

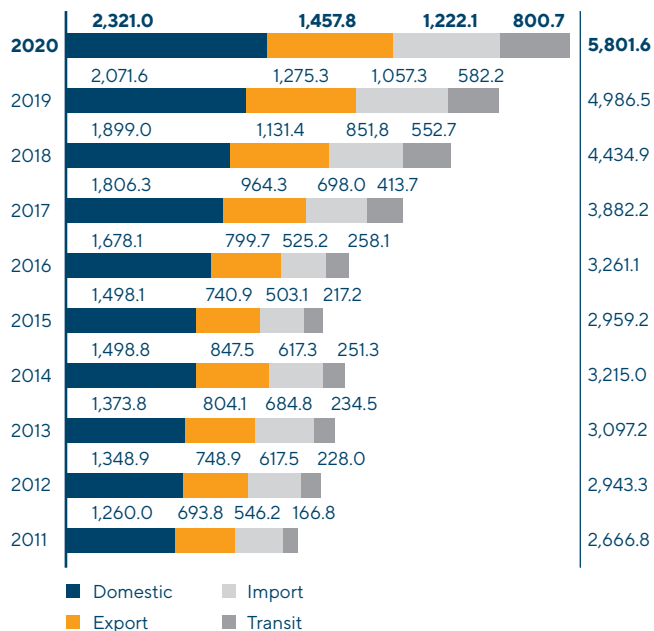
RUSSIAN RAIL CONTAINER TRANSPORTATION MARKET

RUSSIAN MARKET DEVELOPMENT

In 2020, the Russian rail container transportation market remained on a strong upward trajectory: 2019 saw a 12.4% growth rate, while in 2020 it grew by 16.3% and reached a new historical high of 5.8 mln TEUs. The market growth rate exceeded the initial forecasts of industry analysts, who expected a greater negative effect from the pandemic.

In 2020, according to the Ministry of Economic Development of the Russian Federation, Russia's GDP decreased by 3.1%, the retail turnover reduced by 4.1% under quarantine restrictions, and industrial production dynamics dropped by 2.6% compared to the previous year.

Russian Rail Container Transportation Market Performance by Traffic Type ('000 TEU)



Sources: Russian Railways, Company data

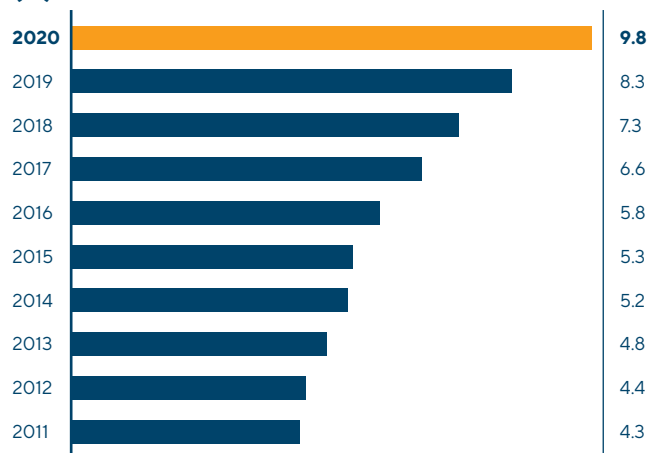
Despite the deteriorating economic conditions and a decrease in cargo turnover in road and sea transport, the rail container transportation segment demonstrated advanced growth in the reporting period.

This was driven by the following factors:

- transfer of the freight volumes to the rail container transportation segment. This became possible, among other things, due to the transfer of freight volumes, which were previously handled by other types of transport (air, road, sea), to the container segment amid the closure of borders, restrictive quarantine measures and the cancellation of air traffic;
- improvement of the rail container transportation service quality by speeding up the delivery, meeting the delivery terms, and simplifying the customer-and-operator interaction;
- the ongoing growth of transit transportation through the territory of the Russian Federation in the China–Europe–China corridor as part of the Silk Road Chinese project with a high containerisation rate.

By the end of 2020, the containerisation rate of cargoes transported via the Russian Railways network increased to 9.8% against 8.3% in 2019.

