

Outlook for 2019

In view of the current macroeconomic forecasts and market participants' expectations, the Company anticipates positive market performance to continue in 2019. Despite a slowdown in the manufacturing industry growth rate in H2 2018, most economic forecasts for 2019 predict further GDP growth of 1.0– 1.6% year-on-year. The Bloomberg consensus forecast is 1.5%; the International Monetary Fund (IMF) forecasts 1.6% growth; the World Bank – 1.5%. The forecast of the Ministry of Economic Development is +1.0– 1.3%. Under these conditions, moderate organic growth in freight volumes and further development of containerisation processes will remain the key growth drivers in domestic transportation during 2018.

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 with sea freight. 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 key risk factors for the market, we see greater geopolitical tensions, including new and expanded economic sanctions, and trade barriers, together with 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 moderate performance of container transportation, the bulk of mid-term growth in the railway container traffic is expected to come from higher containerisation. This means tough competition persisting both among rolling stock operators and between the railway and motor segments of the Russian transportation market.

The key factors 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 with regard to 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.

The main constraint on the containerisation growth is currently the flatcars production deficit in relation to demand, as well as volatility in flatcar prices. This trend is likely to continue in 2019.

Sea shippers will proceed 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.