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PJSC TransContainer

Results for the second quarter and six months ended 30 June 2017

PJSC "TransContainer" ("TransContainer" or the "Company" together with its consolidated subsidiaries) today publishes its management report together with the reviewed interim condensed consolidated financial statements for the second quarter and six months ended 30 June 2017. 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 June 2017, it owned and leased 23,561 flatcars and 70,990 ISO containers. TransContainer also owns a network of rail-side container terminals, located at 42 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 113 sales outlets in Russia, along with additional outlets across the CIS, Europe and Asia.

In the second quarter of 2017, Russia's container market continued to demonstrate a strong and robust growth of 17.3% year-on-year, mainly driven by an increase in import and transit transportation, while domestic shipments demonstrated a moderate 3.6% growth.

For the first six months of 2017, the Russian rail container market grew by 19.8% year-on-year to 1,841 thousand TEU. In terms of segment breakdown for the six month period, domestic transportation volumes increased by 7.5% year-on-year and export transportation by 19.4% year-on-year, while import transportation volumes surged by 39.4% year-on-year and transit skyrocketed by 71.3% year-on-year.

Amid the favorable market environment, the Company's revenue-generating transportation volumes increased by 20.3% year-on-year to 351 thousand TEU in the second quarter and by 23.0% year-on-year to 681 thousand TEU for the first six months of the reporting year. As a result, the Company's adjusted revenue increased by 30.0% year-on-year in the second quarter and by 30.4% year-on-year in the first half of 2017, respectively.

At the same time adjusted operating expenses grew by 14.5% year-on-year for the first half of the reporting year and by 12.3% year-on-year for the second quarter of 2017. This was largely driven by an increase in transportation volumes by the Company's assets, which grew by 18.7% and 14.2%, respectively. The Company managed to keep under control key expense items such as empty run costs, salaries and administrative expenses, as a result of improved fleet management, as well as logistics and optimisation measures taken at the Company's terminals.

As a result, the EBITDA margin increased to 43.8% in the second quarter of 2017 and to 40.0% for the first half of 2017, while the net profit margin improved to 25.4% and 21.8%, respectively.

The summary of the Company's key financial metrics is presented in the table below:

	6M	6M	Year-on-year change		2Q	2Q	Year-on-year change	
	2017	2016	RUB mln	Percent	2017	2016	RUB mln	Percent
Total revenue	30,673	23,543	7,130	30.3%	16,611	12,484	4,127	33.1%
Adjusted revenue	12,985	9,957	3,028	30.4%	6,969	5,360	1,609	30.0%
Adjusted expenses	9,836	8,590	1,246	14.5%	5,117	4,557	560	12.3%
EBITDA	5,192	3,192	2,000	62.7%	3,050	1,885	1,165	61.8%
Adjusted EBITDA margin	40.0%	32.1%	7.9%		43.8%	35.2%	8.6%	
Profit for the period	2,836	1,412	1,424	100.8%	1,770	956	814	85.1%
Adjusted net profit margin	21.8%	14.2%	7.7%		25.4%	17.8%	7.6%	

As at 30 June 2017, the Company's total debt was RUB 7,703 million with net debt of only RUB 1,292 million.

Capital expenditure for the six months ended 30 June 2017 increased by 83.0% as compared to the same period of 2016 and amounted to RUB 1,574 million; the money being spent on the acquisition of containers, flatcars and investments in terminal infrastructure. 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

In July and August of 2017, the Russian rail container market continued its robust growth. For the first eight months of 2017, the market is expected to expand by approximately 19% year-on-year. As a result, the Company's revises its market forecast of 2017 and now expects the market to grow by no less than 15% year-on-year.

To facilitate faster-than expected market growth, the Company has been investing in acquisition of new flatcars and containers and takes efforts to optimise its terminal portfolio in order to improve its position in key regions of container market. In July of 2017, the Company acquired a 30% stake in Kaluga Freight Village Sever Ltd., a company operating a rail container terminal in the vicinity of Moscow, and in August, it signed an agreement to purchase 100% stake in JSC Logistika Terminal, a rail-based container terminal in the close proximity to Saint-Petersburg.

As the Company believes that the long-term growth potential of the rail container transportation market is driven by ongoing rail cargo containerisation, TransContainer will continue to focus on further business optimisation, improving management efficiency, asset utilisation and the quality of customer service to increase the attractiveness of container transportation for existing and potential clients.

Key operating results

In the reporting quarter, container volumes transported by the Company's flatcars and containers (including provision of its own containers to the third-party flatcars) grew by 14.2% year-on-year to 436 thousand TEU. This mainly resulted from continued growth in international transportation, which was up 33.3% year-on-year, especially in import and transit segments, which grew by 48.8% and 89.2%, respectively.

