CEO Review

Dear Shareholders,

Thanks to the underlying strengths of Globaltrans, we were able to deliver an excellent performance in 2021. We achieved strong financial results with another year of disciplined operational performance despite market volatility and the ongoing impact of COVID-19.

Valery Shpakov
Chief Executive Officer

In the reporting year, we generated good momentum focused on our core competencies of superior service, operational excellence, cost management, and prudent capital allocation. We deepened our customer engagement, secured important contract extensions with major customers, expanded our leased-in gondola fleet to satisfy strong demand for our services, maintained our efficiency, and optimised our portfolio by divesting non-core asset.

Results Highlights

From a results standpoint, 2021 was definitely a year of two halves.

The first half was impacted by sustained weakness in gondola market rates for most of the period. However, gondola rates staged a prolonged recovery between May and December, supported by buoyant demand in bulk cargoes. Consequently, Globaltrans' financial performance in the second half rebounded strongly with the result that FY2021 key financials were ahead of the previous year.

Adjusted Revenue increased 6% year on year to RUB 58.5 billion driven by improving gondola rates and a continued recovery in demand for bulk cargoes and oil products and oil.

Adjusted EBITDA rose 8% year on year to RUB 29.0 billion. Profit for the year increased 24% year on year to RUB 15.1 billion. The full-year Adjusted EBITDA Margin was 50% versus 49% in 2020. We kept tight control over our operating expenses and our Total Operating Cash Costs were held in check.

11%

Average Price per Trip growth in 2021, y-o-y

We delivered strong cash generation with Net cash from operating activities up 8% year on year to RUB 27.2 billion. Free Cash Flow also increased by 7% to RUB 16.1 billion. Capital expenditure rose 22% year on year to RUB 8.4 billion due to an increase in maintenance and expansion CAPEX.

Underpinned by a strong balance sheet and low leverage, the Group took the opportunity to purchase 381 new tank cars at the close of the year to support the recovery of demand in the oil products and oil sector. Net Debt fell sharply, down 32% year on year, to RUB 18.5 billion. As a result, the Group's Net Debt to Adjusted EBITDA ratio fell to 0.6x from 1.0x at the prior year end.

Industry Overview

The sector's performance in 2021 was exceptional, with Russia's freight rail turnover reaching an all-time high, primarily driven by strong export demand for industrial commodities combined with a concerted rebound in domestic demand.

Growth in freight rail turnover rebounded sharply from its pandemic lows, with overall turnover up 3.6% year on year. Before the 2020 pandemic, the industry had enjoyed a period of sustained growth in freight rail turnover, reaching a five-year peak in 2019. 2021 saw a resumption of growth, with total freight rail turnover 1.3% ahead of the 2019 result.

The total volume of rail freight moved in Russia increased 3.2% year on year. Results for the individual cargo categories were somewhat mixed, although the overall performance was very positive.

44%

Empty Run Ratio for gondola cars in 2021 (2020: 45%)

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Overall bulk cargo volumes grew strongly, up 3.0% year on year and 1.8% ahead of pre-pandemic volumes of 2019. Coal and metallurgical cargoes contributed most, benefiting from booming export markets and strong prices. Coal (including coke) volumes rose 5.3% year on year, while metallurgical volumes (including ferrous metals, scrap metal and ores) grew 2.2% over the prior period. Volumes in construction materials (including cement) however fell 2.4% albeit from a high base of 2020, but were still ahead of the pre-pandemic level of 2019.

Freight volumes in the oil products and oil category also experienced solid growth, up 4.2% from the previous year, albeit 6.2% below pre-pandemic 2019 levels. After a sluggish first half, second-half volumes surged 8.9% year on year as global energy demand expanded rapidly as economies reopened.

In terms of freight rates, weak gondola market pricing in the first half gave way to a price recovery in the second half as demand for bulk commodities gathered pace. In the oil products and oil segment, rates remained solid through the COVID-19 crisis, despite weak demand dynamics lasting until the second half of 2021.

Our Performance

Our business model is designed to allow the Group to deliver consistent results through the business cycle by maintaining a balanced fleet split between gondola cars and tank cars whose markets tend to have different cyclicality patterns. Our ability to mitigate the impact of the changing market environment is further supported by how we flex the size of our Leased-in Fleet to match market demand, and actively manage our discretionary CAPEX to closely align it to market conditions.

Our service performance was generally excellent, highlighting Globaltrans' reputation for service quality and delivery. We signed two important contract renewals with major customers. Our contract with Metalloinvest was extended for another two years to the end of 2023, lifting our share of Metalloinvest's total contracted freight rail needs from 50% to 70%. We also extended our contract with Rosneft for an extra five years out to March 2026.

In 2021, long-term contracts covered 59% of the Group's Net Revenue from Operation of Rolling Stock. These contracts are important as they help underpin and derisk our revenues. They are also a source of valuable real-time data on our customers' logistics, helping to deliver faster, more effective cargo routings that minimise Empty Runs and improve operational efficiency.

Operations in the first half were affected by various factors, including weather-related delays, congestion at key gondola client facilities, and sluggish demand in the oil products and oil segment. The second half performance was much better, and the Group's Freight Rail Turnover was 8% up on the first half. However, 2021's performance lagged behind the overall market, falling 2% year on year.

Favourable pricing dynamics meant our Average Price Per Trip increased 11% year on year in 2021, supported by our superior service offering and logistics expertise.

