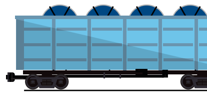
CEO's Review

Solid results underscore good long-term prospects



In the face of considerable headwinds, Globaltrans delivered solid financial and operational results in 2015, reconfirming that its focus on ensuring prudent capital allocation, maximising efficiency and delivering best-in-class service bode well for the long term.

"Despite the prevailing conditions, Globaltrans produced good operational results and maintained its market share in 2015."

VALERY SHPAKOV
Chief Executive Officer

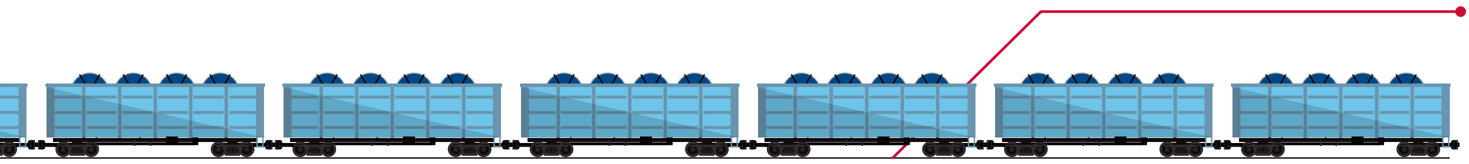
Dear shareholders,
It was an honour to be confirmed as CEO of Globaltrans in March 2016, having taken over as Interim CEO in November 2015. While this is the first time that I am addressing you in this capacity, I know the Group well, having joined more than 10 years ago and working alongside Sergey Maltsev, the former CEO, from my earliest days until his resignation last year. I have principally been responsible for developing and managing the universal gondola car segment, as CEO of Globaltrans' subsidiary New Forwarding Company, and this area remains a key priority for our business. This means I am familiar with our Group's strengths, which have again enabled it to outperform the market, and I am well aware of the difficult environment that Globaltrans is operating in.

MARKET REVIEW

Objectively speaking, 2015 was a challenging year for the Russian economy, and it remains too early to talk about stabilisation. Nevertheless, even against such a backdrop, the performance of Russia's freight rail sector, which serves the needs of the domestic economy, was relatively stable.

In 2015, Russian freight rail turnover remained largely unchanged year-on-year, mainly due to increased transportation distances, while overall transportation volumes dipped by 1%. Meanwhile, rail maintained its position as a leading means of transportation, its share of overall freight turnover, excluding transportation via pipelines, reaching 87%.

Established blue-chip client base
>60% of Net Revenue from Operation of Rolling Stock covered by long-term service contracts.



While the freight rail industry experienced weak demand in the construction materials segment (including cement), where overall Russian volumes fell by 10% year-on-year, the metallurgical cargoes and coal cargo segments performed quite respectably, with shipments of metallurgical cargoes (including ferrous metals, scrap metal and ores) remaining stable year-on-year, while shipments of coal (including coke) rose by 3%. In the oil products and oil segment the overall Russian volumes dropped by 2% year-on-year. The pricing environment remained under pressure, weighed down by sluggish demand and an oversupply of railcars.

However, the supply-demand balance is beginning to change for the better due to the new regulations regarding the scrappage of old fleet. At the end of 2015, Russia's fleet of rolling stock had decreased by 7% year-on-year, with the largest declines seen in the gondola car segment. Amid the accelerated scrappage of old railcars and moderate gondola car production, Russia's gondola fleet decreased by 9% to 515 thousand units in 2015. While supply and demand are still far from equalised, scrappage of the old fleet is expected to help to reduce the oversupply.

OPERATING RESULTS

Despite the prevailing conditions, Globaltrans produced good operational results and maintained its market share in 2015. Against the backdrop of a market that was broadly flat, the Group's Freight Rail Turnover rose by 6% in 2015 to 168.5 billion tonnes-km, driven by an increase in average transportation distances and relatively stable Transportation Volumes, which fell 1% year-on-year. The Group's Market Share remained unchanged at 8.3%. At the end of 2015, the Total Fleet had risen slightly and exceeded 67 thousand units, primarily due to an increase in the Group's Leased-in Fleet.

The extensive expertise and advanced logistics technologies that we deploy daily to support the partnerships with key clients remain among our strongest features, enabling us to tackle complex logistics challenges and provide best-in-class service. Our business model is based on providing effective logistics and was the principal reason for our solid operational performance in such difficult times. Our dispatching centre allows us to centrally operate more than 40,000 gondola cars. One of our key operational indicators is Empty Run Ratio for gondola cars, which remained solid at 39% in 2015, compared with 38% in 2014. This primarily reflected the increased coal transportation, which generally requires higher Empty Runs.

