

# Overview and key trends in the Russian transportation industry

A key feature of 2015 was the instability seen on global financial and commodity markets amidst heightened uncertainty regarding the future of the global economy.

## Key trends and changes in the global and Russian economies

The global economic experienced a slight decline in 2015. According to the IMF, global GDP growth slowed to 3.1% from 3.4% in 2014. International trade growth rates declined to 2.6% compared with 3.4% in 2014.

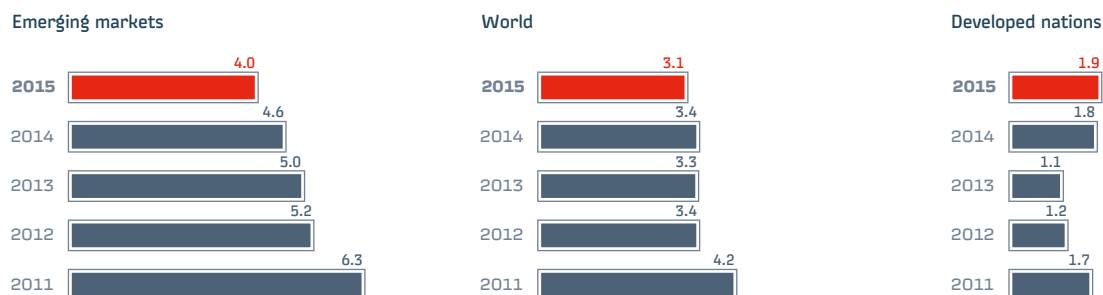
The global economic slowdown in 2015 resulted from a significant decline in activity in emerging markets where economic growth slowed to 4% from 4.6% in 2014. The slowdown in economic growth in China, a key player in global trade, had a major impact on the global economy. Economic

dynamics also deteriorated in other BRICS nations (except India).

The economic situation in developed nations was relatively positive in 2015 with economic growth accelerating to 1.9% from 1.8%. In the United States, economic growth remained at the previous year's level (2.4%). At the same time, the dollar's appreciation had a negative impact on the financial stability of certain emerging markets where capital outflow was observed.

One of the major negative features of 2015 was the instability on global financial and commodity markets amidst heightened uncertainty surrounding the future of the global economy. A decrease in global oil prices exacerbated the situation in oil-exporting countries where revenues plummeted, but had a positive impact on oil-importing countries where economic activity increased. However, the decline in prices on the global oil market was too extreme and had a negative impact on the global economy overall.

Overall global GDP growth rates in developed nations and emerging markets in 2011-2015 (IMF data), % vs. previous year



Meanwhile, recessionary trends prevailed in the Russian economy. Russia's GDP went into a recession (decline of 3.7% versus 2014) following growth that had nevertheless begun to slow over the course of 2010-2014. Industrial production declined 3.4% versus the 2014 level.

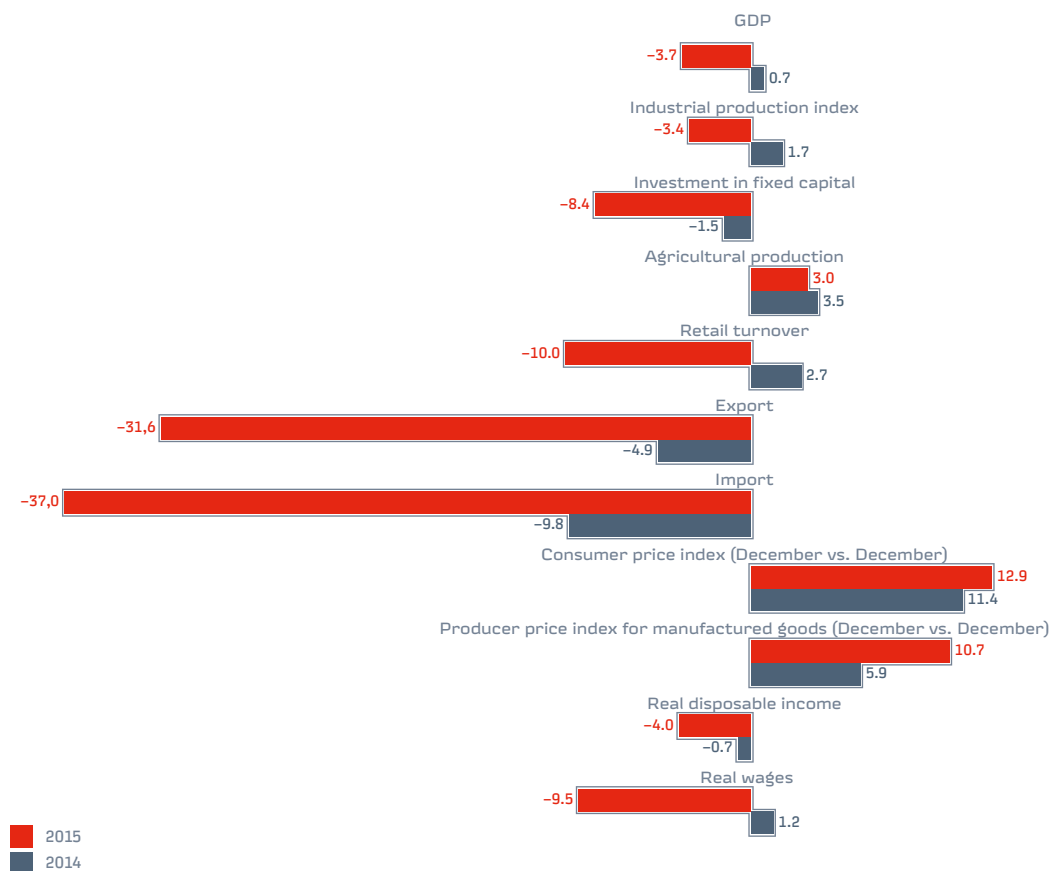
Deterioration was seen in virtually all the factors that support economic growth. Consumer demand fell sharply as retail turnover declined 10% compared with 2014. Such dynamics are attributable to a decrease in the population's income and real wages, accelerated inflation and deterioration in consumer sentiment.

