Globaltrans Full Year 2008 Financial Results Announcement

14.04.09

Globaltrans Investment PLC (“Globaltrans” or together with its consolidated subsidiaries the “Group”; LSE ticker: GLTR), today announces its financial and operational results for the year ended 31 December 2008.

Financial Highlights

- Net Revenue from Operation of Rolling Stock up 23% to USD 433.9* million;
- Revenue from operating lease of rolling stock up 29% to USD 66.7 million;
- Operating profit up 43% to USD 207.8 million;
- Adjusted EBITDA up 41% to USD 250.3* million;
- Profit for the year up 5% to USD 97.4 million;
- ROCE increased to 24%* from 19%* in 2007;
- Significant deleveraging, with Net Debt to Adjusted EBITDA ratio improving to 1.3x* from 2.9x* in 2007;
- Cash and cash equivalents as of the end of 2008 at USD 111.6 million, with short term debt falling due in 2009 of USD 124.3 million (including accrued interest of USD 6.5* million as of the end of 2008).

Operational Highlights

- Strengthened business portfolio with share of railcars leased out (under operating leases) increasing to c. 22*% of the Rolling Stock Fleet; and share of rail tank cars increasing to c. 38*% of Rolling Stock Fleet;
- Freight Rail Turnover remained stable, recording 1% growth to 61.7* billion tonnes-km compared to 2007;
- Average Price per Trip up 32% to USD 816.0* compared to 2007;
- Empty Run Ratio for gondola cars averaged 32%* compared to 21%* in 2007 following an outstanding 19%* at H1 2008;
- Empty Run Costs up 5% to USD 86.7* million compared to 2007.

Comment

Commenting on the full year results, Sergey Maltsev, CEO of Globaltrans, said:

“I am proud to present this set of full year results, which we have been able to achieve despite the challenging market environment towards the end of 2008. Thanks to the flexibility of our business model, we were able to position ourselves well in response to the changing conditions, diversifying our operations and minimising the impact of the economic downturn on our performance. Our strong operating and financial performance over the year has allowed us to start 2009 in good shape; we are comfortable with our debt levels, which continue to decline, and I am confident that our continuing efforts to control costs and further improve efficiency will provide a solid foundation for further development in the year to come.”

Results in detail

Selected financial results for years ended 31 December 2008 and 2007

	2008	2007	Change	
IFRS financial information	USD million	USD million	USD million	%
Revenue	**660.9**	**605.0**	**55.8**	**9%**
Incl. Railway transportation - operators services	578.9	544.9	34.0	6%
Incl. Operating lease of rolling stock	66.7	51.7	15.0	29%
Total costs of sales, selling and marketing costs and administrative expenses	456.3	466.3	(10.0)	-2%
Other gains-net	3.2	6.3	(3.1)	-49%
Operating profit	**207.8**	**145.0**	**62.7**	**43%**
Profit for the year	**97.4**	**92.7**	**4.6**	**5%**
Basic and diluted earnings per share for profit attributable to the equity holders of the Company during the year (expressed in USD per share)	0.82	0.86	(0.04)	-5%
Total assets	996.1	957.7	38.3	4%
Total debt	445.6	546.6	(100.9)	-18%
Cash and cash equivalents	111.6	33.3	78.3	235%
Additional non-IFRS financial information				
Net Revenue from Operation of Rolling Stock	433.9*	352.8*	81.1	23%
Adjusted Cost of Sales	189.7*	184.0*	5.7	3%
Adjusted EBITDA	250.3*	177.4*	72.9	41%
Net Debt	334.0*	513.2*	(179.2)	-35%
Net Debt to Adjusted EBITDA ratio	1.3*	2.9*	(1.6)	-54%
ROCE	24%*	19%*	-	-

Revenue

In 2008 Globaltrans recorded revenue of USD 660.9 million, an increase of USD 55.8 million or 9% from USD 605.0 million in 2007.