Containerisation in the Russian Railways Network (%)



In 2020, the transit transportation growth amounted to

37.5%

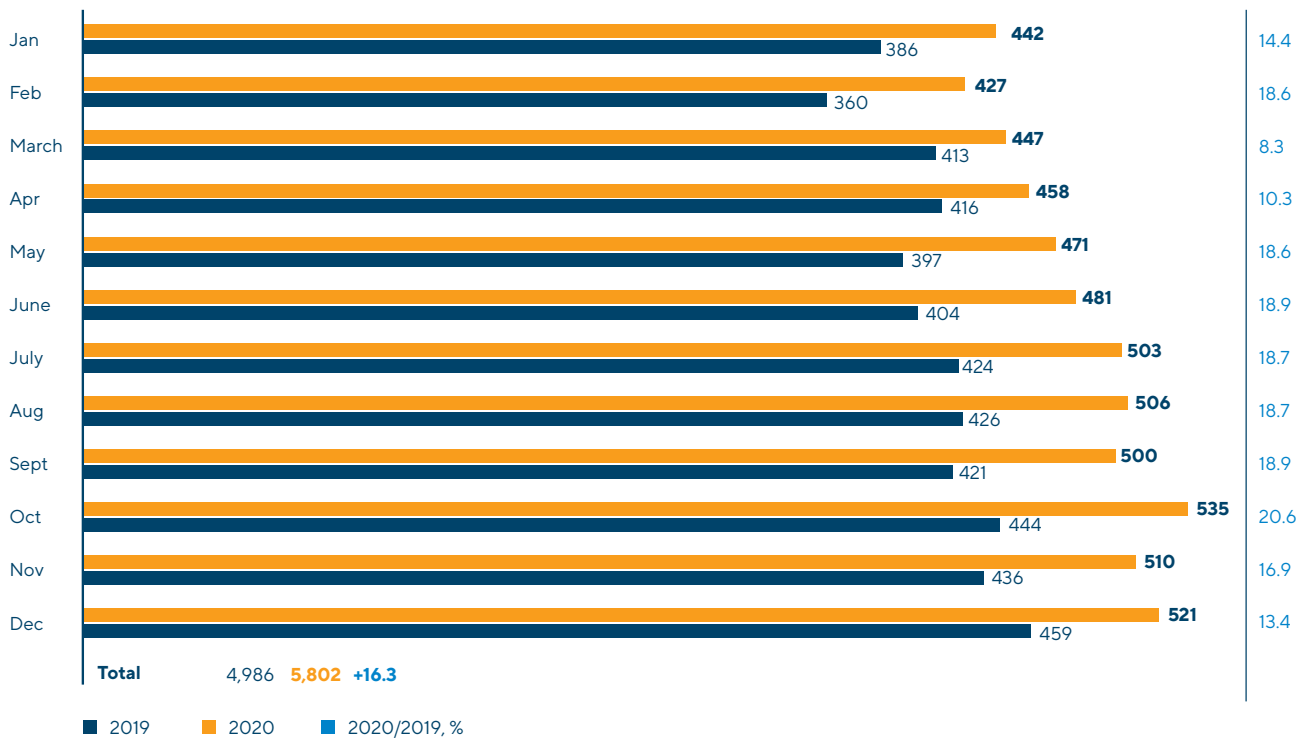
As a result, the share of transit transportation in 2020 equalled

13.8%

compared to 11.7% in 2019.

The annual trend in the market was also that of strong growth year-on-year.

Monthly Container Shipments in the Russian Railways Network in 2017–2020 ('000 TEU)



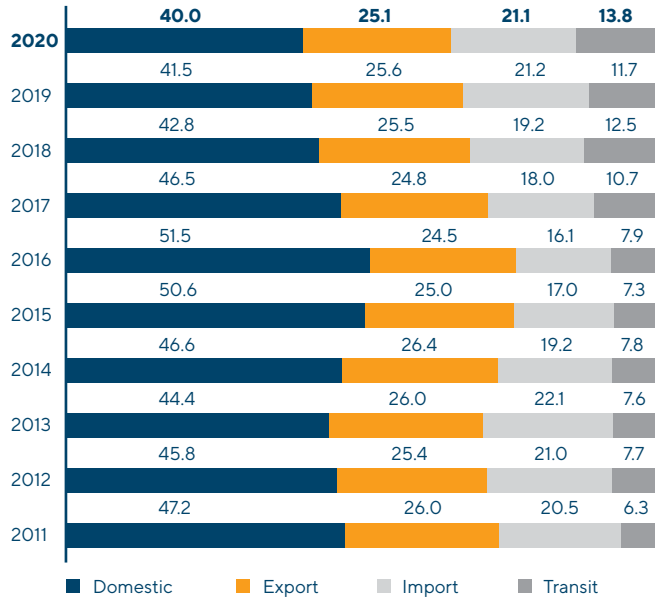
Sources: Russian Railways, Company data

TRANSPORTATION BREAKDOWN

The reporting year saw growth in all types of railway transportation: domestic shipments increased by 12.0% year-on-year, while the share of container transportation on international routes grew by 19.4%. The leaders in terms of international transportation were transit, which grew by 37.5%, or by 219 thousand TEU, and import, which grew by 15.6%, or by 165 thousand TEUs, the increase in export shipments amounted to 14.3%, or 183 thousand TEUs.

