

STRATEGIC REPORT

CORPORATE SOCIAL RESPONSIBILITY

The Group publishes its first sustainability report on the pages to follow. The separate report on non-financial information and our statement on diversity will be published by the end of June 2018 and will be available on the Globaltrans' corporate website (www.globaltrans.com).

Our approach to Sustainability

At Globaltrans, we understand that a company seeking to grow successfully for the long-term needs to operate in a financially, socially and environmentally responsible manner. Therefore we take the sustainability of our business very seriously as we are constantly striving to improve our business. As a result, we are able to drive change and make our business a better and safer place to work – which contributes directly to our financial and strategic objective of achieving operational excellence.

The Group also fully recognises its fundamental responsibilities as a corporate entity and employer and we are committed to protecting the rights of our people, customers, suppliers and other stakeholders. We strictly observe all local and international regulations in regard to human rights, workers' rights, and anti-corruption requirements and we are committed to creating a working environment that is safe, productive and motivating for our people.

Ethics and behaviour

To foster a productive working atmosphere and promote good corporate behaviour within its workforce, the Group has adopted a Code of Ethics and Conduct with which every employee must comply. This Code addresses important aspects of interaction between the Group and its employees and at its heart lies a commitment to open dialogue regarding these important matters.

The Code contains a list of core values that apply to all actions of the Group and its employees and we do not tolerate any conduct that is contrary to these values, which include:

Tolerance so that the Group and its employees understand and respect diverse cultures and people with different views. Our employees should also be capable of appreciating a different point of view and without prejudice or bias work with people whose background and outlook are different from their own, including those of a different nationality, race, gender, religion, sexual orientation, social position or political views.

Impartiality to strive to act objectively and professionally. In the performance of his/her duties, an employee is required to ensure that his/her personal values, relations, financial interests, beliefs or national peculiarities do not prevent the proper performance of his/her duties.

Respect of all employees. The Group and its partners must comply with all requirements of applicable labour laws, including health and occupational safety, sexual harassment, equal employment opportunities, wages and overtime provisions. The Group must also maintain a working environment which encourages the open communication of all ethical matters.

Equality for all – both in terms of opportunities and creating a working environment that excludes discrimination and harassment in any form.

Safety is a critical core value for Globaltrans and central to delivering compliance with our required rules to create a safe and healthy workplace. The Group aims to eliminate all safety issues and in turn, employees are expected to report any concerns or observations to their managers regardless of the degree of seriousness of an issue.

All the employees of the Group are required to sign an acknowledgement that they have received, read and understood the Code of Ethics and Conduct.

In addition, the Group has adopted an anti-fraud policy designed to develop the internal controls that allow to identify and prevent fraud, establish the necessary procedures and rules for dealing with any issues, and has appointed the team responsible for the development of internal controls and investigations.

The Group maintains a zero tolerance regime to all forms of corruption and bribery and is committed to maintaining a corporate culture where everyone understands the risks and consequences of such unethical behaviour.

Fraud prevention measures apply to all personnel of the Group. Each employee of the Group is required to understand the types of violations that may occur within the area of his/her responsibility and closely monitor any indications of potential non-compliance.

The Group has also adopted a Whistle-Blowing Policy that governs the investigation and reporting of improper activities, including non-compliance with the Code of Ethics and Conduct, and allows employees to submit certain concerns in a confidential and anonymous manner. Appropriate channels have been introduced to handle these reports for suspected improper activities.

Wrongdoing means actions by the Group's employees, members of the management bodies of the Group, or third parties, related to non-compliance with the Code of Ethics and Conduct of Globaltrans, actions that may qualify as fraud pursuant to the Anti-Fraud Policy, and any other actions related to the violation of principles and rules of the functioning of the Group's internal controls.

We take any reports of wrongdoings very seriously and they are investigated thoroughly and appropriately and may result in disciplinary actions against an employee if found responsible. Compliance with this Whistle-Blowing Policy is mandatory for all employees of the Group, including those of its subsidiaries and branches.

Our employees

Globaltrans considers the wellbeing of its employees to be central to its success. The Group strives to maintain exemplary working standards, ensure job satisfaction and create opportunities for professional growth. The Group's personnel policy focuses on creating a positive atmosphere at all offices and facilities to help maximise productivity. As part of this, it offers medical insurance, support for further education, regular opportunities for additional qualifications and training, and financial support in difficult times.

