the Company's services are provided with the use of third-party services. Accordingly, third-party charges for such services are presented within the Company's revenues and expenses. Such third-party charges include the value of rail infrastructure tariffs and the charges of the Company's other subcontractors and contracted partners involved in the process of providing the Company's services.

Third-party charges other than ones related to integrated freight forwarding and logistics services are presented within revenues as a separate line item "Cargo transportation and handling services with involvement of third parties".

All third-party charges, including ones related to integrated freight forwarding and logistics services, are presented within expenses as "Third-party charges related to principal activities".

Summary of 3rd-party charges involved in TransContainer's revenues

Item	9M 2016	9M 2015	Year-on-year change		3Q 2016	3Q 2015	Year-on-year change	
			RUB mln	%			RUB mln	%
3rd-party charges related to integrated freight forwarding and logistics	17,582	13,863	+3,719	+26.8%	6,404	4,874	+1,530	+31.4%
3rd-party charges related to cargo transportation and handling services	3,623	2,049	1,574	+76.8%	1,215	919	296	+32.2%
Third-party charges related to principal activities	21,205	15,912	+5,293	+33.3%	7,619	5,793	+1,826	+31.5%

In order to enhance analysis, we apply adjustments to the components of the Company's revenues and expenses to derive the values that are net of the charges of third parties involved in the Company's services.

Total revenue adjustments

Item	Year-on-year change				Year-on-year change			
	9M 2016	9M 2015	RUB mln	%	3Q 2016	3Q 2015	RUB mln	%
Total revenue	36,900	31,065	+5,835	+18.8%	13,357	11,059	+2,298	+20.8%
Third-party charges related to principal activities	-21,205	15,912	-5,293	+33.3%	-7,619	-5,793	-1,826	+31.5%
Adjusted Revenue	15,695	15,153	+542	+3.6%	5,738	5,266	+472	+9.0%

Integrated freight forwarding and logistics services revenue adjustment

Item	Year-on-year change				Year-on-year change				
	9M 2016	9M 2015	RUB mln	%	3Q 2016	3Q 2015	RUB mln	%	
Integrated freight forwarding and logistics services	27,453	23,192	+4,261	+18.4%	10,096	8,041	+2,055	+25.6%	
3rd-party charges related to integrated freight forwarding and logistics	-	17,582	-13,863	-3,719	+26.8%	-6,404	-4,874	-1,530	+31.4%
Adjusted integrated freight forwarding and logistics services	9,871	9,329	+542	+5.8%	3,692	3,167	+525	+16.6%	

Operating expenses adjustment

Item	Year-on-year change				Year-on-year change			
	9M 2016	9M 2015	RUB mln	%	3Q 2016	3Q 2015	RUB mln	%
Total operating expenses	34,539	28,995	+5,544	+19.1%	12,363	10,104	+2,259	+22.4%
Third-party charges related to principal activities	-21,205	-15,912	-5,293	+33.3%	-7,619	-5,793	-1,826	+31.5%
Adjusted Operating Expenses	13,334	13,083	+251	+1.9%	4,744	4,311	+433	+10.0%

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				RUB	
			mln	%	mln		mln	%
Integrated freight forwarding and logistics services	27,453	23,192	+4,261	+18.4%	10,096	8,041	+2,055	+25.6%
Rail-based container shipping services	3,057	3,291	-234	-7.1%	1,042	1,162	-120	-10.3%
Cargo transportation and handling services with involvement of third parties	3,623	2,049	+1,574	+76.8%	1,215	919	+296	+32.2%
Terminal services and agency fees	1,723	1,580	+143		629	593	+36	+6.1%
Truck deliveries	657	633	+24	+3.8%	238	234	+4	+1.7%
Other freight forwarding services	159	102	+57	+55.9%	60	32	+28	+87.5%
Bonded warehousing services	147	141	+6	+4.3%	52	49	+3	+6.1%
Other	81	77	+4	+5.2%	25	29	-4	-13.8%
Total revenue	36,900	31,065	+5,835	+18.8%	13,357	11,059	+2,298	+20.8%

Total revenue increased by RUB 5,835 million, or 18.8% year-on-year, to RUB 36,900 million for the nine months ended 30 September 2016, from RUB 31,065 million in the corresponding period of 2015. In the third quarter of 2016, total revenue increased by 20.8% year-on-year to RUB 13,357 million. This increase was primarily due to higher third-party charges accounted as a part of the Company's total revenue.

