Globaltrans First Half 2008 Earnings Announcement

14.09.08

Globaltrans Investment PLC ("Globaltrans" or together with its consolidated subsidiaries the "Group"), Russia's largest privately owned freight rail operator, today announces its operating and financial results(1) for the six months ended 30 June 2008.

Financial Highlights

- Adjusted Revenue(2) increased 30% on 1H2007 figures to US$219 million;
- Adjusted EBITDA(3) rose 56% to US$117 million; Adjusted EBITDA margin increased to 53% from 44% in 1H2007;
- Operating profit up 69% to US$98.7 million;
- Profit for the period nearly doubled, up 97% to US$65 million;
- Improved financing capacity and moderate leverage with Net debt decreased to US$284 million; Net Debt / Adjusted EBITDA ratio of 1.2x calculated on an annualised basis(4).

Operating Highlights

- Empty run ratio(6) for gondola cars improved to 19% in 1H2008 vs. 24% in 1H2007;
- Freight rail turnover(5) increased 11% to 32.6 bn tonnes-km in 1H2008 vs. 29.2 bn tonnes-km in 1H2007;
- High margin class(7) 3 cargoes accounted for 48% of Adjusted Revenue(2) in 1H2008 as against 39% in 1H2007;
- Average price per trip(8) increased 32% to USD 812.2;
- Rolling stock purchases proceeding in line with full year targets – 76% of annual plan met as of 1 September 2008.

Comment

Commenting on the first half results, Sergey Maltsev, CEO of Globaltrans, said:

"We are delighted to present our 2008 first half results, which demonstrate that we are delivering on our promises made during the IPO this spring, achieving increasing levels of profitability while continuing to invest for the future. Our strategy of expanding our presence in high margin business segments and our focus on improving operational efficiency and rigorous cost control mean that we are well-positioned to enhance our leadership among Russia's private rail freight operators".

Results in Details

Review of financial results

Key financial results for the first six months ended 30 June 2008 and 2007

	Six months ended 30 June 2008 US$ million	Six months ended 30 June 2007 US$ million	% change, y-o-y
Revenue	318.3	278.3	14
Adjusted Revenue[2]	219.3	168.8	30
Cost of Sales	196.2	202.0	(3)
Adjusted Cost of Sales[9]	89.8	87.7	2
Gross profit	122.1	76.3	60
SG&A[13]	28.5	18.7	52
Operating profit	98.7	58.2	69
Profit for the period	64.9	32.9	97
Adjusted EBITDA[3]	117.0	74.8	56
Adjusted EBITDA Margin[16]	53%	44%	-

Globaltrans recorded Adjusted Revenue[2] for the first six months of 2008 of US$219.3 million, increasing by 30% from US$168.8 million in the six months ended 30 June 2007. This increase in Adjusted Revenue[2] was mainly driven by:

I) an increase of approximately 2% in average rolling stock operated[10];

II) an increase of approximately 32% in the average price per trip[8], driven by a greater than expected increase in the time weighted Russian railways regulated tariff[11] (for internal and external transportation via sea ports) of 16% recorded for the first six months of 2008, used as a benchmark by private operators;

III) slight decrease in average number of loaded trips per railcar due to increase in average distance for loaded trips.

Starting July 1st, 2008 the Russian railways regulated tariff[11] (for internal and external transportation via sea ports) increased by an additional 10% representing together with previous tariff increases undertaken in 2008 an approximately 22% time weighted average increase for the full year 2008.

Rigorous cost control resulted in an insignificant 2% increase in Adjusted Cost of Sales[9], increasing to US$89.8 million compared to the first six months of 2007. This increase was mainly driven by a 96% growth in repairs and maintenance costs due to:

I) a significant increase in number of processed repairs given the part of Group’s fleet reached an age of three years at which scheduled (“depot”) repairs are required for the first time;

II) for certain number of railcars under operating lease repairs were undertaken at the Group’s expense in exchange for discounted lease payments;

III) proportionally more scheduled (“depot”) repairs conducted (of the annual plan, compared to 1H2007);

IV) increase in market prices for repair services in 1H2008 compared to 1H2007.

Rolling stock leasing costs recorded a fall of 24% to US$16.2 million.

At the same time empty run costs[12] fell by 12% from US$44.7 million to US$39.3 million thanks to improved destination management and route optimisation along with an increased share of clients paying empty run costs.

SG&A[13] increased by 52% to US$28.5 million reflecting both US$5 million in fees related to the initial public offering (IPO) undertaken in May 2008 and an increase in employee benefit expense. Excluding IPO related fees SG&A[13] increased by 25% driven by an 14% increase in average headcount, inflation indexed growth in salaries and expansion of the incentive plan to include additional employees.

Adjusted EBITDA[3] for the first six months of 2008 was US$117.0 million, an increase of 56% over the equivalent period in 2007. This increase in Adjusted EBITDA[3] was mostly driven by the increase in Adjusted Revenue[2] of US$50.5 million compared to the first six months of 2007.

Operating profit reached US$98.7 million in 1H2008, an increase of 69% over the corresponding period of 2007, while profit for the period stood at US$64.9 million, increasing by 97% over the first six months of 2007.

Financing capacity

The Group's financial position strengthened as the value of total assets increased by 35% as of 30 June 2008 against 31 December 2007 mainly as a result of receiving proceeds from the IPO and the profit from the first half of 2008.

At the same time Globaltrans reduced its levels of financial leverage as Net debt decreased to US$284 million as of 30 June 2008, representing a Net Debt / Adjusted EBITDA[3] ratio of 1.2x calculated on an annualised basis[4].