With the rapid growth of international transportation in 2020, the share of domestic transportation declined from 41.5% in 2019 to 40.0%. Due to the growth in transit, the share of imports decreased by 0.1% and amounted to 21.1%, the share of exports reduced by 0.4% year-on-year and reached 25.1%. The share of transits increased from 11.7 to 13.8%.

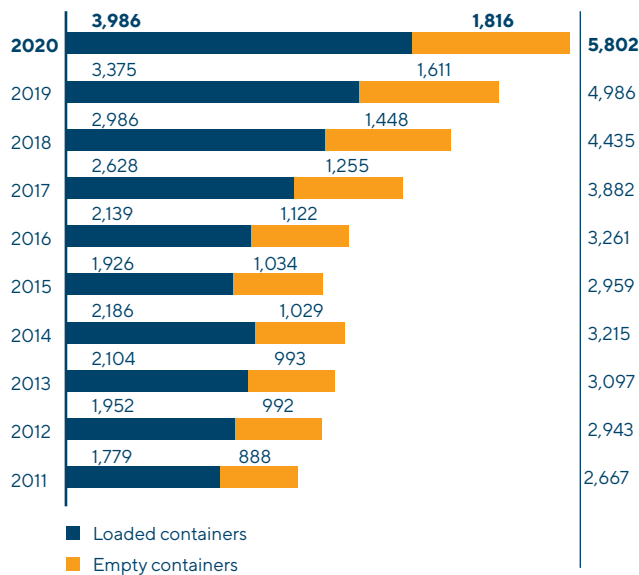
Russian Rail Container Transportation Market by Traffic Type (%)



Sources: Russian Railways, Company data

The share of loaded container transportation in the Russian Railways network increased by 1% and amounted to 68.7%. During the reporting period, the transportation of loaded and empty containers grew by 18.1% and 12.7% year-on-year, respectively.

Transportation in the Russian Railways Network ('000 TEU)



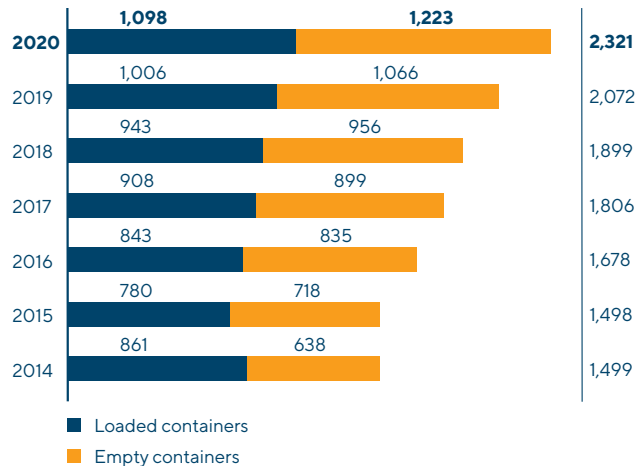
Sources: Russian Railways, Company data

DOMESTIC TRAFFIC

Domestic container transportation totalled 2,321 thousand TEUs in 2020, up 12.0% year-on-year. Domestic shipments were supported by more intense import substitution, reallocation of cargo traffic from other types of transport to rail container transportation, development of container services by Russian operators, as well as by global logistics operators and sea shippers still returning to the Russian market.

In 2020, loaded containers accounted for 47.3% of the Russian domestic rail container transportation, down 1.2% year-on-year. During the reporting period, the transportation of loaded and empty containers grew by 9.2% and 14.7% year-on-year, respectively.