The following table sets out the components of the relative contribution to adjusted revenue for the nine months ended 30 September 2016 and 2015, respectively.

Adjusted revenue breakdown 9M comparison

	9M 2016		9M 2015		Year-on-year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Adjusted integrated freight forwarding and logistics services	9,871	62.9%	9,329	61.6%	+542	+5.8%
Rail-based container shipping services	3,057	19.5%	3,291	21.7%	-234	-7.1%

Terminal services and agency fees	1,723	11.0%	1,580	10.4%	+143	+9.1%
Truck deliveries	657	4.2%	633	4.2%	+24	+3.8%
Other freight forwarding services	159	1.0%	102	0.7%	+57	+55.9%
Bonded warehousing services	147	0.9%	141	0.9%	+6	+4.3%
Other	81	0.5%	77	0.5%	+4	+5.2%
Total adjusted revenue	15,695	100%	15,153	100%	+542	+3.6%

Adjusted revenue (as defined above) increased by 3.6% year-on-year to RUB 15,695 million for the nine months ended 30 September 2016, from RUB 15,153 million for the nine months ended 30 September 2015, due to an increase in revenue from integrated freight forwarding and logistics services, terminal services and ancillary businesses, which was partially offset by a decrease in rail-based container shipping services.

Adjusted revenue increased by 9.0% year-on-year to RUB 5,738 million in the third quarter of 2016 from RUB 5,266 million in the third quarter of 2015, primarily due to the growing transportation and terminal handling volumes.

The following table sets out the components of relative contribution to adjusted revenue for the three months ended 30 September 2016 and 2015, respectively.

Adjusted revenue breakdown 3Q comparison

	3Q 2016		3Q 2015		Year-on-year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Adjusted integrated freight forwarding and logistics services	3,692	64.3%	3,167	60.1%	+525	+16.6%
Rail-based container shipping services	1,042	18.2%	1,162	22.1%	-120	-10.3%
Terminal services and agency fees	629	11.0%	593	11.3%	+36	+6.1%
Truck deliveries	238	4.1%	234	4.4%	+4	+1.7%
Other freight forwarding services	60	1.0%	32	0.6%	+28	+87.5%
Bonded warehousing services	52	0.9%	49	0.9%	+3	+6.1%
Other	25	0.4%	29	0.6%	-4	-13.8%
Total adjusted revenue	5,738	100%	5,266	100%	+472	+9.0%

In the third quarter and the nine month period of 2016, the share of integrated freight forwarding and logistics services has been continuing its growth.

Integrated freight forwarding and logistics services

Revenue from integrated freight forwarding and logistics services increased by 18.4% year-on-year to RUB 27,453 million and by 25.6% year-on-year to RUB 10,096 for the nine months and three months ended 30 September 2016, respectively.

Adjusted revenue from integrated freight forwarding and logistics services was up 5.8% year-on-year to RUB 9,871 million for the nine months of 2016, on the back of growing revenue-generating volumes and changes in transportation services structure. For the same reasons, in the third quarter of 2016, this revenue item grew by 16.6% year-on-year to RUB 3,692 million, mainly as a result of an increase in revenue-generating transportation volumes.

Rail-based container transportation services

Revenue from rail-based container transportation was down 7.1% year-on-year to RUB 3,057 million for the nine months ended 30 September 2016, from RUB 3,291 million for the same period of 2015. In the third quarter of 2016, revenue from rail-based container transportation decreased by 10.3% year-on-year to RUB 1,042 million. These figures reflect the continuing shift of customers' preferences towards integrated logistics services.