Revenue from railway transportation – operators services was mostly driven by increasing revenue from railway transportation-operators services (tariff borne by the client) which rose by USD 84.6 million or 33% in 2008 compared to the previous year. At the same time, revenue from railway transportation-operators services (tariff borne by the Group) decreased by USD 50.7 million or 17% compared to the previous year.

Globaltrans recorded significant growth in Net Revenue from Operation of Rolling Stock (net of the acquisition of Spacecom and Intopex) which increased by USD 81.1 million or by 23% to USD 433.9* million in 2008 compared to USD 352.8* million for the previous year. This increase was primarily driven by the following factors.

(i) Significant growth in Average Price per Trip, which rose by 32% to USD 816.0* in 2008 driven by:

- The approximately 22% increase in the time weighted average regulated tariff charged by OAO Russian Railways in 2008 (for internal and external transportation via sea ports), which in certain respects acts as a benchmark for private operators;

- The Group's continued focus on high revenue generating cargoes, which translated into the share of higher priced Class 3 Cargo (which includes ferrous metals and scrap metal) increasing from 41%* of Net Revenue from Operation of Rolling Stock in 2007 to 52%* in 2008.
- The 6% increase in average distance of loaded trips travelled by the Group's rolling stock to 1,855.4* km in 2008 compared to the previous year as the result of the introduction of new sophisticated routes, especially in the Russian Far East, and the expansion of the Group's presence in the coal transportation segment;

(ii) Average Rolling Stock Operated (which measures the average weighted (by days) number of railcars available for operators' services) remained broadly flat, decreasing slightly by 1% to 20,057*. This decrease was mainly due to the decrease in the number of railcars leased, along with an increase in the number of railcars leased out as well as the delivery of the majority of the purchased new railcars in the second half of 2008.

(iii) A decrease in the Average Number of Loaded Trips per Railcar by 6% to 26.5* in 2008 compared to the previous year, primarily due to a 6% increase in average distance for loaded trips over the same period.

Revenue from operating leasing of rolling stock increased by USD 15.0 million or by 29% to USD 66.7 million in 2008 compared to the previous year. This was primarily driven by the increase in number of rolling stock leased out, which rose by 6% at the end of 2008 compared to the end of 2007 (including Spacecom and Intopex both in 2007 and 2008), as well as improved leasing rates over the reporting period.

The Group's revenues in 2008 included USD 48.5 million derived from the combined operations of Spacecom and Intopex (here and after referred to as "Estonian subsidiaries"), which represented approximately 7% of the Group's revenue in 2008. Revenue contributed by the Estonian subsidiaries in 2008 decreased by USD 7.2 million compared to the previous year which was primarily due to the discontinuation of operators services offered by Spacecom at Estonian Railways in the middle of 2008 and concentration on the railcar lease business. The majority of the above revenue contribution derived from revenue from operating leasing of rolling stock which amounted to USD 39.8 million in 2008 compared to USD 31.2 million in 2007.

Cost of sales, selling and marketing costs and administrative expenses

The Group's total cost of sales, selling and marketing costs and administrative expenses decreased by USD 10.0 million or by 2% in 2008 to USD 456.3 million from USD 466.3 million in 2007.

The Group's Adjusted Cost of Sales increased by just USD 5.7 million or by 3% to USD 189.7* million in 2008 compared to the previous year. This increase was primarily driven by:

(i) An increase in Empty Run Cost of USD 4.3 million or 5% to USD 86.7* million in 2008 compared to 2007. This was primarily due to growth in the infrastructure and locomotive tariffs charged by OAO Russian Railways along with an increase of Empty Run Ratio for gondola (open top) cars from 21*% in 2007 to 32*% in 2008. The increase in Empty Run Ratio for gondola (open top) cars was driven by substantial change in route and cargo mix including the increased share of coal transportation (which has limited opportunities for return cargo) resulting from the deterioration of transportation demand in the second half of 2008. However, the above effects however, were partially offset by decreased share of empty kilometers paid by Globaltrans, which declined from (69%*) in 2007 to (63%*) in 2008.