Transportation of containers using TransContainer's assets in 2Q 2017 (ISO Loaded + Empty), 000' TEU

	2Q 2017	2Q 2016	Change	
			000' TEU	Percent
Domestic Routes	226.0	224.2	+1.8	+0.8%
Export	102.8	89.8	+13.0	+14.4%
Import	77.4	52.0	+25.4	+48.8%
Transit	30.3	16.0	+14.3	+89.2%
All Routes	436.4	382.0	+54.4	+14.2%

Container volumes transported by the Company's flatcar fleet in the second quarter of 2017 increased by 14.8% year-on-year to 406 thousand TEU from 354 thousand TEU a year earlier. The Company's revenue-generating^[1] container transportation volumes in Russia amounted to 351 thousand TEU in the second quarter of 2017, up 20.3% year-on-year.

For the first six months of 2017, container volumes transported by the Company's flatcar and container fleet, as described above, grew by 18.7% year-on-year to 860 thousand TEU, mainly as a result of an increase in transit, import and export transportation.

Transportation of containers using TransContainer's assets in 1H 2017 (ISO Loaded + Empty), 000' TEU

	1H 2017	1H 2016	Change	
			000' TEU	Percent
Domestic Routes	439.7	412.1	+27.6	+6.7%
Export	215.6	176.8	+38.8	+21.9%
Import	151.3	104.9	+46.5	+44.3%
Transit	53.4	31.0	+22.4	+72.3%
All Routes	860.0	724.7	+135.3	+18.7%

Container volumes transported by the Company's flatcar fleet in the first half of 2017 increased by 19.2% year-on-year to 800 thousand TEU from 671 thousand TEU a year earlier. The Company's revenue-generating container transportation volumes in Russia amounted to 681 thousand TEU in the first half of 2017, up 23% year-on-year.

In the second quarter of 2017, the Company's throughput in the Russian rail container terminal network increased by 6.5% to 332 thousand TEU, compared to 312 thousand TEU for the same period of 2016. For the first six months of 2017, the Company's container terminal throughput was up 7.6% and amounted to 622 thousand TEU compared to 578 thousand TEU for the first half of 2016.

The dynamics of the Company's container handling was slower than the whole container market growth due to the following factors: (i) the fast-growing transit volumes have limited impact on the container terminal handling; and (ii) continuing growth of container freight going directly from/to the producers' own freight yards.

Description of Key Consolidated Statement of Comprehensive Income Items

The following table sets out the Company's key results for the second quarter and six months ended 30 June 2017 and 2016.

Summary of the Company's key results for the second quarter and six months ended 30 June 2017 and 2016, respectively:

RUB million	Year-on-year change				Year-on-year change			
	6M 2017	6M 2016	RUB mln	%	2Q 2017	2Q 2016	RUB mln	%
Revenue	30,673	23,543	+7,130	+30.3%	16,611	12,484	+4,127	+33.1%
Other operating income	226	343	-117	-34.1%	147	198	-51	-25.8%
Operating expenses	-27,524	-22,176	-5,348	+24.1%	-14,759	-11,681	-3,078	+26.4%
Operating profit	3,375	1,710	+1,665	+97.4%	1,999	1,001	+998	+99.7%
Interest expense	-350	-213	-137	+64.3%	-172	-95	-77	+81.1%
Interest income	181	87	+94	+108.0%	92	45	+47	+104.4%
Foreign exchange gain, net	25	-136	+161	-118.4%	94	-20	+114	-570.0%
Share of result of associates and JVs	304	320	-16	-5.0%	198	263	-65	-24.7%
Other financial results, net	7	0	+7		7	0	+7	
Profit before income tax	3,542	1,768	+1,774	+100.3%	2,218	1,194	+1,024	+85.8%
Income tax expense	-706	-356	-350	+98.3%	-448	-238	-210	+88.2%
Profit for the period	2,836	1,412	+1,424	+100.8%	1,770	956	+814	+85.1%

Other comprehensive income/loss	12	-433	+445	-102.8%	89	-161	+250	-155.3%
Remeasurements and other reserves for post-employment benefit plans	-16	-46	+30	-65.2%	-1	-27	+26	-96.3%
Exchange differences on translating foreign operations (TRCN)	6	-44	+50	-113.6%	25	-27	+52	-192.6%
Exchange differences on translating foreign operations (Associates & JV)	22	-343	+365	-106.4%	65	-107	+172	-160.7%
Total comprehensive income for the period	2,848	979	+1,869	+190.9%	1,859	795	+1,064	+133.8%
Attributable to:								
Equity holders of the parent	0	979	-979	-100.0%	0	804	-804	-100.0%
Non-controlling interest	0	0	0		0	0	0	