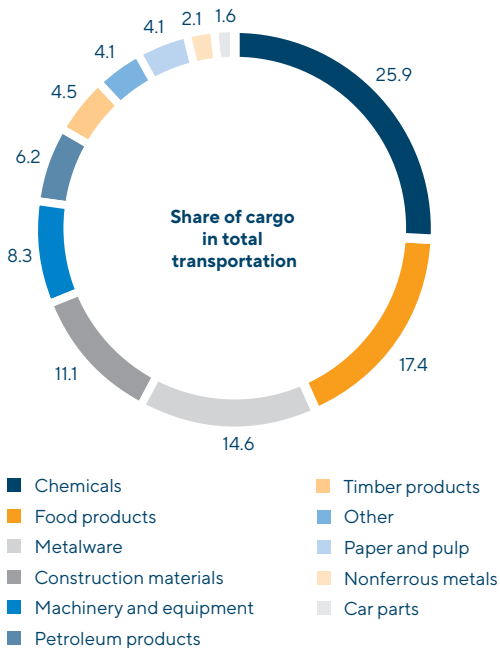
Domestic Container Transportation in the Russian Railways Network ('000 TEU)



Sources: Russian Railways, Company data

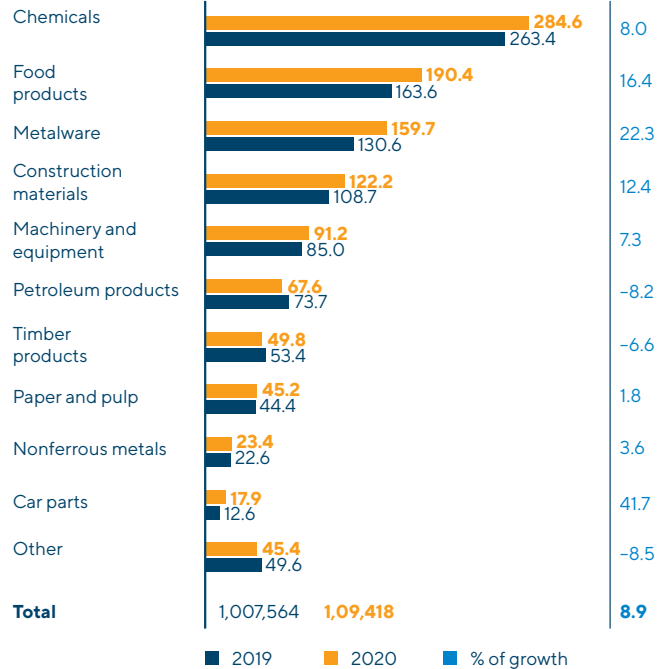
Russian domestic rail container transportation has traditionally been more diversified than international shipments. Among commodity groups, chemical products (25.9%) and food products (17.4%) accounted for the highest shares of transportation in 2020. In domestic rail container transportation, metal products amounted to 15%, construction materials stood at 11%, machinery and equipment – 8%, petroleum products – 6%, timber products – 4.5%, paper and pulp – 4.1%, nonferrous metals – 2.1% and car parts – 1.6% each.

Domestic Container Transportation in the Russian Railways Network by Key Commodity Group in 2020 (%)



Sources: Russian Railways, Company data

Domestic Container Transportation in the Russian Railways Network by Key Commodity Group in 2019–2020 (TEU)



Sources: Russian Railways, Company data

Across all commodity groups, the highest increase in 2020 was seen in the container transportation of car parts (+41.7%), metal products (+22.3%) and food products (+16.4%).

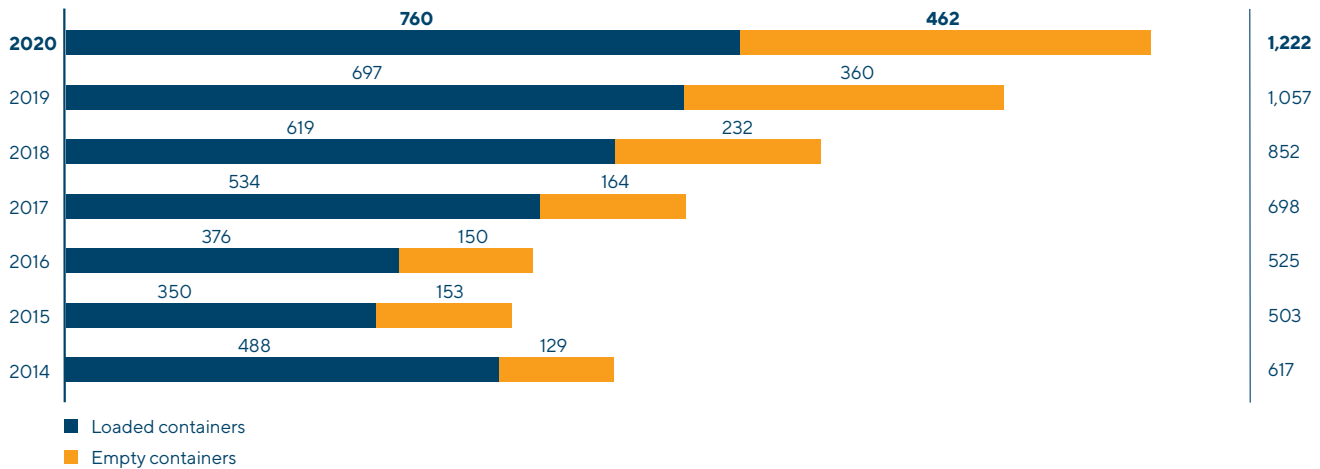
The main domestic rail container flows were between Central Russia and Siberia, as well as within European Russia.