(ii) A decrease in operating lease rentals – rolling stock costs of USD 7.1 million or 18% to USD 31.6 million in 2008 compared to the previous year. This decrease was primarily driven by the decline in number of railcars leased in by the Group by 550* cars at the end of 2008 compared to the end of 2007;

(iii) An increase in repair and maintenance costs of USD 12.5 million or 28% to USD 56.5 million in 2008 compared to 2007. This increase was primarily due to growth in the number of scheduled repairs as a significant number of the Group's Owned Rolling Stock reached the age of three years, when a scheduled repair is needed for the first time. In addition, the price for repair and maintenance works increased in 2008 compared to the previous year.

Other (than included in the Adjusted Cost of Sales) major components that contributed to the increase in the Group's total cost of sales, selling and marketing costs and administrative expenses included:

(i) An increase in depreciation of property, plant and equipment of USD 7.1 million or 18% to USD 45.7 million in 2008 compared to 2007 as a result of the expansion of the Group's Owned Rolling Stock Fleet;

(ii) A decrease in infrastructure and locomotive tariffs: loaded trips of USD 43.6 million year-on-year to USD 148.0 million in 2008. This decrease was due to clients increasingly preferring to pay infrastructure and locomotive charges directly to OAO Russian Railways;

(iii) Employee benefit expense remained relatively stable, with the increase in average employee salaries being offset by a decrease in the total number of employees to 550* in 2008 from 620* in 2007, primarily driven by the discontinuation of freight forwarding services offered by Spacecom at Estonian Railways in the middle of 2008 and concentration on the railcar lease business;

(iv) Other expenses (attributable to cost of sales - selling, marketing and administrative expenses) increased by USD 12.2 million or by 56% to USD 34.1 million, primarily due to the legal, consulting and other professional fees associated with the expenses for the IPO of Globaltrans undertaken in May 2008 and auditors' remuneration.

Total cost of sales, selling and marketing costs and administrative expenses in 2008 included USD 25.2 million derived from the combined operations of the Estonian subsidiaries, which represented approximately 6% of the Group's total cost of sales, selling and marketing costs and administrative expenses in 2008. The respective costs contributed by Estonian subsidiaries in 2008 decreased by USD 18.6 million compared to the previous year, primarily due to discontinuation of operators services offered by Spacecom at Estonian Railways in the middle of 2008 and concentration on railcar lease business.

Operating profit

The Group's operating profit amounted to USD 207.8 million in 2008, an increase of USD 62.7 million or 43% compared to the previous year. This increase was primarily due to the growth in the Group's revenue of USD 55.8 million as well as the USD 18.5 million decrease in the Group's cost of sales, which were partially offset by the USD 8.5 million increase in selling, marketing and administrative expenses in 2008 compared to the previous year.

The contribution of the combined operations of the Estonian subsidiaries to the operating profit of the Group amounted to USD 25.0 million or 12% in 2008 compared to USD 14.0* million or 10% in 2007.

Adjusted EBITDA

In 2008, Adjusted EBITDA amounted to USD 250.3* million, an increase of USD 72.9 million or 41% over 2007. This increase was primarily due to the increase in the Group's revenue of USD 55.8 million and the decrease in the Group's total cost of sales, selling and marketing costs and administrative expenses net of depreciation of property, plant and equipment of USD 17.0 million.

The Group's Adjusted EBITDA in 2008 included the contribution of combined operations of the Estonian subsidiaries of USD 29.9* million or 12%, compared to USD 18.2* million or 10 % in 2007.

Finance costs

Finance costs increased by USD 69.8 million or by 233% in 2008 to USD 99.8 million compared to the previous year, mostly due to net foreign exchange transaction losses on financing activities amounting to USD 48.2 million compared to net foreign exchange transaction gains of USD 26.7 million recorded in 2007. This was primarily the result of the significant depreciation of the Russian Ruble against US Dollar during 2008 (the Russian Ruble depreciated against US Dollar by 20% as of the end of 2008 compared to the end of 2007). Foreign exchange transaction losses and gains were derived from the Group's debt and finance lease portfolio, which is mostly denominated in US Dollars and therefore exposed to the RUR/USD exchange rate fluctuations.

