

# PERFORMANCE REVIEW

## Services

### Rail Container Transportation

In 2018, the Company developed its core business in accordance with the strategic priorities, increasing the scale of activity and its efficiency.

The growing container transportation volumes result from tapping into the new market segments, expanding the freight base, simplifying and speeding up the transportation process, enhancing customer experience and competitive pricing.

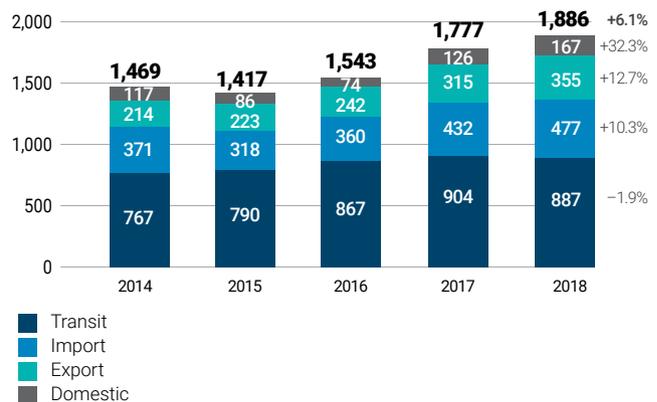
The volume of rail container transportation using the Company's rolling stock and containers went up to 1,886 thousand TEUs, up 6.1% year-on-year.

The volume growth was mainly driven by actively developing international transportation, which amounted to 999,000 TEUs, up 14.3% year-on-year. The Company has substantially increased the transit transportation volumes, including the China-Europe corridor through the Far Eastern ports, Zabaikalsk border crossing, and Mongolia. In 2018, growth of transit transportation by the Company's flatcars and containers amounted to +32.3% year-on-year. Import volumes grew by 12.7%, while export volume grew by 10.3% year-on-year.

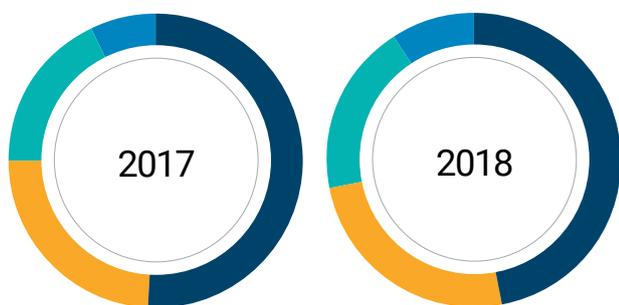
In 2018, domestic transportation totalled 887,000 TEUs, down 1.9% year-on-year. This is due to transport equipment shift to the international routes providing high efficiency of its utilisation and rapid growth of business volumes.

The Company's share in the rail container transportation market in 2018 amounted to 42.5% (compared to 45.8% in 2017). The Company's share amounted to 46.7% (compared to 50.0% in 2017) in domestic traffic, and 39.3% (compared to 42.1% in 2017) in international traffic. The decline in the share was due to an acute shortage of new rolling stock and decline in the share of empty runs by the Company's rolling stock.

Railway Container Shipments by the Company's Transportation Assets (rolling stock and/or containers; loaded and empty ISO containers) in 2014-2018, '000 TEU



**Structure of Container Shipments by the Company's Transportation Assets by Type of Route (loaded and empty ISO containers, shares based on shipment volumes in TEUs) in 2017 and 2018, %**



	2017	2018
Transit	51	47
Import	24	25
Export	18	19
Domestic	7	9

Source: Company data

Despite a minor slowdown in domestic shipment volumes, the Company maintains a strong presence in the Russian domestic market segment, using the competitive advantages – expansive geographic footprint, network coverage, competitive prices and quality of service.

Growth of Company's international transportation by 12.7% (up to 355.5 thousand TEUs) was enabled by the management's active cooperation with clients and partners in the Asia-Pacific and Europe. This was facilitated by minimisation of freight traffic imbalance on the export and import routes, successful development the China–Russia transportation service via the Zabaikalsk Station and Mongolia, and more extensive using the shipping lines containers on international routes. In the face of rolling stock shortage, the Company focused on routes providing the greatest growth in fleet utilisation efficiency resulting in decrease of the Company's market share in the import transportation segment from 45.2% to 41.4% year-on-year.

In export destinations, the Company delivered a 10.3% increase in volumes in 2018 by developing new multimodal services that are popular among exporters, as well as applying a flexible pricing policy and ensuring the reliability of the Company's services. The decline in the Company's share of export shipments to 42.1% compared to 44.8% year-on-year was due to the acute shortage of equipment.

The Company's transit shipments rose by 32.3%. That was driven by higher transit freight flows on the East-West route, including those appeared as a result of active development of transportation through Mongolia using the Company's rolling stock. Taking into account the total equipment shortage, the Company's share of export shipments remained almost flat in 2018 (29.8% compared to 30.5% in 2017).

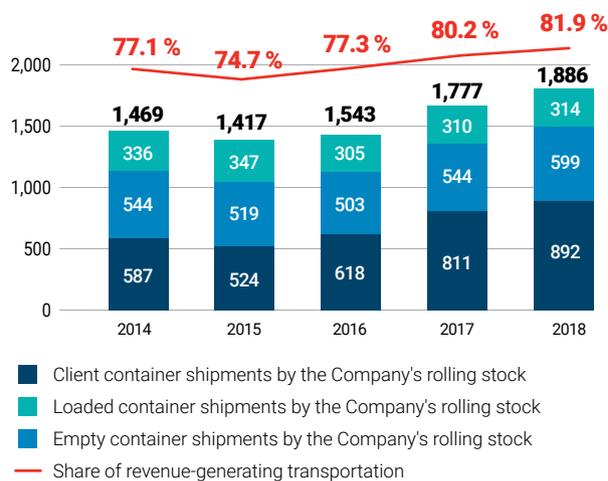
The above factors in 2018 brought the Company's share of the Russian railway container transportation market (shipments by the Company's transportation assets) down to 42.5 % from 45.8 % year-on-year.