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	6M	6M	Year-on-year change		2Q	2Q	Year-on-year change	
	2017	2016	RUB mln	%	2017	2016	RUB mln	%
3rd-party charges related to integrated freight forwarding and logistics	15,852	11,178	+4,674	+41.8%	8,767	5,783	+2,984	+51.6%
Cargo transportation and handling services with involvement of third parties	1,836	2,408	-572	-23.8%	875	1,341	-466	-34.8%
Third-party charges related to principal activities	17,688	13,586	+4,102	+30.2%	9,642	7,124	+2,518	+35.3%

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 providing the Company's services.

Total revenue adjustments

Item	6M	6M	Year-on-year change		2Q	2Q	Year-on-year change	
	2017	2016	RUB mln	%	2017	2016	RUB mln	%
Total revenue	30,673	23,543	+7,130	+30.3%	16,611	12,484	+4,127	+33.1%
Third-party charges related to principal activities	-17,688	-13,586	-4,102	+30.2%	-9,642	-7,124	-2,518	+35.3%
Adjusted Revenue	12,985	9,957	+3,028	+30.4%	6,969	5,360	+1,609	+30.0%

Integrated freight forwarding and logistics services revenue adjustment

Item	6M 2017	6M 2016	Year-on-year change		2Q 2017	2Q 2016	Year-on-year change	
			RUB mln	%			RUB mln	%
Integrated freight forwarding and logistics services	25,061	17,357	+7,704	+44.4%	13,858	9,121	+4,737	+51.9%
3rd-party charges related to integrated freight forwarding and logistics	15,852	11,178	-4,674	+41.8%	-8,767	-5,783	-2,984	+51.6%
Adjusted integrated freight forwarding and logistics services	9,209	6,179	+3,030	+49.0%	5,091	3,338	+1,753	+52.5%

Operating expenses adjustment

Item	6M 2017	6M 2016	Year-on-year change		2Q 2017	2Q 2016	Year-on-year change	
			RUB mln	%			RUB mln	%
Total operating expenses	27,524	22,176	+5,348	+24.1%	14,759	11,681	+3,078	+26.4%
Third-party charges related to principal activities	-17,688	-13,586	-4,102	+30.2%	-9,642	-7,124	-2,518	+35.3%
Adjusted Operating Expenses	9,836	8,590	+1,246	+14.5%	5,117	4,557	+560	+12.3%

Adjusted Revenue, Adjusted Operating Expenses, EBITDA, Adjusted EBITDA Margin and Adjusted Operating Margin are not recognised under the IFRS as measures of financial performance, but are calculated on the basis of the 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 the IFRS.

Non-IFRS metrics used in the analysis

RUB million	6M 2017	6M 2016	Year-on-year change		2Q 2017	2Q 2016	Year-on-year change	
			RUB mln	%			RUB mln	%
Revenue	30,673	23,543	+7,130	+30.3%	16,611	12,484	+4,127	+33.1%
Adjusted Revenue ¹	12,985	9,957	+3,028	+30.4%	6,969	5,360	+1,609	+30.0%
Adjusted operating expenses ²	9,836	8,590	+1,246	+14.5%	5,117	4,557	+560	+12.3%
EBITDA ³	5,192	3,192	+2,000	+62.7%	3,050	1,885	+1,165	+61.8%
Adjusted EBITDA margin ⁴	40.0%	32.1%			43.8%	35.2%		
Profit for the period	2,836	1,412	+1,424	+100.8%	1,770	956	+814	+85.1%
Net Income Margin	21.8%	14.2%			25.4%	17.8%		
Total debt	7,703	5,445	+2,258	+41.5%	7,703	5,445	+2,258	+41.5%
Net debt ⁵	1,292	1,160	+132	+11.4%	1,292	1,160	+132	+11.4%
LTM EBITDA	9,099	6,817	+2,282	+33.5%	5,192	3,192		
Net debt/LTM EBITDA	0.14	0.17			0.25	0.36		

¹ Adjusted 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 second quarter and six months ended 30 June 2017 and 2016, respectively.