Review of operating results

Globaltrans continued to focus on increasing operational efficiency, in areas such as logistics planning and dispatch. This has contributed to improved route optimisation, leading to a decrease in the empty run ratio[6], one of the Group's key profitability drivers. The empty run ratio[6] for gondola cars improved from 24% in 1H2007 to 19% in 1H2008.

Introduction of new sophisticated routes resulted in a 12% increase in average distance for loaded trips which, along with the relatively stable volume of cargo carried in 1H2008 compared to 1H2007, resulted in an 11% increase in freight rail turnover[5] to 32.6 bn tonnes-km.

The significant growth in average price per trip[8] by 32% to US$812.2, was largely due to a continued focus on high margin cargo and increase in the average distance for loaded trips along with improved logistics management.

Globaltrans continued successfully targeting high margin transportation market segments, resulting in an increase in the share of highest margin class[7] 3 cargo, which accounted for 48% of Adjusted Revenue[2] in 1H2008 compared to 39% in 1H2007.

The focus on higher-priced metals and mining cargo transportation sector contributed to a 4% increase in the sector's share in Adjusted Revenue[2] in 1H2008 compared with 1H2007 which was mostly driven by an increase in sales to MMK (including its affiliates and suppliers).

Further diversification of the Group's client base is apparent in the growth in sales to medium and small sized companies, from 29% to 34% of Adjusted Revenue(2) in 1H2008 compared to 1H2007 which corresponds to the Company's strategy to leverage strong customer relationship and identify new customers.

Fleet Expansion

In the first six months of 2008 740 railcars had been already delivered. As of 1 September 2008 Globaltrans had fulfilled 76% of its 2008 target for fleet expansion with 856 gondola and 599 hopper cars delivered and 602 gondola cars paid for and expected to be delivered by the end of 2008.

Fleet composition

Globaltrans maintained its leading position within the Russian private freight rail transportation sector as its rolling stock fleet(14) increased to 21,613 railcars as of 30 June 2008. The share of owned rolling stock(15) continued to increase, showing a 4% growth for the first six months of 2008 as compared to 31 December 2007. The Group's owned rolling stock(15) reached 18,165 railcars as of 30 June 2008. The number of rolling stock under operating lease declined due to the continuing substitution by owned railcars and increased lease prices of rolling stock.

In 1H2008 the Group operated(10) 20,047 railcars which represents a 2% increase in comparison with the first six months of 2007. The share of universal railcars (gondolas) operated(10) rose 1% to 72% from the average rolling stock operated(10) in 1H2008 compared to 1H2007 and reached 14,514 railcars representing the Group's intention to expand its fleet of universal railcars.

Notes

1. Operating and financial results includes information taken from management accounts and Interim financial information for the six months ended 30 June 2008 prepared in accordance with EU IFRS (which has been subject to review by PricewaterhouseCoopers, but not audited).
2. Adjusted Revenue defined as "revenue from railway transportation – operators services" less "infrastructure and locomotive tariff" of "loaded trips".
3. Adjusted EBITDA represents EBITDA less gains from sale of joint ventures, gain from sale of subsidiaries, recognised deferred gains, net foreign exchange gains/(losses), other gains and share of profit of joint venture.
4. Annualized Adjusted EBITDA derived by multiplying the Adjusted EBITDA of the first half of the respective year by two.
5. Freight rail turnover calculated as tonnage of freight carried multiplied by distance carried, measured in tonne-kilometres.
6. Empty run ratio is calculated as total empty trips in kilometres divided by total ''loaded trips'' in kilometres.
7. 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. Oil and oil products belong to cargo Class 2.
8. Average price trip (USD) is calculated as Adjusted Revenue divided by total number of loaded trips during the relevant period.
9. Adjusted Cost of Sales defined as cost of sales less "infrastructure and locomotive tariff" for loaded trips transferred by the Group to the Russian Railways on behalf of clients (excluding D&A, and employee benefit expense assigned in IFRS statement to cost of sales and cost of railcars sold in trading transactions).

10. Average rolling stock operated is calculated as the average weighted (by days) number of railcars available for operator's services (not including rolling stock in maintenance, purchased rolling stock in transition to its first place of commercial utilisation or rolling stock leased out).
11. The prices charged by the Group as a privately owned freight rail transportation services provider are not regulated; the Group is subject to the regulated tariff for the use of Russian Railways' infrastructure and locomotive services. Also, regulated tariffs charged by Russian Railways often serve as an effective benchmark for unregulated prices charged by privately owned freight rail transportation services providers.
12. Empty run costs based on the Group's management accounts (can not be directly derived from IFRS accounts).
13. SG&A (excluding D&A; including employee benefit expense assigned in IFRS statement to cost of sales).
14. Rolling stock fleet calculated as the sum rolling stock owned and leased from third parties under financial and operating leases (at the end of the period).
15. Rolling stock owned calculated as the sum of rolling stock owned and leased from third parties under financial lease (at the end of the period).
16. Adjusted EBITDA margin calculated as Adjusted EBITDA divided by Adjusted Revenue.

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

Interim financial information (unaudited) for the six months ended 30 June 2008

Selected operational information for the six months ended 30 June 2008

Additional dislosure

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Notes to Editors

Globaltrans is Russia's largest privately owned freight rail operator and the second largest freight rail operator in Russia by number of rolling stock operated (after Russian Railways and its subsidiaries). The Group provides rail freight transport and logistics services, as well as certain ancillary services to large industrial customers and medium-size corporate customers in Russia and carries customers' cargos to destinations in Russia and Ukraine.

The Group's business model is based on its extensive and varied 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, and its utilisation of advanced destination management and route optimisation, which reduces "empty runs" and maximises the efficient commercial utilisation of the Group's rolling stock. For more information on Globaltrans, visit www.globaltrans.com.

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