Operational excellence is an area of relentless focus for us, as without it, we cannot deliver contract and revenue growth. Our team worked tirelessly to maintain efficient fleet operations, focusing on issues like utilisation rates, routing issues and changes to cargo patterns that impact fleet logistics. Their efforts contributed to a stable Total Empty Run Ratio (for all types of railcars) for 2021, unchanged at 51%.

Our gondola Empty Run Ratio remained at elevated levels as customer cargo flows were still impacted by the COVID-19 pandemic. However it still remains one of the lowest in the sector at 44%, down slightly from 45% in the prior year.

Capital Allocation

So that we can deliver sustainable through-cycle growth for shareholders, all investments must meet strict returns criteria. Our capital expenditure in 2021 was targeted primarily at necessary maintenance, with Total CAPEX for the year at RUB 8.4 billion.

We maintain a balanced approach to fleet investment, alternating between leasing-in units and rolling stock purchases, depending on market conditions. In 2021, we leased an additional 2.2 thousand gondolas to capture the high demand in the bulk cargo segment. As a result, the total leased-in gondola fleet increased to 5% of the total gondola fleet. To take advantage of the rapid recovery in the oil products and oil segment, we purchased 381 tank cars at the close of 2021 and an additional 119 units at the start of 2022.

Sustainability Focus

Being a responsible business is fundamental to how we deliver long-term success, so our focus on environmental, social and governance (ESG) issues is a vital part of our future growth strategy. The Board and leadership are aligned in our commitment to sustainable business development that creates value.

Last year the Board formalised our ESG agenda by creating a separate Board committee to monitor and oversee the Group's ESG activities. As CEO, I welcome this move to provide a focal point for our Group-wide ESG activities and help us improve our sustainability programmes. As the Chairman mentions in his report, as a direct result of dialogue with the committee, we upgraded our levels of ESG disclosures, resulting in an improvement in the Group's sustainability rating from one of the leading global ESG rating agencies, Sustainalytics.

My focus, and that of my team in 2021, was primarily on the social aspects of our ESG strategy, especially the health and wellbeing of our employees. COVID-19 continued to impact day-to-day operations, and as a leadership team, we focused on ensuring our employees had the right practical, emotional, and financial support to help them perform their jobs.

Safety is critical in our business and a top priority for the management team. There was a clear improvement in our safety performance in 2021, with zero fatalities and an improved Lost Time Injury Frequency Rate from 0.66 in 2020 to zero in 2021.

LTIFR[1] zero

(2020: 0.66)

[1] LTIFR (Lost Time Injury Frequency Rate) is the number of lost time injuries multiplied by 1,000,000, divided by the employee total hours worked in the reporting period.

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Optimising Our Asset Base

We regularly review our business portfolio to focus on those businesses that have the most potential to deliver long-term sustainable growth.

In October 2021, we sold our 60% stake in SyntezRail, a standalone business within the Group, for a total cash consideration of RUB 1.1 billion. SyntezRail is a successful operator of specialised containers units with customers in the petrochemicals, metals and other industrial sectors. However, the Board concluded that SyntezRail had few synergies with our core business and that the potential for value growth was limited.

The transaction price represented a return on investment of 3.8 times and an EV/EBITDA multiple of about 6.8 times. Proceeds of the sale were used to strengthen the Group's balance sheet and improve its capacity to pay dividends.

Since the year end, we have acquired full control of BaltTransServis, a leading operator of rail tank cars used to transport oil products and oil. In February this year, we increased our stakeholding to 100% from 60% by acquiring the 40% minority stake for RUB 9.1 billion in cash implying 2021 P/E of about 4.5 times.

BaltTransServis has a strong market position, long-term service contracts with industry leaders, owns its locomotive fleet, and is cash generative. We believe BaltTransServis has great potential to create sustainable long-term value for our shareholders.

Summary

In 2021, we made good progress against our strategic goals. And while we face challenges ahead, on the evidence of our strong performance in 2021, I am confident that the business is well positioned to weather any difficulties. As a management team we are adept at managing through changing business cycles, and we have a tried and tested business model.

Valery Shpakov
Chief Executive Officer

PORTFOLIO OPTIMISATION TO INCREASE FOCUS ON CORE SEGMENTS

- **BaltTransServis stake acquisition – unique competencies and 100% consolidation**
  - Acquisition of the remaining 40% outstanding stake in BaltTransServis (bringing the Company's ownership to 100%), one of the leading Russian freight rail operators of tank cars, for RUB 9.1 billion in cash implying 2021 P/E of about 4.5 times.
  - BaltTransServis has a strong market position, long-term service contracts and unique competencies in operating its own locomotives with a total fleet of 13,136 units[1].
  - Provides increased focus on and exposure to an attractive oil products and oil segment and enables the consolidation of 100% of the Free Cash Flow of this cash generative business.
  - Globaltrans became the effective sole owner of BaltTransServis in February 2022 with closing completed in March 2022.
- **SyntezRail disposal – limited scope for value growth or synergies**
  - Sale of 60% stake in small non-core container operator SyntezRail completed in October 2021 for RUB 1.1 billion in cash, implying an EV/EBITDA multiple of about 6.8 times[2] and a return on invested capital of about 3.8 times.
  - Scope for synergies with core operations and potential for further value growth were both considered limited.

[1] Including 5,471 units leased in from other Group subsidiaries and 1,693 units leased in from third parties.
[2] Based on estimated financial results of SyntezRail for 2021, normalised assuming that all 500 new specialised containers delivered in 2021 were operational from 1 January 2021 and excluding the impact of IFRS 16.