Revenue breakdown

RUB million	6M		Year-on-year change		2Q		Year-on-year change	
	2017	2016	RUB mln	%	2017	2016	RUB mln	%
Integrated freight forwarding and logistics services	25,061	17,357	+7,704	+44.4%	13,858	9,121	+4,737	+51.9%
Rail-based container shipping services	1,648	2,015	-367	-18.2%	780	1,072	-292	-27.2%
Cargo transportation and handling services with involvement of third parties	1,836	2,408	-572	-23.8%	875	1,341	-466	-34.8%
Terminal services, bonded warehousing services and agency fees	1,624	1,189	+435	+36.6%	869	632	+237	+37.5%
Truck deliveries	346	419	-73	-17.4%	169	237	-68	-28.7%
Other	158	155	+3	+1.9%	60	81	-21	-25.9%
Total revenue	30,673	23,543	+7,130	+30.3%	16,611	12,484	+4,127	+33.1%

Total revenue increased by RUB 7,130 million, or 30.3% year-on-year, to RUB 30,673 million for the six months ended 30 June 2017, from RUB 23,543 million in the corresponding period of 2016. In the second quarter of 2017, total revenue increased by 33.1% year-on-year to RUB 16,611 million. This primarily resulted from an increase in transportation volumes by the Company's assets, as well as terminal handling volumes on the back of the growing rail container transportation market.

The following table sets out the components of adjusted revenue and their relative contribution to adjusted revenue for the six months ended 30 June 2017 and 2016, respectively.

Adjusted revenue 6m breakdown

	6M 2017		6M 2016		Period on period change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Adjusted integrated freight forwarding and logistics services	9,209	70.9%	6,179	62.1%	+3,030	+49.0%
Rail-based container shipping services	1,648	12.7%	2,015	20.2%	-367	-18.2%
Terminal services, bonded warehousing services and agency fees	1,624	12.5%	1,189	11.9%	+435	+36.6%
Truck deliveries	346	2.7%	419	4.2%	-73	-17.4%
Other revenues	158	1.2%	155	1.6%	+3	+1.9%
Total adjusted revenue	12,985	100%	9,957	100%	+3,028	+30.4%

Adjusted revenue grew by 30.4% year-on-year to RUB 12,985 million in the first half of 2017 from RUB 9,957 million in the corresponding period of 2016, due to an increase in revenue from integrated freight forwarding and logistics services, terminal services, bonded warehousing services and agency fees, which was, in turn, partially offset by a decrease in rail-based container shipping services and truck deliveries.

Adjusted revenue increased by 30.0% year-on-year to RUB 6,969 million in the second quarter of 2017 from RUB 5,360 million in the second quarter of 2016, primarily due to the growing integrated freight forwarding and logistic services, as well as terminal services, bonded warehousing services and agency fees.

The following table sets out the components of relative contribution to adjusted revenue for the three months ended 30 June 2017 and 2016, respectively.

Adjusted revenue breakdown 2Q comparison

	2Q 2017		2Q 2016		Year-on-year change	
	RUB mln	share, %	RUB mln	share, %	RUB mln	Percent
Adjusted integrated freight forwarding and logistics services	5,091	73.1%	3,338	62.3%	+1,753	+52.5%
Rail-based container shipping services	780	11.2%	1,072	20.0%	-292	-27.2%
Terminal services, bonded warehousing services and agency fees	869	12.5%	632	11.8%	+237	+37.5%
Truck deliveries	169	2.4%	237	4.4%	-68	-28.7%
Other	60	0.9%	81	1.5%	-21	-25.9%
Total adjusted revenue	6,969	100%	5,360	100%	+1,609	+30.0%

Integrated freight forwarding and logistics services

Revenue from integrated freight forwarding and logistics services increased by 44.4% year-on-year to RUB 25,061 million and by 51.9% year-on-year to RUB 13,858 million for the six months and three months ended 30 June 2017, respectively.

Adjusted revenue from integrated freight forwarding and logistics services was up 49.0% year-on-year to RUB 9,209 million for the six months of 2017, on the back of growing revenue-generating volumes and changes in transportation services structure. For the same reasons, in the second quarter of 2017, this revenue item grew by 52.5% year-on-year to RUB 5,091 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 18.2% year-on-year to RUB 1,648 million for the six months ended 30 June 2017, from RUB 2,015 million in the corresponding period of 2016. In the second quarter of 2017, revenue from rail-based container transportation decreased by 27.2% year-on-year to RUB 780 million. The decline was due to customer demand continuing to shift towards integrated freight forwarding and logistics services.

Terminal services, bonded warehousing services and agency fees

Revenue from terminal services, bonded warehousing services and agency fees, increased by 36.6% year-on-year to RUB 1,624 million for the first half of 2017 from RUB 1,189 million for the same period of 2016. In the second quarter of 2017, revenue from terminal services, bonded warehousing and agency fees, increased by 37.5% year-on-year to RUB 869 million. This was primarily driven by an increase in average tariffs for terminal services and agency fees, as well as by growth in handling volumes.