While the broader market for rail transportation of oil products and oil was sluggish, Globaltrans performed relatively well, actively collaborating with its major clients in the segment, such as Rosneft and Gazpromneft. Our strong market position in this segment is supported by our unique ability to transport oil products and oil in block trains[1] using our own locomotives, guaranteeing that we can deliver high quality service, reliability and efficient traffic optimisation.

One of our key aims has always been to underpin our business by developing long-term relationships with clients across a range of sectors. Today, more than 60% of our Net Revenue from Operation of Rolling Stock is generated from long-term service contracts with such clients as Metalloinvest, MMK and Rosneft. We remain active in seeking to identify new opportunities to increase volumes under long-term contracts.

1 A block train consists of Group-operated rolling stock bound for one destination.

CEO's Review continued

FINANCIAL RESULTS AND CAPITAL ALLOCATION

Solid average pricing allowed us to convert the growth in Freight Rail Turnover into a 5% increase in Net Revenue from Operation of Rolling Stock. The Group's Adjusted Revenue rose by 1% year-on-year to RUB 42,176 million* in 2015, with the improvement in Net Revenue from Operation of Rolling Stock partly offset by a decline in revenues from auxiliary operations. We managed our costs well, taking targeted action within the business.

Even with our intense focus on costs, certain elements were outside our direct control, such as the increase in RZD-regulated tariffs for the traction of empty railcars and general inflationary pressures, and they impacted profitability. As a result, the Group's Adjusted EBITDA declined by 12% year-on-year to RUB 15,538 million*, while the Adjusted EBITDA Margin slipped to 37%*. The Group continued to generate positive Free Cash Flow, which totalled RUB 9,614 million*.

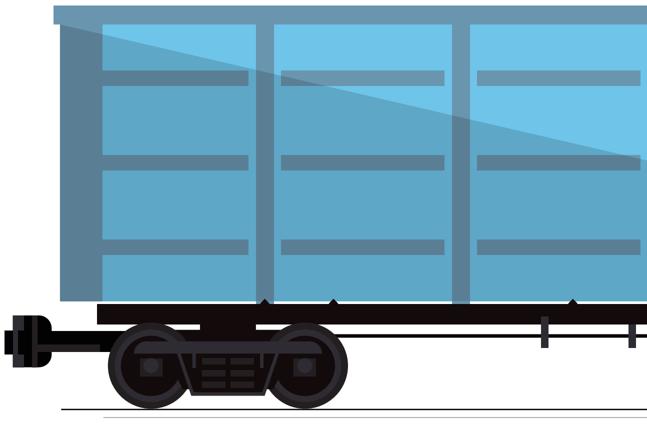
In 2015 we managed to reduce our debt significantly. By the end of that year, Net Debt had decreased by 31% year-on-year to RUB 16,255 million* and the Net Debt to Adjusted EBITDA ratio was at a very comfortable 1.0 times*. Our conservative borrowing policy helped to protect us from currency fluctuations, and by the end of 2015, the share of foreign-currency loans in our debt portfolio had been reduced to almost zero. Consequently, we entered 2016 with a strong balance sheet and a comfortable debt repayment schedule.