It is key for the Group's future success that it continues to attract, retain and motivate employees. Therefore, the Group's personnel approach and policies are designed to create an efficient staff recruitment and training system, to maximise employee development opportunities, and to ensure that remuneration is both competitive and fair through a personnel performance-based motivation and incentive system (with both financial and non-financial rewards).

The Group also operates an Employee Incentivisation Programme, which is provided over and above Russia's employment law requirements, with a benefits package that consists of two parts – fixed and discretionary – based on key performance indicators ("KPIs") and the number of years of employment at the Group. This may include bonus opportunities, private medical insurance, training budget and other benefits.

We aim to be an employer of choice in Russia and in the transportation industry, which means that as well as making Globaltrans an attractive place to work, we seek to build employee engagement to ensure their needs are being met and any concerns are being heard. For example, the major Group companies have established an Employee Hotline to deal quickly and effectively with any questions an employee may have. The Hotline operates on the basis that: no communication may be left without due attention. Outside the workplace, we also organise regular sports events for employees with a special focus on team sports and cultural and leisure events for employees and their families.

Health and safety

The health and safety of every employee is of paramount importance to Globaltrans and underpins the Group's success. To that end, the Group actively trains and educates personnel in occupational safety to develop a culture of awareness and responsibility in the workplace. The Group also regularly checks conditions in the workplace to ensure that they continue to meet high standards. Taking care of its employees' health and safety is essential for Globaltrans. For many years the Group has worked to create and improve a safe working environment, set rules and procedures that everyone understands, and continuously raise awareness of its employees and customers on safety matters.

Diversity

Globaltrans does not have a formal policy concerning aspects such as age, gender or educational and professional backgrounds, but follows the best practice behaviours embedded in the Group's Core Values of Equality, Impartiality and Respect when making new appointments and is focused on simply hiring the best person for the job. Having said that, traditionally our industry has a large percentage of men working in roles such as engineering and logistics. We work to ensure that there is no bias towards either gender and that all appointments and internal promotions are made on the basis of merit.

Looking at the current composition of the Board of Directors, these aspects are taken into account and as of the end of 2017 the Board had two females representing approximately 14% of the total number of directors. The age demographic of the Board of Directors ranged from over 30 to over 70 years, with the average age being 51 years. We recognise the value of diversity in our business and the Board members have been taken from a wide variety of backgrounds in order to provide a strong insight of the transport industry as well as to contribute business acumen in general: transportation and ports industry, accounting, economics and financial, banking sector and legal, engineering and mechanics, biophysics and mathematics, history, international affairs and risk management.

Our customers

Our customers rely on us for high-quality freight rail transportation services and we need to be commercially responsive to their needs. We have a strong reputation for delivering high-quality, reliable and flexible freight rail transportation services and customer satisfaction is one of the key metrics monitored to gauge our performance.

We are proud of our tailored approach to client relationships – each customer is assigned an account manager responsible for the day-to-day relationship with that customer. Customer feedback is analysed and appropriate follow-up actions are taken to ensure that the standards of service continually improve; best practices are then shared across the Group.

The Group has a track record of high customer retention and the majority of key customers stay with us for many years. In addition, the Group serves several key clients on the basis of long-term contracts and in the beginning of 2018 extended its long-term partnership with MMK for a further 18 months until the end of September 2020, following the extension of two other major long-term contracts (Metalloinvest and Rosneft), which were successfully renewed in 2016. The rail freight industry is extremely competitive in Russia and these long-term relationships illustrate the high standards of customer service that we provide.

Our communities

From the outset, undertaking work that supports our communities and the work of charity groups has always been a key part of Globaltrans' philosophy. The Group seeks to give back to society in various ways, including helping sick children and the elderly, supporting cultural, spiritual and educational initiatives, and sponsoring sports programmes. In 2017, Globaltrans continued to work with the Life Line Fund, which assists children with life-threatening illnesses.

In Russia it is extremely important for companies to make philanthropic gifts to society. Globaltrans fulfils its contributions in line with this tradition and since its inception has financed programmes in support of: pensioners and retired railway workers; the Moscow State University of Railway Engineering; the Russian Chess Federation; the Co-Working Fund, which supports humanitarian and educational initiatives; the Constantine International Charitable Fund; and many other organisations and projects across Russia that are as wide-reaching and far-ranging as its operations.