Since 30 June 2017, this revenue item includes the revenue from bonded warehousing services, which earlier was reported separately. This was done to reflect the amendments in the Company's price list and unified list of services adopted in the second quarter of 2017.

Truck deliveries

Revenue from truck deliveries for the six months ended 30 June 2017 decreased by RUB 73 million, or 17.4% year-on-year, to RUB 346 million, from RUB 419 million for the same period of 2016. Revenue from truck deliveries in the second quarter of 2017 decreased by RUB 68 million, or 28.7% year-on-year, to RUB 169 million, from RUB 237 million in the corresponding period of 2016. This was mainly due to higher share of transportation provided within integrated logistics services.

Other freight forwarding and logistics services

In the second quarter of 2017, a new price list was adopted by the Company, according to which some freight forwarding fees were reclassified into transportation and handling tariffs. This led to a substantial reduction in this revenue item, so it was considered as insignificant and accounted for as other revenues.

Other revenues

Revenues from other freight forwarding and logistics services, which comprise mainly of freight forwarding and logistics services of a non-integrated nature, fell by 25.9% year-on-year to RUB 60 million in the six months of 2017, compared to RUB 81 million for the corresponding period of 2016. This was due changes in the Company's pricing policy, as described above.

Revenue from other services for the six months ended 30 June 2017 increased by 1.9% year-on-year to RUB 158 million in the six months of 2017, compared to RUB 155 million for the corresponding period of 2016, due to the positive effect of the first quarter 2017.

Operating expenses

The following tables provides a breakdown of the Company's operating expenses for the second quarter and six months ended 30 June 2017 and 2016, respectively.

Operating expenses structure 2q comparison

	2Q2017			2Q2016		
	RUB mln	% of operating expenses	% of total revenue	RUB mln	% of operating expenses	% of total revenue
Third-party charges related to principal activities	9,642	65.3%	58.0%	7,124	61.0%	57.1%
Freight and transportation services	1,636	11.1%	9.8%	1,498	12.8%	12.0%
Payroll and related charges	1,373	9.3%	8.3%	1,309	11.2%	10.5%
Depreciation and amortisation	660	4.5%	4.0%	596	5.1%	4.8%
Materials, repair and maintenance	754	5.1%	4.5%	634	5.4%	5.1%
Taxes other than income tax	272	1.8%	1.6%	125	1.1%	1.0%
Rent	61	0.4%	0.4%	73	0.6%	0.6%
Other expenses	361	2.4%	2.2%	322	2.8%	2.6%
Total operating expenses	14,759	100.0%	88.9%	11,681	100.0%	93.6%

Operating expenses structure 6m comparison

	6M 2017			6M2016		
	RUB mln	% of operating expenses	% of total revenue	RUB mln	% of operating expenses	% of total revenue
Third-party charges related to principal activities	17,688	64.3%	57.7%	13,586	61.3%	57.7%
Freight and transportation services	3,246	11.8%	10.6%	2,757	12.4%	11.7%
Payroll and related charges	2,701	9.8%	8.8%	2,413	10.9%	10.2%
Depreciation and amortisation	1,300	4.7%	4.2%	1,211	5.5%	5.1%
Materials, repair and maintenance	1,334	4.8%	4.3%	1,064	4.8%	4.5%
Taxes other than income tax	403	1.5%	1.3%	289	1.3%	1.2%
Rent	128	0.5%	0.4%	162	0.7%	0.7%
Other expenses	724	2.6%	2.4%	694	3.1%	2.9%
Total operating expenses	27,524	100.0%	89.7%	22,176	100.0%	94.2%

TransContainer's total operating expenses increased by RUB 5,348 million, or 24.1% year-on-year, to RUB 27,524 million for the six months ended 30 June 2017, from RUB 22,176 million for the corresponding period of the previous year. This was mainly due to a significant increase in the third-party charges related to principal activities.

In the second quarter of 2017, the Company's total operating expenses grew by 26.4% year-on-year, or by RUB 3,078 million, to RUB 14,759 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 30.2% year-on-year to RUB 17,688 million for the six months ended 30 June 2017, from RUB 13,586 million for the same period of 2016. This was predominantly driven by a higher volume of the Company's operations, tariff indexing by Russian Railways and other subcontractors, growth in international transportations with the involvement of outsourced transportation services. The strengthening of the Russian rouble against the US dollar and Euro in the six months ended 30 June 2017 as compared to the same period of 2016, partially offset this increase in respect of FX-denominated expenses.