The slump in investment activity also continued. The depth of the decline in investments in fixed assets expanded to 8.4% in 2015 from 1.5% in 2014. Investment contracted amidst lower demand, the increased cost of imports, the greater appeal of investing in financial markets, high interest rates and lower expectations with respect to the prospects of the Russian economy.

Global oil prices dealt the decisive blow to the macroeconomic situation in Russia. The decline in oil prices not only led to reduced revenue for the state budget and raw commodity companies, but also contributed to lower income in the corporate sector as a whole due to the weakening of the multiplier effect.

The decrease in foreign currency earnings among exporters combined with the continued outflow of capital, the closure of international capital markets as a result of sanctions and the lack of support for the national currency led to the depreciation of the rouble on the currency market and a high level of volatility in its exchange rate. Thus, the economy is currently in a situation where the future has become even more uncertain, which in conjunction with other negative factors led to the decline in economic activity in Russia.

Change in Russia's macroeconomic indicators in 2014-2015, % vs. previous year



## Freight turnover

Freight turnover in Russia grew 0.2% in 2015 compared with 2014 to 5,088.9 bln tkm.

The growth in freight turnover in the transportation system resulted from increased freight turnover on all modes of transportation except inland waterway and road transportation.

Freight turnover by railway transportation increased 0.3%<sup>1</sup>.

Freight turnover increased significantly via sea (+24.1%) and air (+5.6%) transportation.

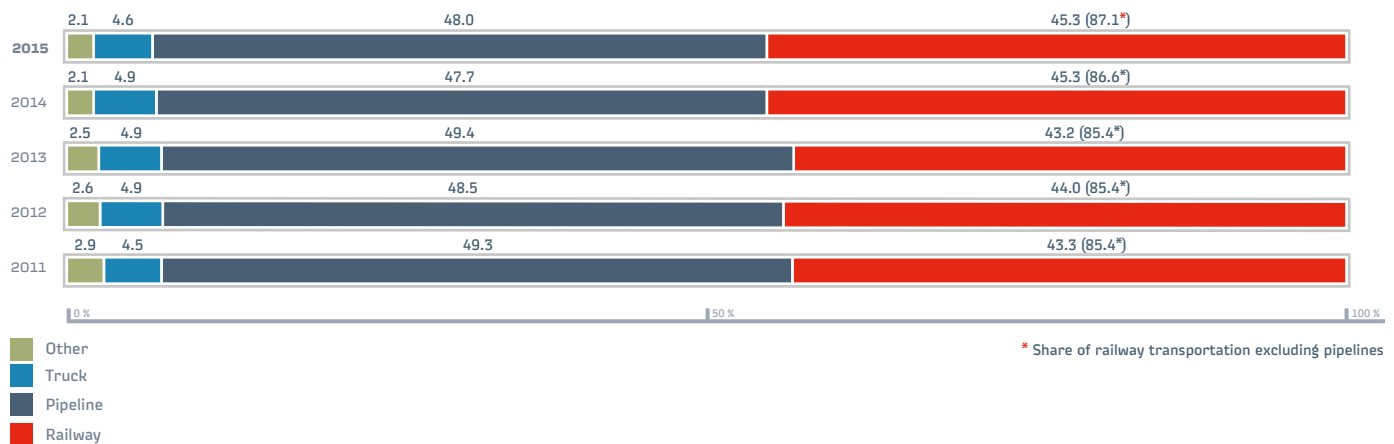
Railway transportation accounted for 45.3% of total freight turnover in the country's transportation system (unchanged versus the 2014 level).

