

STRATEGIC REPORT

Strategy

Considering the qualitative changes in the economy and in the market, the key focus areas of TransContainer Strategic Development 2025 have been updated. The updates relate to priorities in quantitative strategic goals and tools of these goals achievement. The Company's mission, target business model and strategic goal in mid term remain unchanged. The internal audit of the updated Strategy implementation throughout 2018 confirmed relevance of the Company's strategic planning targets approved in 2017.

The TransContainer's Development Strategy 2020 was accepted by the Board of Directors in January 2013 and updated in 2017. Achievement of the target values is based on a vertically integrated business model of the largest national container operator allowing all types of transportation and logistics services for a wide range of the clients over the entire territory of Russia and the CIS.

Company Mission

To provide effective support to our clients by offering prompt, reliable and comprehensive container cargo delivery and logistics solutions.

Strategic Goal

Maximising capitalisation (shareholder value) of the Company by scaling up the business and enhancing its efficiency.

Strategic Priorities

As previously, we plan to keep our position as the leading player in the 1520 gauge rail container transportation market and as a network container operator running flatcar and container fleet. Terminals serve as supporting assets for organising and optimising rail container and intermodal transportation services.

Together with the tools of extensive development (rolling stock buildup, geographical expansion, etc.), we prioritise the tools improving efficiency and providing the Company's stability and competitive ability.

Transportation Volumes

The Company's strategic goal for the period up to 2025 is to ensure that container transportation volumes transported by the Company's flatcars and containers grow at an average rate comparable to the average growth rate of the rail container transportation market.

Fleet Renewal

To develop the Company's business according to approved key focus areas of strategic development, the rolling stock and ISO containers (high-capacity containers) fleets, as well as trucks, lifting equipment, and computers have been upgraded in the reporting year:

- 2,131 rolling stock cars have been purchased, among them 1,213 – 40-foot flatcars and 918 – 80-foot flatcars;
- 3,543 high-capacity containers have been purchased, among them 2,394 – 20-foot containers and 1,148 – 40-foot containers.

Specialised Container Transportation

By reallocating cargo traffic from pipelines and trucks to railway, specialised container transportation can considerably expand the range of containerised cargoes carried on intermodal routes and boost potential volumes shipped by rail.

In the mid-term, this segment has a strong outlook driven by both low containerisation level and rapid growth of cargo volumes to be transported by specialised containers. One of the most promising segments in the specialised container market is liquid chemicals transportation in tank containers.

In 2017, the Company decided to allocate a business linked with cargo transportation in specialised containers to a separate legal entity – LLC SpecTransContainer.

LLC SpecTransContainer offers integrated services to a wide range of clients in the 1520 gauge market, focusing on petrochemical producers. The main strategic goal of the new company is to become a Top 3 market player in its segment in the next five years.

The outcomes of year 2018 confirmed correctness of the decision to allocate the specialised container transportation segment to a separate legal entity. The volume of specialised cargo transported with the equipment of LLC SpecTransContainer amounted to 15,000 TEU by the end of the year, that is 36% above the target value of the approved business-plan.

Terminal Business

In 2018, the works on the Company's terminal network upgrading were continued, including maintenance of lifting machinery, trucks, and equipment.

To retain and strengthen the position of TransContainer at the containers terminal handling market, the purchase and sale of 100% CJSC Logistics-Terminal (on 3 September 2018, TransContainer and JSC First Container Terminal, a subsidiary of Global Ports Investments Plc, completed a deal to acquire 100% shares of CJSC Logistics-Terminal) shares were transacted at the St. Petersburg transport hub.

CJSC Logistics-Terminal owns and manages a multifunctional terminal logistics complex linked to Shushary Station (close to St Petersburg) by railway. The complex, which was put into operation in 2010 and which offers a wide range of services on container and general cargo handling, comprises a container terminal, warehouses of class A and C, a permanent zone of customs clearance with a temporary warehouse and other facilities of terminal logistics infrastructure. In 2018, the volumes of CJSC Logistics-Terminal handling amounted to 179,000 TEU, while the volumes of general cargo handling equalled 339,000 tonnes.

Geographic Priorities

Priorities for the international sales network development are set based on the existing and potential container flows between countries across the 1520 mm gauge network. The Company considers the following regions as lucrative for its international expansion: the Asia Pacific, India, the Middle East, Central and Eastern Europe.

In 2018, the use of Mongolia as a transit route for transportation was a new focus area for the Company. The region has a favourable geographical location, which enables us to choose an optimal route from the Chinese key freight traffic clusters to Russia and Europe.

To develop the transit route through Mongolia, in September 2018 the Company registered its subsidiary - Chinese Joint Venture TransContainer-Mongolia in Ulaanbaatar. This decision was taken as a part of the China-Mongolia-Russia corridor development initiative.

Chinese Joint Venture TransContainer-Mongolia is planned to deal with forwarding the container cargo on the territory of Mongolia, managing and monitoring the TransContainer's flatcar and container fleets on the territory of Mongolia and at the key border crossings, as well as arranging a technical interaction with the Mongolian forwarding agencies.

Strategic Risks

Our strategic development priorities are exposed to a number of key risks that may adversely affect delivery on the Company's strategic goals and financial and operational targets¹.

Deterioration of Global Economic Environment

Actual macroeconomic performance depends on a number of external interrelated factors, specifically:

- decreasing prices of oil and other commodities;
- China's economic slowdown;
- trade war between China and the United States;
- UK exit from the EU;
- risks related to the EU abandoning its ultra-low interest rates policy.

Materialisation of these risks may slow down the global economy, which would have a negative knock-on effect on Russia's GDP, national currency and international transportation volumes.

Should any of such risks crystallise, the Company would consider a review of its investment programme to factor in the new demand patterns, while also adjusting its pricing policy and implementing a cost optimisation programme along with other measures to improve its competitive position in the domestic and global markets.

Geopolitical Issues

Since 2014, Russian entities and individuals have been subject to both individual and sectoral sanctions imposed by the US, the EU and a number of other countries, with effects including limited access to debt and equity capital markets, and restricted technology transfers.

In August 2017, the US Congress passed the Countering America's Adversaries Through Sanctions Act, which identifies state-owned entities operating in the railway or metals and mining sector as potential subjects of US sectoral sanctions and provides for potential sanctions against Russian sovereign debt, public officials, and business persons.

1. For the details of Risks Report see TransContainer's Corporate Risk section on page 191.