For the same reason, the costs of third-party charges related to principal activities increased in the second quarter of 2017 by 35.3% year-on-year to RUB 9,642 million, from RUB 7,124 million in the corresponding quarter of 2016.

Adjusted operating expenses

Adjusted operating expenses, as defined in the *Adjustments and additional financial information* section above, grew by 14.5% year-on-year to RUB 9,836 million for the six months ended 30 June 2017, from RUB 8,590 million in the corresponding period of 2016, primarily due to an increase in freight and transportation services, materials, repair and maintenance costs and taxes other than income tax. This, in turn, was partially offset by a decrease in rent expenses.

In the second quarter of 2017, adjusted operating expenses increased by 12.3% year-on-year to RUB 5,117 million, from RUB 4,557 million in the second quarter of 2016, due to the reasons described above.

The following tables provide a breakdown of the Company's adjusted operating expenses for the second quarter and six months ended 30 June 2017 and 2016, respectively.

Adjusted operating expenses structure and dynamics for three months ended 30 June 2017 and 2016

	2Q2017		2Q2016		Period on period change	
	RUB mln	%	RUB mln	%	RUB mln	Percent change
Freight and transportation services	1,636	32.0%	1,498	32.9%	+138	+9.2%
Payroll and related charges	1,373	26.8%	1,309	28.7%	+64	+4.9%
Depreciation and amortisation	660	12.9%	596	13.1%	+64	+10.7%
Materials, repair and maintenance	754	14.7%	634	13.9%	+120	+18.9%
Taxes other than income tax	272	5.3%	125	2.7%	+147	+117.6%
Rent	61	1.2%	73	1.6%	-12	-16.4%
Other expenses	361	7.1%	322	7.1%	+39	+12.1%
Adjusted operating expenses	5,117	100.0%	4,557	100.0%	+560	+12.3%

Adjusted operating expenses structure and dynamics for six months ended 30 June 2017 and 2016

	6M2017		6M2016		Period on period change	
	RUB mln	%	RUB mln	%	RUB mln	Percent change
Freight and transportation services	3,246	33.0%	2,757	32.1%	+489	+17.7%
Payroll and related charges	2,701	27.5%	2,413	28.1%	+288	+11.9%
Depreciation and amortisation	1,300	13.2%	1,211	14.1%	+89	+7.3%
Materials, repair and maintenance	1,334	13.6%	1,064	12.4%	+270	+25.4%
Taxes other than income tax	403	4.1%	289	3.4%	+114	+39.4%
Rent	128	1.3%	162	1.9%	-34	-21.0%
Other expenses	724	7.4%	694	8.1%	+30	+4.3%
Adjusted operating expenses	9,836	100.0%	8,590	100.0%	+1 246	+14.5%

In the first six months of 2017, there were moderate fluctuations in the structure of the Company's adjusted costs, but these were within the range inherent to the Company's business model.

Freight and transportation services

Expenses relating to freight and transportation services increased by RUB 489 million, or 17.7% year-on-year, to RUB 3,246 million for the six months ended 30 June 2017. This increase is mainly due to the growth in the Company's operations and tariff indexing by Russian Railways, which was partially compensated by the improved empty container fleet management.

Expenses related to freight and transportation services grew by 9.2% year-on-year, or by RUB 138 million, to RUB 1,636 million in the second quarter of 2017.

Payroll and related charges

Payroll and related charges increased by RUB 288 million, or by 11.9% year-on-year, to RUB 2,701 million for the six months ended 30 June 2017, compared to RUB 2,413 million for the corresponding period of

2016. This increase was mainly due to the base salary indexing and performance-linked payments, which was partially offset by a decrease in TransContainer's average headcount from 3,648 to 3,547 employees and an effect of pension plan reserve adjustments.

For the reasons stated above, in the second quarter of 2017, payroll and related charges grew by 4.9% year-on-year, or by RUB 64 million, to RUB 1,373 million.

Depreciation and amortisation

Depreciation and amortisation increased by RUB 89 million, or 7.3% year-on-year, to RUB 1300 million in the six months of 2017, from RUB 1,211 million for the corresponding period of 2016, reflecting investments made throughout 2017.

In the second quarter of 2017, depreciation and amortisation increased by 10.7% year-on-year, or RUB 64 million, to RUB 660 million.