Terminal services and agency fees

Revenue from terminal services, including agency fees, increased by 9.1% year-on-year to RUB 1,723 million for the nine months ended 30 September 2016 from RUB 1,580 million for the same period of 2015. In the third quarter of 2016, revenue from terminal services, including agency fees, increased by 6.1% year-on-year to RUB 629 million. This was primarily driven by an increase in average tariffs for terminal services and agency fees, while handling volumes being broadly flat.

Truck deliveries

Revenue from truck deliveries for the nine months ended 30 September 2016 increased by RUB 24 million, or 3.8% year-on-year, to RUB 657 million, from RUB 633 million for the same period of 2015. This was due to a 1.1% year-on-year increase in container transportation volumes by the Company's own and outsourced truck fleet.

Revenue from truck deliveries in the third quarter of 2016 increased by RUB 4 million, or 1.7% year-on-year, to RUB 238 million, from RUB 234 million in the corresponding period of 2015. In the third quarter of 2016, container transportation volumes by the Company's own and outsourced truck fleet decreased by 2.6% year-on-year to 102 thousand TEU, from 105 thousand TEU in the corresponding quarter of 2015. This decrease was offset by an increase in average tariff.

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, increased by 55.9% year-on-year to RUB 159 million in the nine month of 2016, from RUB 102 million in the corresponding period of 2015. In the third quarter of 2016, revenues from other freight forwarding and logistics services almost doubled year-on-year to RUB 60 million on the back of market recovery and resumed customers demand for added-value services.

Bonded warehousing services

Adjusted revenue from bonded warehousing services increased by RUB 6 million, or 4.3% year-on-year, to RUB 147 million for the nine months ended 30 September 2016, from RUB 141 million for the same period of 2015, reflecting recovery in import volumes.

Revenue from bonded warehousing services increased in the third quarter of 2016 by RUB 3 million, or 6.1% year-on-year, to RUB 52 million for the reason stated above.

Operating expenses

The following tables provide a breakdown of the Company's operating expenses for the nine months and three months ended 30 September 2016 and 2015, respectively.

Operating expenses structure: 9M comparison

	9M 2016			9M 2015		
	RUB mln	% of operating expenses	% of total revenue	RUB mln	% of operating expenses	% of total revenue
Third-party charges related to principal activities	21,205	61.4%	57.5%	15,912	54.9%	51.2%
Freight and transportation services	4,312	12.5%	11.7%	4,374	15.1%	14.1%
Payroll and related charges	3,530	10.2%	9.6%	3,378	11.7%	10.9%
Depreciation and amortisation	1,858	5.4%	5.0%	1,830	6.3%	5.9%
Materials, repair and maintenance	1,861	5.4%	5.0%	1,570	5.4%	5.1%
Taxes other than income tax	411	1.2%	1.1%	393	1.4%	1.3%
Rent	227	0.7%	0.6%	530	1.8%	1.7%
Other expenses	1,135	3.3%	3.1%	1,008	3.5%	3.2%
Total operating expenses	34,539	100.0%	93.6%	28,995	100.0%	93.3%

Operating expenses structure: 3Q comparison

	3Q 2016			3Q 2015		
	RUB mln	% of operating expenses	% of total revenue	RUB mln	% of operating expenses	% of total revenue
Third-party charges related to principal activities	7,619	61.6%	57.0%	5,793	57.3%	52.4%
Freight and transportation services	1,555	12.6%	11.6%	1,464	14.5%	13.2%
Payroll and related charges	1,117	9.0%	8.4%	1,088	10.8%	9.8%
Depreciation and amortisation	647	5.2%	4.8%	611	6.0%	5.5%
Materials, repair and maintenance	797	6.4%	6.0%	549	5.4%	5.0%
Taxes other than income tax	122	1.0%	0.9%	133	1.3%	1.2%
Rent	65	0.5%	0.5%	137	1.4%	1.2%
Other expenses	441	3.6%	3.3%	329	3.3%	3.0%
Total operating expenses	12,363	100.0%	92.6%	10,104	100.0%	91.4%

TransContainer's total operating expenses increased by RUB 5,544 million, or 19.1% year-on-year, to RUB 34,539 million for the nine months ended 30 September 2016, from RUB 28,995 million for the nine months ended 30 September 2015. This was due to a significant increase in the third-party charges related to principal activities.