If pipeline transportation is excluded, railway transportation accounted for 87.1% of total freight turnover.

### Freight turnover by transportation mode in 2015<sup>3</sup>

Transportation mode	2015		Share in overall freight turnover, %	
	bln tkm	+/- % 2014	2014	2015
<b>Freight turnover by transportation</b>	5,088.9	+0.2	100.0	100.0
including				
railway	2,304.8	+0.3	45.3	45.3
road	232.1	-5.9	4.9	4.6
sea	39.8	+24.1	0.6	0.8
inland waterways <sup>2</sup>	62.6	-13.5	1.4	1.2
air (transport aviation)	5.4	+5.6	0.1	0.1
pipeline	2,444.2	+0.9	47.7	48.0
Reference: share of railway transportation excluding pipelines			86.6	87.1

### Freight turnover by transportation mode, %



<sup>1</sup> Railway freight turnover excluding empty runs by Russian Railways railcars according to reporting data of Russian Railways.

<sup>2</sup> Reference: freight shipments by sea and inland waterway transportation include shipments made under a freight shipment contract by the company's own vessels and/or leased (chartered) vessels (including vessels leased to foreign companies (charterers) based on time charter conditions sailing under the flag of the Russian Federation with the appropriate shipment documents.

<sup>3</sup> According to the data of the Russian State Statistics Service, excluding railway transportation.

## Passenger turnover via public transportation

Passenger turnover via public transportation totalled 465.3 bln passenger km in 2015, including:

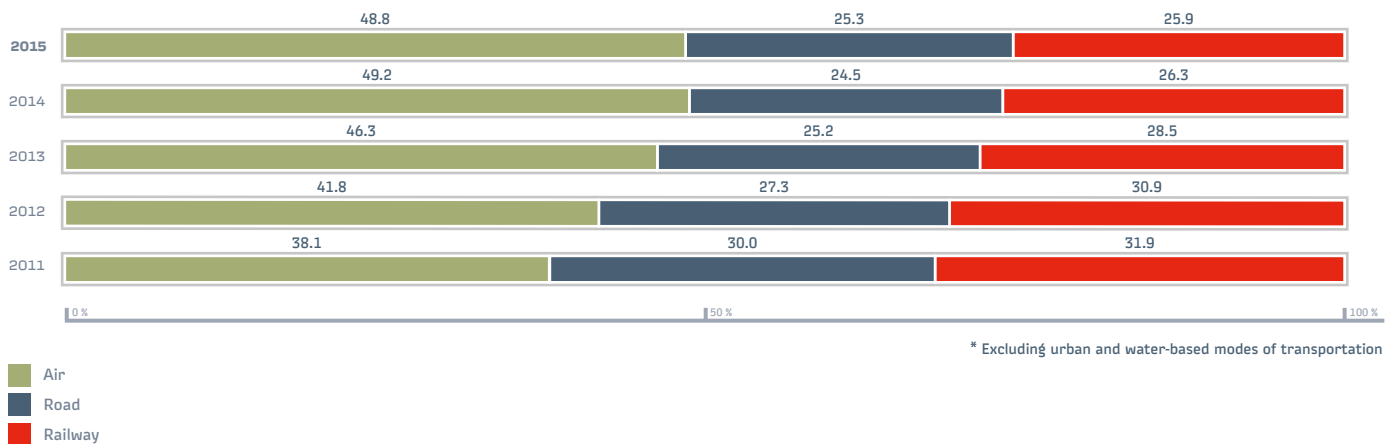
- railway – 120.4 bln pass. km,
- road – 118.0 bln pass. km,
- air – 226.9 bln pass. km.

Road (bus) transportation accounts for 25.3% of overall passenger turnover via public transportation (+0.8% p.p. versus 2014). Air travel accounts for 48.8% of passenger turnover via public transportation (-0.4 p.p. versus 2014), while railway transportation makes up 25.9% (-0.4 p.p. versus 2014).