In the China–Europe transit transportation segment there are Kedentransservice and UTLC ERA companies operating.

**Rail Container Transportation Breakdown**

In 2018, in response to changes in the container market, the Company continued to provide transportation and logistics services to its clients using both its own and third party rolling stock. Since 2015, the Company has been disclosing operating statistics that included these operations.

**Breakdown of Railway Container Shipments Using Transportation Assets (rolling stock and/or containers), '000 TEU**



Source: Company data

In 2018, the transportation volume that used the Company's rolling stock went up by 8.4% compared to the previous year, reaching 1,806 thousand TEUs vs 1,665 thousand TEUs in 2017.

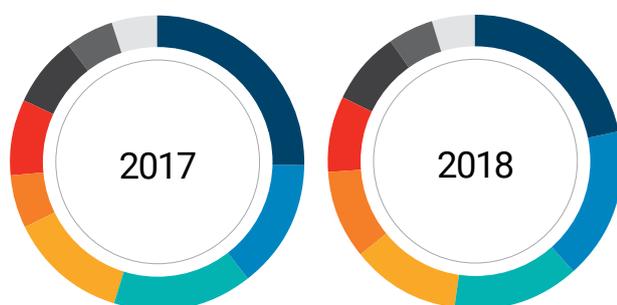
Transportation of client containers (including empty ones) by the Company's rolling stock, as well as transportation of freight in the Company's containers (regardless of who owns the rolling stock) is paid for by the clients and generates revenues. When empty containers are transported, the railway tariff set by Russian Railways and other railway administrations is paid for by the Company increasing costs.

In 2018, the volume of revenue-generating transportation using the Company's transportation assets (rolling stock and/or containers) grew by 8.3% compared to 2017 and reached 1,544 thousand TEUs, driven by optimised empty runs and a higher share of transportation involving third-party containers. In total shipments using the Company's transportation assets, the share of revenue-generating transportation went up to 81.9% from 80.2% in 2017. This ratio defining the efficiency of rolling stock utilisation reached an all-time high in 2018 through the entire history of the Company breaking its own record of the year 2017.

In 2018, the Company's empty container transportation (including those using third-party rolling stock) decreased by 2.8% year-on-year and amounted to 341 thousand TEUs. The key factors that curbed growth in empty container transportation were improved container fleet management and flexible pricing on empty container traffic routes. The gradual recovery of import freight flows on the back of revival of business and consumer activities in Russia, that, in part, compensated the existing imbalance of export and import container freight flows, also had a positive effect.

In 2018, the Company's ratio of empty to loaded container transportation stood at 52.3% compared to 57.1% in 2017. The above factors had a positive impact on the Company's costs and financial performance in 2018 (see also the Financial Results section).

#### Breakdown of Loaded Container Shipments by Own Rolling Stock, by Cargo Type (shares based on transportation volumes in TEUs), %



	2017	2018
Other	25.3	21.8
Timber products	14.2	16.7
Chemicals	15.5	13.9
Metalware	12.9	12.1
Car parts	5.8	9.7
Pulp & paper	8.4	8.2
Machinery & equipment	7.8	8.2
Food	5.2	4.8
Non-ferrous metals	4.9	4.7

Source: Company data

In 2018, the largest product groups in the structure of shipments were timber products (16.7% of the total loaded container shipments), chemicals (13.9%), and metal products (12.1%). Compared to 2017, the structure of shipments using the Company's transportation assets saw an increase in car parts, timber products, and machinery and equipment. The share of metal products, and also pulp and paper, food and chemicals declined.

#### Rail Container Transportation Using Specialised Containers

Specialised container transportation is viewed as a prospective line of development as it can considerably expand the range of containerised cargoes and improve the containerisation of rail transportation.

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

In mid term, the Company will focus on growth in liquid chemicals and gases transportation in tank containers as the most significant and dynamic market segment of specialised containers.

Shipping volume amounted to 15,000 TEUs, up 36% of target indicators. To Q4 2018, the subsidiary broke even.

The tank containers fleet managed by LLC SpecTransContainer is 392 tank containers. The specialised container fleet operated by the Company makes it possible to transport a variety of cargoes - from heavy acids to light liquids, such as ethylene glycol, spirit, etc. In 2019, the Company plans to continue its fleet expansion both through the leasing, and purchasing.

#### Rail Container Transportation in Kazakhstan and Central Asia

In 2018, the Company went on to cooperate with KTZ in promoting integrated transport and logistics container services in Kazakhstan and Central Asia on the base of Kedentransservice. Throughout the year, Kedentransservice on average operated 4,364 flatcars, including 300 own flatcars and 4,064 third-party flatcars. Container transportation volumes in 2018 amounted to 236,600 TEUs, down 11% year-on-year.

#### Container Terminal Handling

Container handling services provided by the Company at its own terminals include loading to, and unloading from rail transport and motor vehicles, as well as container sorting and storage, which is complemented by additional container and containerised cargo terminal services (such as preparing containers for loading, loading/unloading cargo to/from containers, container sealing, specialised container handling, etc.).