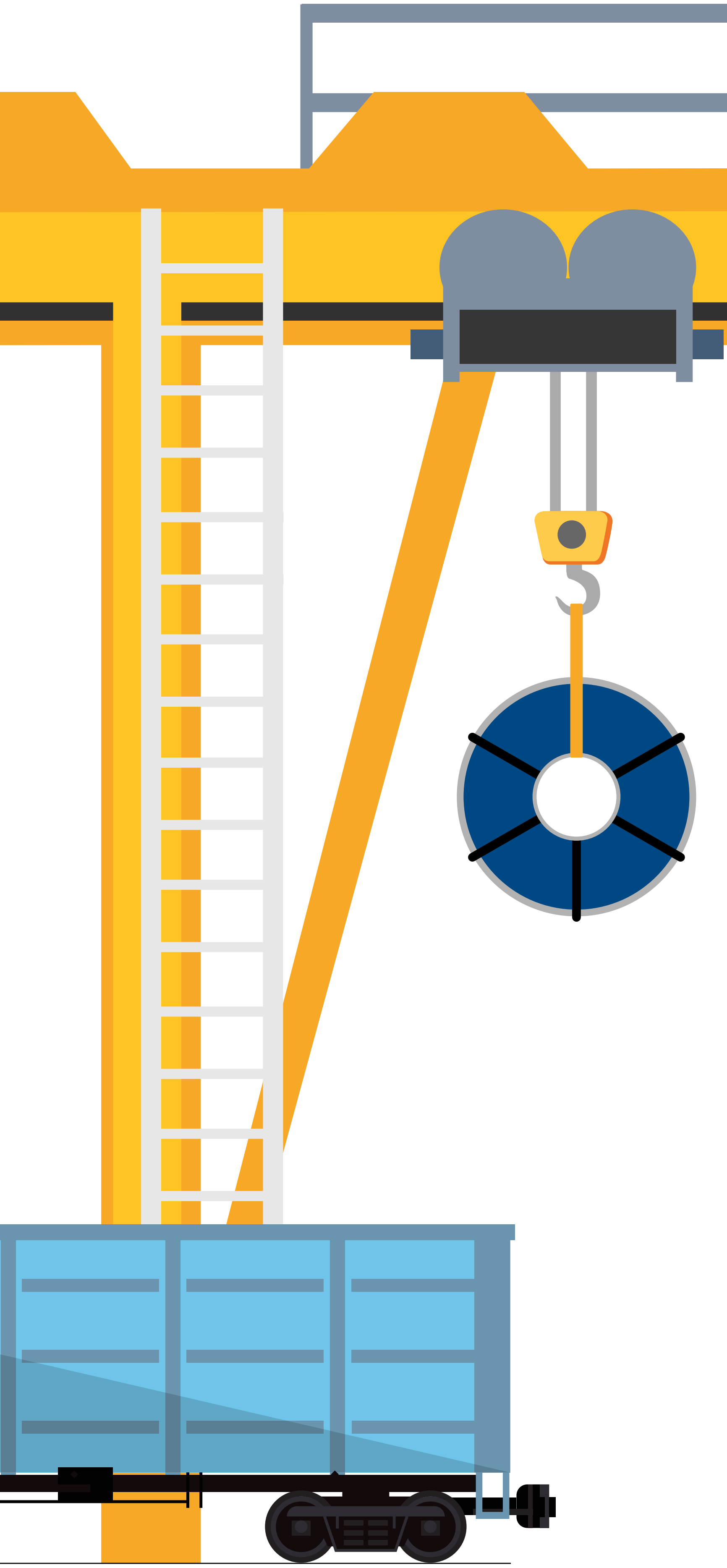
The Group's good level of Free Cash Flow enabled the Board to propose a substantial dividend. This re-establishes our solid track record for dividend payments and once again highlights the resilience of our business model.

Since 2013, we have suspended our investment programme due to the volatile market situation. While we currently see no attractive large-scale opportunities in the near term, we are making small investments in niche projects, such as the successful development of transportation of petrochemicals in tank containers. Our CAPEX needs mainly involve costs related to fleet maintenance and repair, as well as possible selective investments in new rolling stock to substitute fleet that is being retired. In 2016, we expect to take less than 300 units of our rolling stock out of commission, although, with a large portion of the fleet reaching the age of requiring their first capital repair, maintenance CAPEX will be higher.

OUTLOOK

In early 2016, volatility and uncertainty in the global economy were high. While the Russian economy remains under pressure, we continue strengthening relationships with our clients. For instance, in early 2016, we were able to extend our long-term service contract with Rosneft, one of our key clients, for a further five-year term. While this positive outcome was expected, we are pleased to have such a significant contract confirmed.





We believe that the long-term prospects for the sector remain positive. The recent regulatory decision to ban the use of railcars with useful life extensions undertaken after 1 January 2016 suggests that there might be some room for cautious optimism in terms of supply reduction which in turn should provide for stronger pricing in the gondola segment in particular. However, we do expect volume pressure to continue impacting the pricing environment in the oil products and oil sector.

In addition, our view regarding sector consolidation remains the same: we believe that it is inevitable and we are well placed to benefit.

Despite the uncertain economic outlook, we are reasonably optimistic about the future of our sector and ready for any new challenges in 2016. We firmly believe that our stable financial position, good operational indicators, well-established client base and strong business model put us on a sound footing, and we are confident that we can maintain our position as a leading freight rail transportation group in Russia.

Valery Shpakov
Chief Executive Officer