In the third quarter of 2016, the Company's total operating expenses grew by 22.4% year-on-year, or by RUB 2,259 million, to RUB 12,363 million for the reason stated above.

Cost of third-party charges related to principal activities

Costs of third-party charges related to principal activities increased by 33.3% year-on-year to RUB 21,205 million for the nine months ended 30 September 2016, from RUB 15,912 million for the same period of 2015. This was predominantly driven by a higher volume of outsourced transportation services involved in TransContainer's principal activities, in particular in respect of integrated logistics solutions (see also section *Adjustments and additional financial information* above).

For the same reason, the costs of integrated freight forwarding and logistics services increased in the third quarter of 2016 by 31.5% year-on-year to RUB 7,619 million, from RUB 5,793 million in the corresponding quarter of 2015.

Adjusted operating expenses

Adjusted operating expenses, as defined in section *Adjustments and additional financial information* above, increased by 1.9% year-on-year to RUB 13,334 million for the nine months ended 30 September 2016, from RUB 13,083 million in the same period of 2015, primarily due to an increase in materials, repair and maintenance costs and payrolls. This, in turn, was partially offset by a decrease in rent expenses and freight and transportation services. In the third quarter of 2016, adjusted operating expenses increased by 10.0% year-on-year to RUB 4,744 million, from RUB 4,311 million in the third quarter of 2015, mainly due to a 45.2% increase in costs related to materials, repair and maintenance, which was partially offset by a decrease in rent expenses and taxes other than income tax.

The following tables provide a breakdown of the Company's adjusted operating expenses for the nine months and three months ended 30 September 2016 and 2015, respectively.

Adjusted operating expenses structure and dynamics for the nine months ended 30 September 2016 and 2015

9M 2016		9M 2015		Year-on-year change	
RUB	mln %	RUB	mln %	RUB	Percent
mln		mln		mln	change

Freight and transportation services	4,312	32.3%	4,374	33.4%	-62	-1.4%
Payroll and related charges	3,530	26.5%	3,378	25.8%	+152	+4.5%
Depreciation and amortisation	1,858	13.9%	1,830	14.0%	+28	+1.5%
Materials, repair and maintenance	1,861	14.0%	1,570	12.0%	+291	+18.5%
Taxes other than income tax	411	3.1%	393	3.0%	+18	+4.6%
Rent	227	1.7%	530	4.1%	-303	-57.2%
Other expenses	1,135	8.5%	1,008	7.7%	+127	+12.6%
Adjusted operating expenses	13,334	100.0%	13,083	100.0%	+251	+1.9%

Adjusted operating expenses structure and dynamics for the three months ended 30 September 2016 and 2015

	3Q 2016		3Q 2015		Year-on-year change	
	RUB mln	%	RUB mln	%	RUB mln	Percent change
Freight and transportation services	1,555	32.8%	1,464	34.0%	+91	+6.2%
Payroll and related charges	1,117	23.5%	1,088	25.2%	+29	+2.7%
Depreciation and amortisation	647	13.6%	611	14.2%	+36	+5.9%
Materials, repair and maintenance	797	16.8%	549	12.7%	+248	+45.2%
Taxes other than income tax	122	2.6%	133	3.1%	-11	-8.3%
Rent	65	1.4%	137	3.2%	-72	-52.6%
Other expenses	441	9.3%	329	7.6%	+112	+34.0%
Adjusted operating expenses	4,744	100.0%	4,311	100.0%	+433	+10.0%

Freight and transportation services

Expenses related to freight and transportation services decreased by RUB 62 million, or 1.4% year-on-year, to RUB 4,312 million for the nine months ended 30 September 2016, primarily due to a 2.6% decrease in transportation of the Company's own empty containers, the reduction in expenses related to empty runs abroad and overall optimisation of container logistics.