Total interest expense decreased by USD 4.3 million or 8% in 2008 compared to the previous year and amounted to USD 52.0 million in 2008.

Financing capacity

The Group's financial indebtedness consisted of bank overdrafts, bank borrowings, loans from related parties and third parties and finance lease liabilities in an aggregate principal amount of USD 445.6 million (including accrued interest of USD 6.5* million) as of the end of 2008, recording a decrease of USD 100.9 million or 18% when compared to the previous year.

The Group's indebtedness as of the end of 2008 included USD 79.7* million arising from the consolidation of debts of the Estonian subsidiaries.

As of the end of 2008, the Group had USD 111.6 million in cash and cash equivalents and Net Debt in the amount of USD 334.0* million.

The Group's ratio of Net Debt to Adjusted EBITDA amounted to 1.3x* and 2.9x* for the years ended 31 December 2008 and 2007, respectively.

As of the end of 2008, the Group's debt had maturities until 2015* and bore an average interest rate of 10.44%* compared to 10.57%* as of the end of 2007.

The interest payable on the Group's borrowings was determined by a fixed rate for 25%* of the borrowings, and by a floating rate with regard to the remaining 75%* as of the end of 2008.

As of the end of 2008, the carrying amounts of the Group's borrowings were denominated in the following currencies.

	2008	
	USD million	%
US Dollar	387.3	87%
Euro	0	-
Russian Ruble	57.7	13%
Estonian Kroons	0.6	0%
	445.6	**100%**

The Group had the following borrowings repayment profile for 2009 as of the end of 2008.

	2009E			
USD (million)	**1Q**	**2Q**	**3Q**	**4Q**
Borrowings (carrying amount excluding accrued interest and future interest payments)	41.4*	29.6*	28.8*	18.0*

The Group had the following borrowings repayment profile for 2009 onwards as of the end of 2008.

USD (million)	2009E	2010E	2011E	2012E	post 2012E
Borrowings (carrying amount excluding accrued interest and future interest payments)	117.8*	136.4*	86.6*	57.2*	41.1*

Outlook

In the first two months of 2009, Globaltrans recorded a lower decline in Freight Rail Turnover compared to Russian freight rail transportation industry (respective month of 2009 compared to respective month of 2008, source of industry data: Federal State Statistics Service of the Russian Federation, www.gks.ru). In January 2009, the Group's Freight Rail Turnover decreased by 15.1%* compared to a decline of 32.2% recorded by the Russian freight rail transportation sector. In February 2009, the decrease in the Group's Freight Rail Turnover amounted to 5.9%* compared to a sector decline of 27.6%.

Going forward into 2009, the Group is committed to consolidating its position as the leading private freight rail operator through maintaining and building on its long term client relationships, rigorous cost control and reconfiguring routes to improve efficiency. The Group also plans to strengthen its position in Kazakhstan by increasing the fleet of railcars leased to this market. In response to the current market environment, the Group's investment program was recalibrated, with practically no expansion capital expenditure planned for 2009 unless attractive opportunities arise. Management also intends to continue to further deleverage the business and to increase the share of Russian Ruble borrowings.

Notes

All financial information presented in this announcement derived from the audited consolidated financial statements of Globaltrans Investment PLC for the year ended 31 December 2008 prepared in accordance with International Financial Reporting Standards as adopted by the

European Union and the requirements of the Cyprus Companies Law, Cap. 113. Full consolidated financial statements are available on the Globaltrans corporate website.

In December 2008 Globaltrans acquired from its parent entity (Transportation Investments Holding Limited) controlling stakes in AS Spacecom ("Spacecom") and AS Intopex Trans ("Intopex"). In accordance with the Group's accounting policies, the acquisition of both companies has been accounted for as a common control transaction using the predecessor basis of accounting. Under this method financial statements of the acquirees are included in the consolidated financial statements on the assumption that the Group (in such a composition) was in existence for all periods presented, consequently necessary changes have been made to the consolidated financial statements for the year ended 31 December 2007.