IMPORT TRANSPORTATION

In 2020, import rail container transportation increased by 15.6% to 1,222 thousand TEUs due to the growing international trade, including via online services.

In the reporting year, loaded containers accounted for 62.2% of import rail container transportation, down 3.8% on the back of higher growth rates of empty traffic. Empty container traffic grew by 28.5% (to 462 thousand TEUs) amid the growing loaded container exports. The growth of loaded traffic was 8.9%.

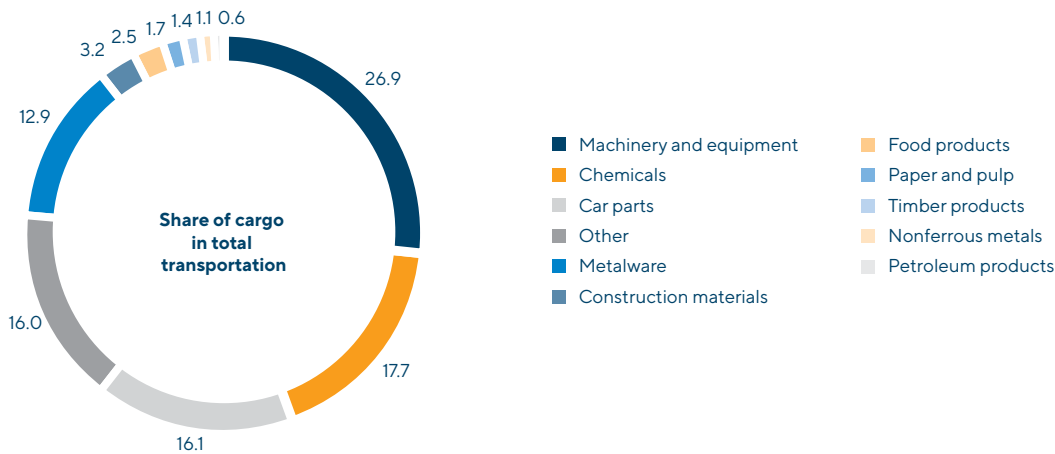
Import Container Transportation in the Russian Railways Network ('000 TEU)



Sources: Russian Railways, Company data

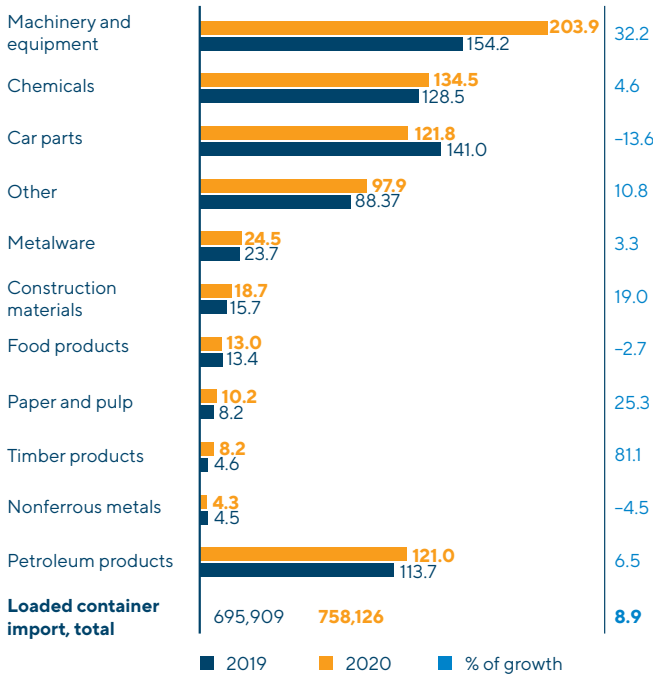
Containerised imports were dominated by machinery and equipment (26.9%), chemicals (17.7%), car parts (16.1%).