## Passenger turnover by transportation mode in 2015

Transportation mode	2015		Share of transportation mode in overall passenger turnover, %	
	bln pass. km	+/- % 2014	2014	2015
<b>Passenger turnover via public transportation</b>	465.3	-5.4	100.0	100.0
including				
railway	120.4	-6.5	26.3	25.9
road (buses)	118.0	-2.0	24.5	25.3
air (transport aviation)	226.9	-6.0	49.2	48.8

## Passenger turnover by main transportation modes\*, %



## Inter-industry competition

### Inter-industry competition on the freight transportation market

# Russian Railways carries out business activities on the freight and passenger transportation market amidst significant competitive pressure from other types of transportation.

The main competitors in the freight transportation segment are pipeline, road as well as water-based transportation (sea transportation primarily in the transit container transportation segment).

Russian Railways experiences the most competitive pressure from pipeline transportation in the crude oil and light petroleum product segments. This poses the significant risk of a reduction in the potential cargo base for railway transportation in these segments.

In addition to pipeline transportation, railway shipments of oil freight face competitive pressure from inland waterway transportation.

Road transportation is used to move freight short distances compared with other transportation modes and accounts for approximately 4.6% of freight turnover in the transportation system. However, road transportation is becoming increasingly active in delivering small batches of high-margin and perishable goods over long distances, and the competitive pressure from this mode of transportation on railways is intensifying.

At the same time, railway transportation has the following special advantages that create opportunities to focus on consignors who need to ship large-tonnage freight over long distances:

- mass shipments and high carrying capacity of railways;
- shipment regularity regardless of season, time of day or weather conditions;
- versatility of this type of transportation in terms of its utilisation to ship a variety of cargo and the ability for mass freight transportation;
- the ability to create a direct link between major industrial enterprises via railway access routes;
- the relatively low cost of shipping 1 tonne of cargo when transporting mass freight over long distances due to the high load carrying capacity of railway transportation.

For this reason, railway transportation is the dominant mode in the long-haul shipping segment among all types of public transportation.

Only inland waterway transportation can rival the competitive advantages of railways. However, competition between inland waterway and railway transportation is seasonal and only exists in the summer when mass freight is shipped in the north-south direction in areas adjacent to the Volga River basin and also via the system of channels, rivers and lakes of the Volga-Baltic waterway. According to the Russian Federal State Statistics Service, freight turnover via railway transportation in Russia exceeds the same indicator for inland waterway transportation by more than 27 times.

The primary competitive advantage of river transportation over railway transportation is the significantly low level of shipment costs due to the absence of expenses on infrastructure maintenance as well as the smaller proportion of energy expenses on the transportation of one tonne of freight.

Inter-industry competition on the passenger transportation market

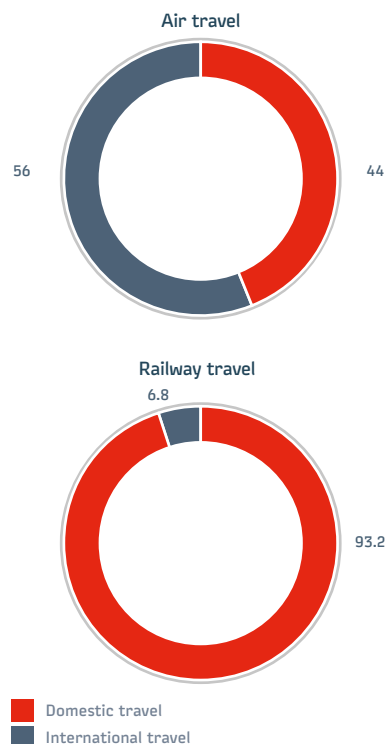
## Railway transportation continued to face competitive pressure from domestic air travel in the deregulated segment in 2015.

Given the competition from air travel seen in 2015, the stable demand for Sapsan and Allegro trains (which offer passengers fast travel time, a high level of comfort, an optimal price level and a convenient schedule), double-decker trains and Strizh trains as well as the use of multimodal transportation and new transport products as part of the "Daily Express" programme on Lastochka (Desiro RUS)

trains demonstrates the positive trend of attracting additional passenger flows from alternative transportation modes and reaffirms the need to continue the development of rapid-transit passenger transportation.

The deteriorating macroeconomic situation, depreciation of the rouble and continued geopolitical tensions resulted in a decline (-6%) in passenger turnover for the railway industry's main competitor – air travel – for the first time.

Passenger turnover for railway and air travel by transportation mode in 2015, %



Passenger turnover for railway and air travel in 2010-2015, bln pass. km