Our environment

Rail is one of the most environmentally friendly modes of transport. Nonetheless, any commercial activity has an environmental impact and Globaltrans strives to minimise this impact wherever possible. To this end, the Group ensures that its activities fully comply with required environmental regulations in the areas in which it operates. The Group also strives to go beyond these requirements and enable business and nature to better co-exist by focusing on applying modern technology in its operations and using natural resources rationally and carefully.

The Group does not manage cargo storage yards, loading ramps or railcar preparation stations and does not have its own production facilities. This means that the operations of the Group do not generate any solid or hazardous waste, and the Group's impact upon the environment is therefore limited. At the same time the Group operates two railcar repair depots and one locomotive repair depot, which are operated under the strict environmental protection and labour safety rules.

Nonetheless, we recognise that increasing our efficiency as a business often has a beneficial impact on the environment – for instance, our constantly improving logistics via our 24/7 despatch centre continues to reduce the number of empty rail cars that are moved across the country. In 2017 we reduced our Total Empty Run Ratio (for all types of rolling stock) to 45% from 48% in the previous year, which helps to optimise the use of resources and minimise environmental impact.

The Group's environmental approach includes regular operational checks as well as analysis of changes in existing laws and regulations and is constantly evolving to ensure there is a continuous effort to increase the Group's sustainability and to mitigate any negative environmental impact.

It is clear that timely maintenance and repairs of rolling stock minimises accidents and environmental pollution. Furthermore, we strive to repair our fleet at the depots that use resource-saving and environmentally-friendly technology. As a business, we are focused on increasing the use of advanced technologies to improve the Group's overall environmental performance. For instance, we have a relatively modern Owned Fleet with average age of just 11 years, which we see as one of our business strengths that enables us to provide a higher standard of service for our clients.

By having modern systems to control emissions, targeting resources on maintaining a modern fleet (through the acquisition of new/relatively new rolling stock and effectively managing regular repairs using companies that use resource-saving and environmentally-friendly technology) and scrapping old railcars with ended useful life, we are therefore able to maintain a fleet that is more modern, more energy efficient, and has a more limited impact on the environment and at the same time provides increased efficiency and a higher standard of service for our clients.

The Group also conducts efforts to combat climate change by promoting rail freight as an environmentally friendly mode of transportation. However, the current industry regulation in Russia means that, as a freight rail operator, we do not have any control over infrastructure and actual transportation, and so our opportunities to take any direct action is limited. Nonetheless, Globaltrans supports a broad range of initiatives designed to promote the transportation industry. Globaltrans and its subsidiaries take part in the TransRussia exhibition in Moscow every year, the biggest transport exhibition in Russia and the CIS, to demonstrate its latest achievements, enhance its customer base, and demonstrate its experience and insight with other industry players, both international and domestic. On a regional basis, New Forwarding Company (a subsidiary of Globaltrans) took part in the community arts project to build a bas-relief monument in the city of Yekaterinburg. The project will be completed in 2018 to mark the 140th anniversary of the Sverdlovsk Railways and the monument is intended to preserve the strong history of railways in Russia, and to secure rail's leadership position in today's transport environment.

With a view to ensuring a comprehensive approach and co-ordination of the Group and its subsidiaries' environmental programmes under this policy, the major group companies have set up an environmental co-ordination committee responsible for assessing and measuring:

- application of energy efficient technologies;
- air emissions;
- potential waste discharge into surface or ground water;
- noise impact;
- disposal of solid or liquid waste; and the
- use, production, storage, transportation or disposal of toxic or hazardous waste.

We encourage all our employees to use their creative potential in the resource saving and mitigation of environmental risks. We also ensure that all our repair and cleaning companies and other contractors are notified of our environmental liabilities and objectives and understand that they are required to comply with our safety rules and environmental requirements as well as take nature conservation into account when working with us.

Our subsidiaries and supply chain

It is crucial to Globaltrans that all its subsidiaries conform to the same standards of social and environmental responsibility. Indeed all of our subsidiaries that are directly involved in railway operations prepare a report for the company's internal use which covers core ESG topics. These reports include total year on year change in emission and waste, personnel training, safety measurements, and various other metrics. This ensures that the operations focus on and understand the importance of these key areas and gives the Group a clear picture of what progress is being made. By carefully examining the reports, Globaltrans can also identify steps to further improve its own sustainability performance.