Materials, repair and maintenance

Expenses related to materials, repair and maintenance were up by 25.4% year-on-year to RUB 1,334 million for the six months of 2017, compared to RUB 1,064 million for the corresponding period of 2016, due to an increase in a number of flatcar repairs resulted from a higher fleet utilisation, 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 second quarter of 2017, expenses related to materials, repair and maintenance were up 18.9% year-on-year to RUB 754 million, due to the reasons mentioned above.

Taxes other than income tax

Taxes other than income tax increased by 39.4% year-on-year to RUB 403 million for the six months ended 30 June 2017, from RUB 289 million for the corresponding period of 2016, primarily due to the dynamics of VAT settlements, which, in turn, was partly offset by the reduction in property tax payments.

In the second quarter of 2017, taxes other than income tax more than doubled year-on-year to RUB 272 million, primarily due to higher property tax expenses resulting from an increase in taxable property.

Rent

Rent expenses dropped by RUB 34 million, or by 21.0% year-on-year, to RUB 128 million for the first six months of 2017 from RUB 162 million in the corresponding period of 2016, mainly due to the flatcar operating lease contracts terminated in the second quarter of 2017.

Rent expense for the second quarter of 2017 decreased by 16.4% year-on-year to RUB 61 million.

Other operating expenses

Other operating expenses are an aggregate of various expense items such as security, consulting expenses, fuel and energy, licences and software, communication service and loss of sale of fixed assets. In the first half of 2017, other expenses increased by 4.3% year-on-year to RUB 724 million, from RUB 694 million in the corresponding period of 2016. This primarily resulted from a decrease in consulting and other costs, which was offset by an increase in costs related to fuel, energy, IT and communications. In the second quarter of 2017, other operating expenses increased by RUB 39 million, or 12.1% year-on-year, mainly due to the reasons described above.

Interest expenses

Interest expenses increased by RUB 137 million, or 64.3% year-on-year, to RUB 350 million for the six months of 2017 from RUB 213 million for the corresponding period of 2016, mainly due an increase in total debt.

For the same reason, interest expense in the second quarter of 2017 increased by RUB 77 million, or 81.1% year-on-year, to RUB 172 million from 95 million in the corresponding period of 2016.

Interest income

Interest income grew by RUB 94 million, or 108.0% year-on-year, to RUB 181 million in the six months of 2017 from RUB 87 million for the corresponding period of 2016, despite a decrease in average interest rates, mainly due to an increase in the amount of RUB-denominated deposits with banks.

Interest income in the second quarter therefore increased by RUB 47 million, or 104.4% year-on-year, to RUB 92 million.

Profit before income tax

As a result of the reasons described above, the Company's profit before income tax increased by RUB 1,774 million, or by 100.3% year-on-year, to RUB 3,542 million for the six months ended 30 June 2017 from RUB 1,768 million for the corresponding period of 2016.

In the second quarter of 2017, profit before income tax increased by RUB 1,024 million, or by 85.8% year-on-year, to RUB 2,218 million from RUB 1,194 million in the corresponding period of 2016, as a result of the factors mentioned above.

Income tax expenses

Income tax expenses increased by RUB 350 million, or 98.3% year-on-year, to RUB 706 million for the six months of 2017 from RUB 356 million for the corresponding period of 2016, due to an increase in taxable profit.

For the same reason, in the second quarter of 2017, income tax expenses increased by RUB 210 million, or by 88.2% year-on-year, to RUB 448 million from RUB 238 million in the corresponding quarter of 2016.

The effective tax rate for the six months ended 30 June 2017 decreased to 19.9% from 20.1% in the same period of 2016, while it was increased to 20.2% in the reporting quarter compared to 19.9% in the second quarter of 2016.

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 2017 increased by RUB 1,424 million, or 100.8% year-on-year, to RUB 2,836 million compared to RUB 1,412 million for the same period of 2016. Taking into account the exchange rate differences relating to foreign operations and other effects, the total comprehensive income for the reporting period almost tripled and amounted to RUB 2,848 million, compared to RUB 979 million for the six months of 2016.

The profit for the second quarter 2017 increased by RUB 814 million, or 85.1% year-on-year, to RUB 1,770 million from RUB 956 million for the same period of 2016. Taking into account the exchange rate differences relating to foreign operations and other effects, the Company generated the total comprehensive profit of RUB 1,859 million in the second quarter of 2017 compared to the total comprehensive profit of RUB 795 million in the second quarter of 2016.

Liquidity and Capital Resources

As of 30 June 2017, the Company's net cash and cash equivalents amounted to RUB 4,913 million, while its current liabilities exceeded current assets by RUB 2,895 million.