Import Container Transportation in the Russian Railways Network by Key Commodity Group in 2020 (%)



Sources: Russian Railways, Company data

Import Container Transportation in the Russian Railways Network by Key Commodity Group in 2019–2020 (TEU)



Sources: Russian Railways, Company data

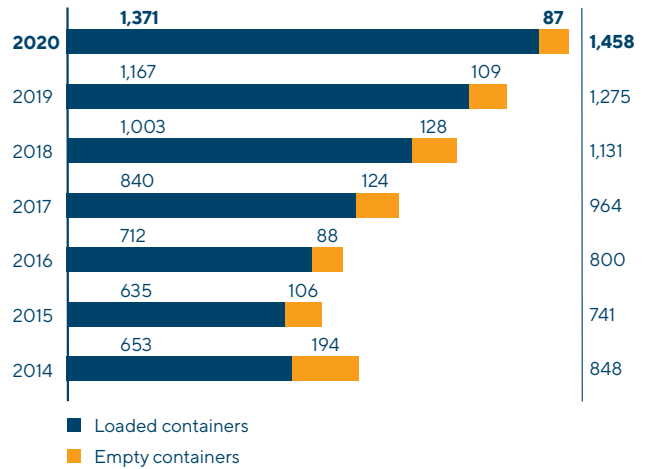
Across all commodity groups, the highest increase in 2020 was seen in the container transportation of nonferrous metals (+81.1%), machinery and equipment (+32.2%), timber products (+25.3%), and food products (+19.0%).

The main domestic rail container flows came to the Russian Federation from the countries of the Asia-Pacific region and Central and Eastern Europe.

EXPORT TRANSPORTATION

In 2020, export rail container transportation increased by 14.3% to reach 1,458 thousand TEUs. The share of export loaded containers increased to 94.0% from 91.5% year-on-year due to the strong growth in exports of loaded containers (+17.5%) and reduced empty container traffic (-19.9%). The share of export empty containers dropped by 2.6%.

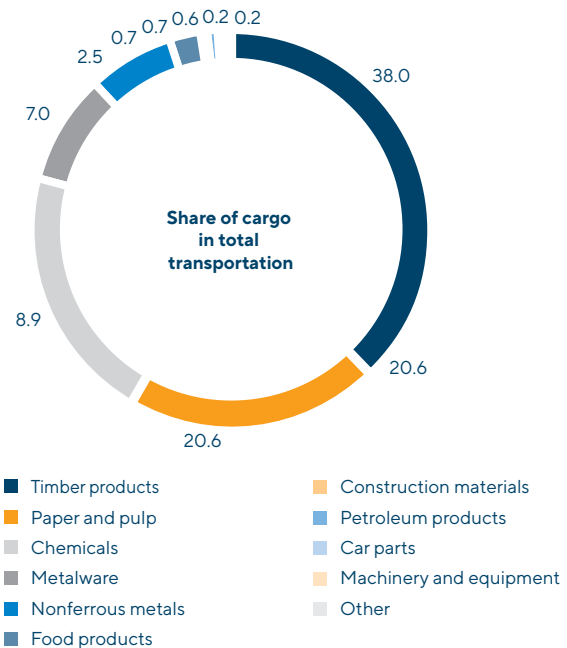
Export Container Transportation in the Russian Railways Network ('000 TEU)



Sources: Russian Railways, Company data

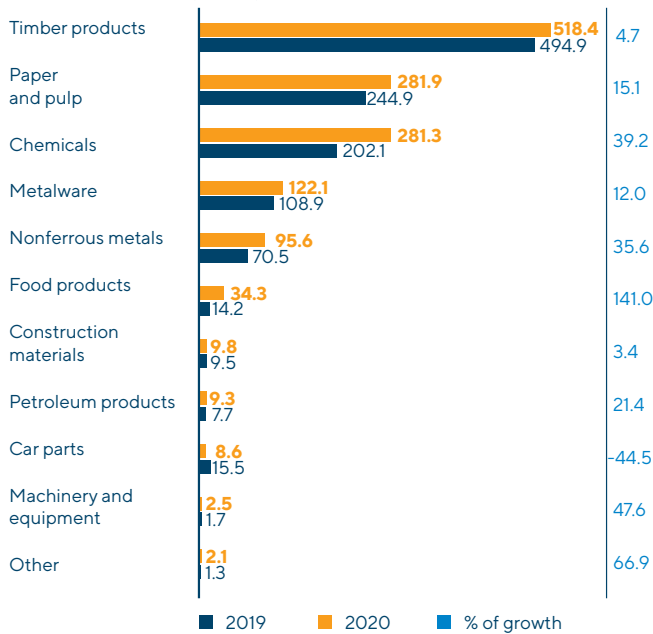
In 2020, the Russian rail container export was dominated by timber products (38.0%), paper and pulp (20.6%), chemicals (20.6%).