Expenses related to freight and transportation services grew by 6.2% year-on-year, or by RUB 91 million, to RUB 1,555 million in the third quarter of 2016. A 3.3% decrease in transportation of the Company's own empty containers was offset by a slightly higher empty run ratio for containers and higher expenses related to empty runs for flatcars in the Far East region amid the recovery in import transportation.

Payroll and related charges

Payroll and related charges increased by RUB 152 million, or 4.5% year-on-year, to RUB 3,530 million for the nine months ended 30 September 2016, from RUB 3,378 million for the same period of 2015, primarily due to base salary indexing and performance-linked payments. This increase was partially offset by a 5.6% year-on-year decrease in TransContainer's average headcount from 3,851 to 3,634.

For the reasons stated above, in the third quarter of 2016, payroll and related charges grew by 2.7% year-on-year, or by RUB 29 million, to RUB 1,117 million.

Depreciation and amortisation

Depreciation and amortisation increased just by RUB 28 million, or 1.5% year-on-year, to RUB 1,858 million in the nine months of 2016, from RUB 1,830 million for the corresponding period of 2015.

In the third quarter of 2016, depreciation and amortisation increased by 5.9% year-on-year, or RUB 36 million, to RUB 647 million.

Higher amortisation charges are mainly associated with an increase in the Company's fixed assets, which resulted from an increase in capital expenditures.

Materials, repair and maintenance

Expenses related to materials, repair and maintenance were up by 18.5% year-on-year to RUB 1,861 million for the nine months of 2016 from RUB 1,570 million for the same period of 2015. This was mainly due an 11.4% increase in a number of flatcar repairs, as well as higher average repair price. This expense item was also affected by maintenance and repair works on the Company's terminals during the construction season.

In the third quarter of 2016, expenses related to materials, repair and maintenance were up 45.2% year-on-year to RUB 797 million, due to the reasons mentioned above.

Taxes other than income tax

Taxes other than income tax were up 4.6% year-on-year to RUB 411 million for the nine months ended 30 September 2016 from RUB 393 million in the corresponding period of 2015, primarily due changes in VAT settlements.

In the third quarter of 2016, taxes other than income tax decreased by 8.3% year-on-year to RUB 122 million, primarily due to a decline in property tax expenses resulting from a decrease in taxable property.

Rent

Rent expenses fell by RUB 303 million, or by 57.2% year-on-year, to RUB 227 million for the nine months ended 30 September 2016 period from RUB 530 million for the corresponding period of 2015. This was largely due the flatcar operating lease contracts terminated in the third quarter of 2015.

For the same reason, rent expenses decreased by 52.6% year-on-year to RUB 65 million in the third quarter of 2016.

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, etc. For the nine months of 2016, other expenses were up by 12.6% to RUB 1,135 million from RUB 1,008 million in the corresponding period of 2015, mostly due to an increase in charity and fuel costs, which were partially offset by a decrease in costs related to consulting services, licences and other expenses. In the third quarter of 2016, other operating expenses increased by RUB 112 million, or 34.0% year-on-year, mainly due to the reasons described above.

Interest expense

Interest expenses decreased by RUB 94 million, or 24.5% year-on-year, to RUB 290 million for the nine months of 2016 from RUB 384 million for the same period of 2015, mainly due to the redemption of series 2 bonds in June 2015 and amortisation of series 4 bonds in July 2016.

For the same reason, interest expense in the third quarter of 2016 decreased by RUB 38 million, or 33.0% year-on-year, to RUB 77 million from 115 million in the corresponding period of 2015.

