CHIEF EXECUTIVE OFFICER'S REVIEW

Dear shareholders,
In 2017, Globaltrans delivered a strong financial performance, capitalising on continued growth in the freight rail transportation market and in particular the gondola segment. Our excellent financial performance again demonstrated the benefits of our business model. All our key financial metrics recorded strong improvements: Adjusted EBITDA increased 46% year on year, Adjusted EBITDA Margin accelerated to 50% and Free Cash Flow nearly doubled. Consequently, we were able to deliver substantial dividends to our shareholders.

In a complex logistical operation like ours, efficiency underpins everything we do.

Increasingly robust and balanced market

Demand for freight rail transportation services continued to expand in 2017 supported by stable overall economic conditions and a favourable export market environment. Freight rail turnover across Russia's overall network rose by 6% year on year with transportation volumes increasing by 3%. Performance varied across key segments, with demand in the gondola segment, especially coal, leading the way. Coal volumes (including coke) climbed 9% year on year. Metallurgical cargoes (including ferrous metals, scrap metal and ores) also posted a solid performance with volumes rising 1% year on year on the back of a 3% growth in ferrous metals. The rail tank car segment stabilised with market volumes remaining flat year on year at the low levels of 2016. The construction materials segment (including cement) which came under pressure throughout 2017 saw volumes decline 5% year on year although it showed signs of recovery towards the end of the year.

The last three years have seen massive regulation-driven, enforced retirement of old rolling stock. This particularly applies to the gondola segment. Over 2015 and 2016, Russia's overall gondola fleet continued to shrink with a total net decrease of about 90 thousand units or 16% compared to the end of 2014. In 2017, gondola production was partially matched by scrappage with the net increase in gondola capacity absorbed by growth in the market demand. This supported a steady rebound in freight rail prices throughout the year. As one of the largest operators of gondola cars, we have benefitted from this trend. In the rail tank car segment, the combination of moderate scrappage rates, minimal new rolling stock production and flat volumes helped the sector to stabilise at the weak levels of 2016.

Operating efficiently

Operationally, 2017 was predominantly about continuing to do what we do well: managing our operations efficiently, reducing costs, and delivering excellent service to our customers.

While our total Transportation Volumes and Freight Rail Turnover remained relatively flat[1] in the reporting year, our business volumes in the gondola segment continued to rise, led by metallurgical cargoes (up 6% year on year) and coal (up 4% year on year). We successfully focused on the most attractive routes and cargoes, which helped drive revenue growth. We continued the transformation of our oil products and oil transportation business with an intentional decrease in the number of leased-in rail tank cars. This was in response to changing market dynamics and new logistic patterns of our key clients. As a result, our volumes in this segment declined 3% year on year.

In a complex logistical operation like ours, efficiency underpins everything we do. The challenges of running a sophisticated 24/7 logistics operation across the world's largest country are enormous. Our expertise and professionalism in this area is unparalleled, and it is our depth of knowledge and technical skills that customers want and we provide. Several years ago, we made the decision to migrate our gondola fleet to a single dispatching hub. This has transformed the efficiency of our gondola operations: we can move complex cargoes more easily; we can redirect our fleet more quickly; and we can manage our Empty Runs and maintenance programmes more effectively.

1 Excluding Engaged Fleet.

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Valery Shpakov
Chief Executive Officer

As the cost of running empty railcars remains the single largest cash cost item, managing our Empty Runs is a core objective for our management team. Our Empty Run Ratio statistics remain among the best in the industry and we repeated that performance in 2017. Thanks to the skills of our team and interconnected logistics of our key metallurgical clients, we further improved our Empty Run Ratio for gondola cars to 37% with the Total Empty Run Ratio (for all types of rolling stock) declining to 45%.

The other pillar of operational excellence is superior client service, a concept which Globaltrans pioneered in our markets. Because of our modern asset base, proprietary logistics systems and service culture, we can deliver lasting value to our customers' logistics. We have a very strong partnership ethos, as demonstrated by the multi-year contract renewals we signed with Metalloinvest and Rosneft in 2016. And, I am proud to report that at the beginning of 2018 we extended our long-term partnership with MMK for an additional 18 months until the end of September 2020.

Record results and continued deleveraging

Our key financial metrics were all strongly positive. The Group's Total revenue rose 12% year on year to RUB 78,081 million. Adjusted Revenue increased 18% year on year to RUB 52,094 million, with Net Revenue from Operation of Rolling Stock climbing 19%. The increase in revenues was driven by the further improvement in average pricing along with good efficiency across our fleet. We also continued our excellent record of cost containment, with Total Operating Cash Costs down by 1% year on year. Operating profit rose 86% year on year to RUB 20,156 million. Adjusted EBITDA rose by 46% year on year to RUB 25,789 million, driving a substantial expansion in Adjusted EBITDA Margin which improved to 50%, compared to 40% in 2016. Profit for the year rose 126% to RUB 13,820 million.

The level of Free Cash Flow generated by the Group rose 92% to RUB 17,048 million reflecting modest maintenance CAPEX and moderate investments into fleet expansion. In 2017 we acquired 1,332 units of various rolling stock, including petrochemical tank containers.

25.8bn RUB

Adjusted EBITDA in 2017;
an increase of 46% year on year

50%

Adjusted EBITDA Margin in 2017
(2016: 40%)

We ended the year with a Net Debt to Adjusted EBITDA ratio of 0.4x compared to 0.7x at the close of 2016. The strength of our capital position was recognised by the rating agencies Fitch and Moody's who both assigned Globaltrans improved credit ratings (BB+ and Ba2, respectively) highlighting the stable outlook for the Group. Since the 2017 year end, investor confidence in the Group has been further reinforced with the completion of a highly successful RUB 5.0 billion five-year bond placement. Such was the level of investor interest the offering was more than five times oversubscribed and the bond's interest rate of 7.25% was the lowest ever achieved for a Rouble financing in our history.

Under the terms of our new enhanced dividend policy, which the Chairman covers in his statement, we have also been able to reward our shareholders with a substantial return of value in the form of enhanced dividends in 2017, signalling our commitment to creating long-term shareholder value.

Strengthening our management team

As the Group grows larger, it is critically important that we have a strong executive management team in place. As such, I am very pleased to welcome back Sergey Maltsev, who has rejoined the executive management team as Chief Strategy Officer. Sergey was one of the original founders of Globaltrans and so possesses an unrivalled knowledge of our business and our industry. He will focus on developing our future growth plans and I look forward to working closely with him.

Steaming ahead

The broader economy will, as ever, play its part in how the freight rail sector performs. And here there are grounds for optimism, as forecasts point to continued economic growth in 2018, which should underpin increased demand for freight transportation. Industry fundamentals are also more supportive than they have been for some time.

Our management priority over the next year will be to focus on further expansion in the Russian freight rail sector. Looking ahead, we are targeting the acquisition of up to 1,500 units of various types of rolling stock in 2018. We will also continue to look at consolidation plays, as and when they arise, alongside opportunities in niche markets that meet our strategic and returns criteria.

We have a great platform from which to deliver further growth in the coming years. 2018 has started well, market conditions remain favourable and our current trading is in line with our expectations.

Valery Shpakov
Chief Executive Officer

1%
Year on year decline
in Total Operational Cash Costs in 2017

37%
Empty Run Ratio for gondola cars
in 2017 (2016: 38%)