Export Container Transportation in the Russian Railways Network by Key Commodity Group in 2020 (%)



Sources: Russian Railways, Company data

Export Container Transportation in the Russian Railways Network by Key Commodity Group in 2019–2020 (TEU)



Sources: Russian Railways, Company data

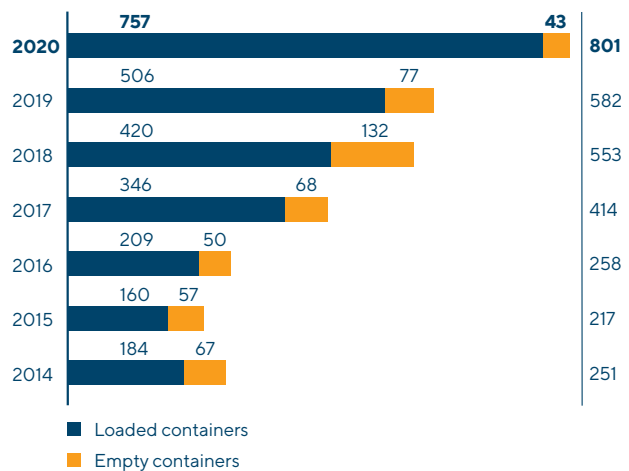
Among commodity groups, export container transportation of food (+141.0%), other cargoes - mainly light and printing industry (+66.9%), machinery and equipment (+47.6%) and chemical products (+39.2%) accounted for the highest share of transportation in 2020.

In the reporting year, the majority of export containers in the Russian Railways network was transported to the countries of the Asia-Pacific region, as well as to Eastern and Western Europe (Germany, Switzerland, the Czech Republic, the Netherlands, Finland, Slovakia).

TRANSIT TRANSPORTATION

In 2020, rail container transportation significantly increased the growth rate, it went up by 37.5% year-on-year and amounted to 801 thousand TEUs. The share of empty containers decreased to 5.4% against 13.2% year-on-year.

Transit Container Transportation in the Russian Railways Network ('000 TEU)

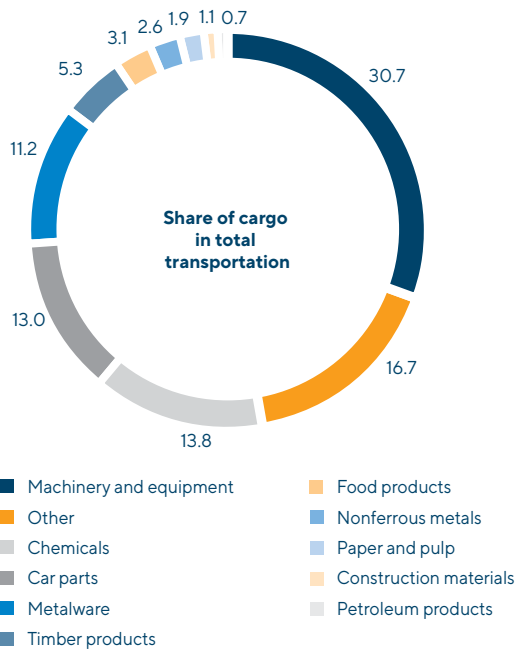


Sources: Russian Railways, Company data

In 2020, transit transportation between China and Europe continued to grow, and a project of transit from Korea to Europe was launched. The total volume of transit container transportation in the China–Europe–China segment amounted to 642 thousand TEUs that is up 60% year-on-year. The China–Europe traffic increased by 69% (from 267 to 452 thousand TEUs), while the Europe–China traffic surged by 43% (from 133 thousand TEUs in 2019 to 190 thousand TEUs in 2020). Thus, container transit transportation showed an increase of imbalance on the East–West route.