Interest income

Interest income increased by RUB 83 million, or 77.6% year-on-year, to RUB 190 million for the nine months of 2016 from RUB 107 million for the corresponding period of 2015, mainly due to an increase in the Company's cash balances in the third quarter in anticipation for the expected dividend payment. Interest income in the third quarter therefore increased by RUB 65 million, or 171.1% year-on-year, to RUB 103 million.

Profit before income tax

Profit before income tax increased by RUB 704 million, or by 28.8% year-on-year, to RUB 3,150 million for the nine months ended 30 September 2016 from RUB 2,446 million for the nine months ended 30 September 2015, as a result of the reasons described above, as well as due to an increased contribution of the financial result of Kedentransservice to the Company's profit.

In the third quarter of 2016, profit before income tax increased by RUB 252 million, or by 22.3% year-on-year, to RUB 1,382 million from RUB 1,130 million in the corresponding period of 2015, as a result of the factors mentioned above.

Income tax expenses

Income tax expenses were down by RUB 12 million, or 2.3% year-on-year, to RUB 509 million for the nine months of 2016 from RUB 521 million for the same period of 2015, primarily due to a decrease in deferred tax expense in 2016.

For the third quarter of 2016, income tax expenses decreased by RUB 21 million, or by 8.6% year-on-year, to RUB 223 million from RUB 244 million in the corresponding quarter of 2015

due to an increase in a non-taxable income recognised in accordance with IFRS determination of income tax expenses.

As a result, the effective tax rate for the nine months ended 30 September 2016 decreased to 16.2% from 21.3% in the same period of 2015, while it was 16.1% in the reporting quarter compared to 21.6% in the third quarter of 2015.

Total profit and comprehensive income for the period

As a result of the factors discussed above, the profit for the nine months ended 30 September 2016 increased by RUB 716 million, or 37.2% year-on-year, to RUB 2,641 million compared to RUB 1,925 million for the same period of 2015. Taking into account the exchange differences relating to foreign operations and other effects, the total comprehensive income for the reporting period was up 59.2% and amounted to RUB 2,159 million, compared to RUB 1,356 million for the nine months of 2015.

The profit for the three months ended 30 September 2016 increased by RUB 273 million, or 30.8% year-on-year, to RUB 1,159 million from RUB 886 million for the same period of 2015. Taking into account the exchange differences relating to foreign operations and other effects, the Company generated the total comprehensive profit of RUB 1,110 million in the third quarter of 2016 compared to the total comprehensive profit of RUB 475 million in the third quarter of 2015.

Liquidity and Capital Resources

As of 30 September 2016, the Company's net cash and cash equivalents amounted to RUB 9,180 million, while its current assets exceeded current liabilities by RUB 1,783 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 nine months ended 30 September 2016 and 2015, respectively.

RUB million	9M 2016	9M 2015
Net cash provided by operating activities	4,426	3,307
Net cash used in investing activities	-1,017	-761
Net cash used in/ provided by financing activities	3,855	-1,850
Net increase in cash and cash equivalents	7,264	696
Foreign exchange effect on cash and cash equivalents	-194	148
Net cash and cash equivalents at the end of the period	9,180	2,748

Cash flow generated by operating activities

Cash flow generated by operating activities grew by RUB 1,119 million, or 33.8% year-on-year, to RUB 4,426 million for the nine months ended 30 September 2016 from RUB 3,307 million for the same period of 2015, mainly due to an increase in operating profit.

Cash flow used in investing activities

Cash flow used in investing activities increased by RUB 256 million, or 33.6% year-on-year, to RUB 1,017 million for the nine months ended 30 September 2016 from RUB 761 million for the same period of 2015. This was primarily due to an increase in capital expenditures from RUB 886 million to RUB 1,326 million.

Cash flow used in financing activities

Cash flow provided by financing activities amounted to RUB 3,855 million. A partial redemption of bond series 4 in the amount of RUB 1,250 million and a full repayment of a RUB 468 million borrowings were offset by proceeds from an issuance of bonds series BO-02 in the amount of RUB 5 billion in September 2016.