In addition, management has elected to present certain non-IFRS financial and operational information which is unaudited and derived from management accounts. Definitions of non-IFRS information are marked with capital letters and defined in the "Notes" section on page 7 as well as such information itself being marked with an asterisk {*}.

Globaltrans' management has elected to present certain non-IFRS financial and operating information (derived from the management accounts), definitions of which are provided below:

Adjusted Cost of Sales is defined as cost of sales less depreciation of property, plant and equipment, infrastructure and locomotive tariffs: loaded trips, employee benefit expense, and cost of rolling stock sold in trading transactions which are not part of PPE, gain on sale of property, plant and equipment and other expenses.

Adjusted EBITDA represents EBITDA less gains from sale of joint ventures, gain from the sale of subsidiaries, recognized deferred gains, net foreign exchange gains/(losses), other gains and share of profit of joint ventures.

Average Number of Loaded Trips per Railcar is calculated as the total number of loaded trips in the relevant year divided by Average Rolling Stock Operated.

Average Price per Trip (USD) is calculated as Net Revenue from Operation of Rolling Stock divided by total number of loaded trips during the relevant period.

Average Rolling Stock Operated is calculated as the average weighted (by days) number of railcars available for operator services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).

Class 3 Cargo – OAO Russian Railways regulated tariff 10-01 differentiates between three classes of cargo—Classes 1, 2 and 3. Class 3 (which includes ferrous metals and scrap metal) attracts the highest prices and Class 1 (which includes iron ore and coal) the lowest.

Empty Run or Empty Runs means movement of rolling stock without cargo for the whole or a substantial part of the journey.

Empty Run Costs are derived from management accounts and presented as the part of the "Empty run trips and services provided by other transportation organizations" component of cost of sales reported under EU IFRS.

Empty Run Ratio is calculated as total empty trips in kilometres divided by total loaded trips in kilometres. Empty trips are only applicable to rolling stock operated (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).

Freight Rail Turnover is a measure of freight carriage activity over a particular period calculated as sum of tonnage of each loaded trip multiplied by the distance of each loaded trip, expressed in tonnes-km.

Net Debt is calculated as the balance of short term borrowings and long term borrowings including interest accrued, net of cash and cash equivalents.

Net Revenue from Operation of Rolling Stock (in earlier reporting referred to as "Adjusted Revenue") is defined as revenue from railway transportation operators services less infrastructure and locomotive tariffs: loaded trips, it excludes the impact of the acquisition and consolidation of AS Spacecom and AS Intopex Trans both in 2007 and 2008.

Owned Rolling Stock Fleet is defined as rolling stock fleet owned and leased under financial leases as of the end of period.

Return on Capital Employed ("ROCE") is defined as Adjusted EBITDA after depreciation of property, plant and equipment divided by the sum of average balances between balance sheet dates of total equity, total borrowings and minority interest.

Rolling Stock Fleet is defined as the total rolling stock owned and leased under finance and operating leases as of the end of period.

Additional Materials

Sergey Maltsev, CEO and Alexander Shenets, CFO presented and hosted Investor webcast and conference call. To listen to the webcast, please click here. For other information, please see the list below.

Slide presentation

Directors' report and consolidated financial statements for the year ended 31 December 2008

Selected financials of 2007 and 2008 in Excel

Selected operational information for the year ended 31 December 2008

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Notes to Editors

Globaltrans is Russia’s largest privately owned freight rail operator by size of owned rolling stock fleet. As of the end of 2008 the Group’s rolling stock fleet owned and leased under finance and operating leases amounted to 26,967 railcars.

The Group provides freight rail transport, rolling stock leasing and logistics services, as well as certain ancillary services to large industrial customers and medium-size clients in Russia and carries customers’ cargos to destinations in Russia and Ukraine. In 2008, the Group expanded its geographical footprint with the establishment of an operating subsidiary in Ukraine and through acquiring two companies which render railcar leasing services to the markets of Russia and Kazakhstan.

The Group’s business model is based on its extensive and flexible modern rolling stock fleet, strong customer focus and sophisticated logistics know-how, which enable it to provide complex rail transportation and logistics solutions tailored to the needs of its customers.

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