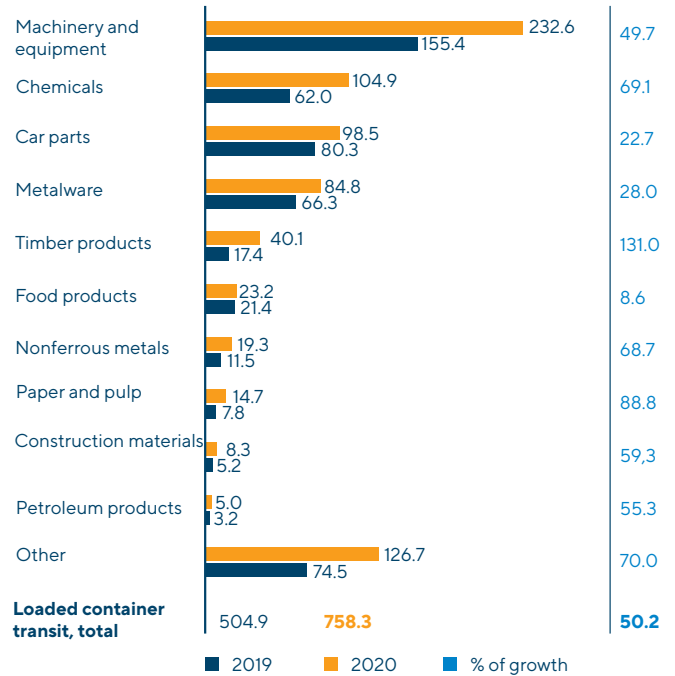
In 2020, the main contribution to transit traffic was made by machinery and equipment (30.7%), other cargoes - mainly light and printing industry (16.7%), chemicals (13.8%), and car parts (13.0%).

Transit Transportation in the Russian Railways Network by Key Commodity Group in 2020 (%)



Sources: Russian Railways, Company data

Transit Transportation in the Russian Railways Network by Key Commodity Group in 2019–2020 (TEU)



Sources: Russian Railways, Company data

Timber products (+131.0%), paper and pulp (+88.8%), other cargoes - mainly light and printing industry (+70.0%), and chemicals (+69.1%) were the key contributors to the transit rail container transportation.

Most of the rail container transit flows go between Central and Eastern Europe (including the Baltic states) and Central Asia, as well as Southeast and Central Asia.

OUTLOOK FOR 2021

Market participants expect that in 2021 Russia's economy will be able to adapt or begin to recover from the fall in 2020. Against this background, the development of containerisation processes of the Russian rail transportation will continue, including through the introduction of container technologies by manufacturers of industrial products, the use of specialised containers, the geographical transformation of distribution networks of large retail operators. Thus, the Company expects positive market performance to continue into 2021.

At the same time, the growth rates may slow down due to the weakening of the effect of transfer of the freight volumes to the railway container segment from other transport segments, or even a partial return to other segments as quarantine restrictions are lifted in the Russian Federation and around the world.

The Company expects high growth rates of transit traffic to be maintained on the back of the development of existing transit services and the emergence of new ones, along with increasing competitiveness of the land corridor Asia-Pacific–Europe compared to the deep sea route.

Export and import transportation will be largely driven by the rouble exchange rate performance, the Russian export market environment, and expansion of Russian export geography.

Among the main risk factors for the market, the Company sees a possible prolongation of the COVID-19 pandemic, possible decisions of the Chinese government to cancel subsidies for international rail container transportation, greater geopolitical tensions, imposition of the new ones and expansion of the existing economic sanctions, and trade barriers that can cause the downside risks in the global economy. These events may have an adverse impact on the Russian economy and international trade, and, accordingly, on the Russian container transportation market.

Given the expected slowdown of the market growth rates and taking into account the significant growth of the flatcar fleet at the Russian Railways Network in 2018–2020, the Company anticipates maintaining tough competition both among rolling stock operators and between the railway and motor segments of the Russian transportation market.

The key factor for successful competition of the rail container transportation segment with other transport market segments are as follows: a balanced tariff policy of the Russian Railways concerning container traffic, simplified documentation and procedures for access to railway infrastructure, developing the container train traffic technologies, and other measures increasing the appeal of this type of transportation.

Sea shippers will continue to exert competitive pressures in the international container transportation market, especially in terms of imports and transit, as well as the supply of shipping lines containers for domestic and export traffic.