The Company's business is asset and capital-intensive and requires substantial capital expenditure for the purchase of flatcars and containers, for the development of rail-side terminals and for modernising its lifting equipment and truck fleet and other purposes. 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 2017 and 2016, respectively.

Cash flows structure

RUB million	6M 2017	6M 2016
Net cash provided by operating activities	3,497	2,929
Net cash used in investing activities	-2,839	-774
Net cash used in financing activities	-1 317	-13
Net increase in cash and cash equivalents	-659	2,142
Foreign exchange effect on cash and cash equivalents	47	-176
Net cash and cash equivalents at the end of the period	4,913	4,076

Cash flow generated by operating activities increased by RUB 568 million, or 19.4% year-on-year, to RUB 3,497 million for the six months ended 30 June 2017 from RUB 2,929 million for the corresponding period of 2016, mainly due to an increase in revenue-generating.

Cash outflow used in investing activities increased by RUB 2,065 million, or 266.8% year-on-year, to RUB 2,839 million for the six months ended 30 June 2017 from RUB 774 million for the corresponding period of 2015. This was primarily as a result of an increase in capital expenditures from RUB 860 million to RUB 1,574 million, respectively, as well as due to a rise in short-term financial investments from RUB 200 million to RUB 1,460 million, respectively.

Cash flow used in financing activities amounted to RUB 1,317 million, as a result of scheduled and voluntary debt repayments.

Capital expenditure

Capital expenditure increased by RUB 734 million, or by 83.0% year-on-year, to RUB 1,574 million in the six months of 2017 from RUB 860 million in the corresponding period of 2016. The majority of the capital expenditure was spent on acquiring new ISO containers and flatcars.

Planned capital expenditure for 2017

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

The total capital expenditure for 2017 is budgeted at RUB 7.9 billion (excluding VAT), however, the actual amount of capital expenditure is subject to the market conditions. The 2017 CAPEX programme is focused on the acquisition of flatcars and ISO containers and further improvement of terminal infrastructure.

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 2017, the Company's financial indebtedness consisted of two outstanding bond issues and financial lease obligations in an aggregate amount of RUB 7,703 million, compared to RUB 9,137 million as of 31 December 2016. The Company's net debt at the end of the reporting period was RUB 1,292 million.

As of 30 June 2017, 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 are to be redeemed in four equal semi-annual instalments within the fourth and fifth years, the first and second instalments being made in July 2016 and January 2017, respectively. As a result,

these bonds debt are classified as the short-term portion of the long-term bond issue with the carrying value amounted to RUB 2,588 million including the accrued interest in amount of RUB 88 million.

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 4,987 million. 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 June 2017, the carrying value of the bonds amounted to RUB 5,115 million. The amount of accrued interest is RUB 128 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 six months ended 30 June 2017 and 2016.

Working capital structure

RUB million	30 June 2017	30 June 2016
Current assets		
Inventory	249	274
Trade and other receivables	2,040	1,350
Prepayments and other current assets	4,142	3,286
Prepaid income tax	5	60
Short-term investments	1,498	209
Cash and cash equivalents	4,913	4,076
Non-current Assets classified as held for sale	0	0
Total current assets	12,847	9,255
Current liabilities		
Trade and other payables	5,495	3,825
Short-term debt and current portion of long-term debt	2,716	2,809
Income tax payable	160	137
Taxes other than income tax payable	334	309
Provisions	37	0
Finance lease obligations, current maturities	0	18
Dividends payable	650	0
Accrued and other current liabilities	560	547
Deferred income	0	0
Total current liabilities	9,952	7,645
Working capital	2,895	1,610

Working capital increased by RUB 1,285 million to RUB 2,895 million at the end of the reporting period from RUB 1,610 million as at 30 June 2016, primarily due to a rise in short term investments and cash equivalents.

Downloads

The consolidated financial statements for the second quarter and six months ended 30 June 2017 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 Tuesday, **29 August 2017**, at 14:00 UK time / 16:00 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	72370828#

A replay of the call will be available until 29 September 2017 using the following details:

UK Free Call Dial In
Russia Dial In
Replay Access Code

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About TransContainer

TransContainer (LSE ticker: TRCN) is the leading intermodal container transportation company in Russia with a market share of approximately 47%. It is the market leader in Russia by flatcar fleet size, container transportation by rail and rail-side container terminal throughput. As at 30 June 2017, it owned and leased 23,561 flatcars and 70,990 ISO containers. TransContainer also owns a network of rail-side container terminals, located at 42 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 comprises of 113 sales outlets in Russia, along with additional outlets across the CIS, Europe and Asia. TransContainer is listed at Moscow Exchange and LSE. The 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

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

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