Capital Expenditure

For the nine month of 2016, capital expenditure increased by RUB 440 million, or 49.7% year-on-year, to RUB 1,326 million from RUB 886 million a year earlier. The majority of the capital expenditure was incurred for the reconstruction and expansion of container terminals in Krasnoyarsk, Yekaterinburg, Irkutsk and Moscow, as well as for the acquisition of ISO containers.

Planned capital expenditure for 2016

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 2016 is budgeted at RUB 3.8 billion (excluding VAT). The rest of the 2016 CAPEX programme is expected to be focused on the acquisition of ISO containers, improvements of the terminal infrastructure and prepayments for acquisition of flatcars.

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 September 2016, the Company's financial indebtedness consisted of two outstanding bond issues and financial lease obligations in an aggregate amount of RUB 8,938 million, compared to RUB 5,790 million as of 30 September 2015. As of 30 September 2016, the Company's net debt was negative RUB 310 million.

As of 30 September 2016, 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 a fixed interest rate.

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 of two portions: the long-term one with the carrying value amounted to RUB 1,247 million, and the short-term one with the carrying value amounted to RUB 2,564 million.

The amount of accrued interest is RUB 176 million and has been included as short-term debt in the interim condensed consolidated statement of financial position.

RUB-denominated bonds series BO-02

On 22 September 2016, 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 deduction of related offering costs amounted to RUB 4,987m. The annual coupon rate of the bonds for five years is 9.4% with interest paid semi-annually.

The series BO-02 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 September 2016, the carrying value of the bonds amounted to RUB 4,987 million. The amount of accrued interest is RUB 10 million and has been included as short-term debt in the consolidated statement of financial position.

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 nine months ended 30 September 2016.

RUB million
Current assets

30 September 2016

31 December 2015

Inventory	246	315
Trade and other receivables	1,256	1,392
Prepayments and other current assets	3,515	3,527
Prepaid income tax	2	84
Short-term investments	67	7
Cash and cash equivalents	9,180	2,110
Non-current Assets classified as held for sale	0	0
Total current assets	14,266	7,435
Current liabilities		
Trade and other payables	4,244	3,405
Short-term debt and current portion of long-term debt	2,564	1,893
Income tax payable	71	99
Taxes other than income tax payable	289	634
Provisions	9	12
Finance lease obligations, current maturities	18	18
Dividends payable	4,830	0
Accrued and other current liabilities	458	686
Deferred income	0	0
Total current liabilities	12,483	6,747
Working capital	1,783	688

Working capital grew by RUB 480 million to RUB 1,783 million as at 30 September 2016 from RUB 688 million as at 31 December 2015, mainly due to an increase in cash and cash equivalents resulted from the issuance of bond series BO-02.

Downloads

The consolidated financial statements for the third quarter and the nine months ended 30 September 2016 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 Monday, 28 November 2016, at 14:00 UK time / 17:00 Moscow time. Dial in details are as follows:

UK Free Call Dial In

0800 694 0257

Russia Dial In (from a landline) 810 8002 0972 044
Conference ID 22312443#

A replay of the call will be available until 28 December 2016 using the following details:

UK Free Call Dial In 0800 953 1533
Russia Dial In 8 499 677 1064
Replay Access Code 22312443#

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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 September 2016, it owns a network of 45 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 116 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 with 50% +2 shares is United Transportation and Logistics Company, established by Russian Railways, Belorussian Railway and Kazakhstan Temir Zholy.

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. PJSC "TransContainer" wishes to caution you that these statements are only predictions and that actual events or results may differ materially. PJSC "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 PJSC "TransContainer", including, among others, general economic conditions, the competitive environment, risks associated with operating in Russia, rapid technological and market change in the industries PJSC "TransContainer" operates in, as well as many other risks specifically related to PJSC "TransContainer" and its operations.

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