

Analysis of operating results

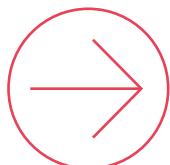
Transportation and logistics

Russian Railways operates railway infrastructure, owns rolling stock (through its subsidiaries and affiliates) and provides both basic transportation and 3PL/4PL services. The Company is applying advanced logistics technologies, implementing an automated customer relationship management system and a uniform freight transportation service catalogue, and expanding its geography, while also continuing to develop and introduce new services for shippers.

Key initiatives in transportation and logistics under the Long-Term Development Programme

The Programme's key initiatives in the realm of transportation and logistics services focus on:

- building long-term relations with customers, including by linking guaranteed freight volumes to infrastructure, organisational and technical initiatives designed to fully meet the customers' transportation needs;
- improving customer feedback and ensuring high client loyalty, including by putting in place an automated customer relationship management system in the freight transportation segment in Russian Railways and across its subsidiaries and affiliates;
- creating an automated tool to maintain a uniform freight transportation service catalogue giving customers access to the entire range of freight transportation services, offerings and specifications;
- strengthening logistics capabilities to satisfy the customer demand for comprehensive services, including use of global transportation chains and outsourcing logistics for industrial facilities;
- enhancing accuracy of freight shipment schedules by improving the system of shipments with fixed departure and arrival times and reducing delivery time;
- fine-tuning transportation products and services to meet the shippers' needs and developing new products and services;
- developing freight transportation quality standards based on availability, timeliness and reliability of transportation services, cargo safety, choice of logistics, terminal and warehousing services, and delivery speed;
- developing the RZD Express service for small and medium-sized cargo batches;
- introducing RoLa services;
- conducting a dedicated analysis and, if economically feasible, initiating gradual abolition of tariff regulation in certain sufficiently competitive transportation market segments (including container (RoLa) shipping, transportation of light petroleum products, fish, fish products, etc.);
- enhancing coordination within the Group in order to improve the performance of transportation and logistics subsidiaries and business units;
- launching electronic workflow as a tool to facilitate communication between all participants of the transportation process (including the federal executive authorities and international multimodal freight transportation players).





The pandemic forced us to change the way we interact with our customers and to increasingly rely on digital technology to render transportation and logistics services. Digitalisation strengthened our ties with partners, resulting in greater resource efficiency, lower transportation and logistics costs and stronger business sustainability. The better our interaction with transport market players is, the stronger our Company is positioned! 

Alexey Shilo

Deputy CEO, Head of the Centre for Corporate Transport Services

Key achievements in 2020

- Russian Railways launched an automated on-demand freight service portfolio builder enabling customers to select freight transportation services they need in online environment.
- The electronic workflow coverage reached 86.1%.
- The Freight Transportation electronic trading platform saw the number of participants grow by 25% to over 6,000 users and that of service providers by 42.6% to 97 businesses.
- Russian Railways hit an all-time high with some 5.8 m TEU containers transported in 2020, up 15.9 y-o-y.
- In 2020, the Company implemented a project providing for double-decker train operation using the public railway infrastructure to accommodate the declared freight volumes from the key terminals of the Moscow Railway and those of the October Railway based in the Moscow agglomeration.
- Russian Railways rolled out multimodal container services along the China–Europe–China axis using the port of Kaliningrad (giving rise to two multimodal container transit routes via ports).
- The Company started using new container formats, such as open top, flexitank and tank containers.
- In July 2020, the first regular container train from the Chinese city of Shenyang (Liaoning province) arrived at the Bely Rast terminal and logistics centre as part of a pilot project.

- In August 2020, Russian Railways launched the Grain Express service, having made and dispatched on time a total of 27 pick-up trains to the port of Novorossiysk from the project start to the end of the year.
- Handling volumes increased sizeably for grain (up 28.7% vs 2019), containerised cargoes (up 16.5%) and construction cargoes (up 6.1%).
- In December 2020, the Company started testing scheduled shipments along the Bely Rast–Podsolnechnaya route as part of the Smart Logistics project, which is capable of competing with transportation by road at a haul distance of no more than 120 km.
- In December 2020, Russian Railways arranged for a pilot multimodal express shipment as part of the Cargo Lowcoster project. It took two days to deliver a food consignment from a Kaliningrad-based manufacturer to Moscow. The Cargo Lowcoster seeks to take over freight volumes from road transport by creating alternative logistics opportunities for companies based in the Kaliningrad Region and supporting small and medium-sized businesses.

Highlights of freight transportation using Russian Railways' infrastructure

Item	Unit of measurement	2016	2017	2018	2019	2020	Change y-o-y, %
Handling volumes	mt	1,222.3	1,261.3	1,289.6	1,278.1	1,243.6	-2.7
daily average	thousand t	3,339.5	3,455.7	3,533.2	3,501.7	3,397.7	-3.0
Total freight turnover	bn tkm	2,997.8	3,176.7	3,304.8	3,305.0	3,221.0	-2.5
loaded turnover	bn tkm	2,342.6	2,491.9	2,596.9	2,601.9	2,544.8	-2.2
empty turnover	bn tkm	655.2	684.8	708.0	703.0	676.2	-3.8
Share of shipments delivered within required (contractual) period	%	96.1	96.7	97.1	98.4	99.2	0.8 pp

Freight transportation using Russian Railways' infrastructure

Handling

In 2020, all the key industries in Russia and abroad were facing unprecedented adverse challenges due to the COVID-19 pandemic.

Peaking in Q2 2020, it resulted in weaker demand both across key commodity markets and in terms of volumes shippers were willing to transport by rail. When the pandemic-related restrictions kicked in, many businesses were forced to promptly adapt their operations, with construction activities being suspended for several weeks in parts of Russia.

In 2H 2020, freight transportation performance improved on the back of economic recovery after the lockdown was eased up partially. However, critically important was Russian Railways' timely response with a set of measures aimed at supporting shippers and making organisational, logistical and economic adjustments to the transportation management process.

In total, 2020 saw 1,243.6 mt of freight handled by Russian Railways (0.8% above the target but down 2.7% vs 2019). Handling volumes declined for crude oil and petroleum products (down 10% vs 2019), ferrous metals (down 10.0%) and hard coal (down 5.0%), but increased for grain (up 28.7%), containerised cargoes (up 16.5%), construction cargoes (up 6.1%), chemical and mineral fertilisers (up 3.7%).

The reporting year saw lower handling volumes across the board. Domestic and export handling volumes decreased by 3.8% and 0.9%, respectively, while the share of domestic transportation in the handling breakdown dropped marginally by 0.7 pp to 60.9% and that of export transportation went up by 0.7 pp to 38.1%. The shares of import and transit transportation remained virtually flat.

Shipments of hard coal, crude oil and petroleum products, construction materials and ores made up the largest part of handling volumes, with their aggregate share amounting to 65.4%.

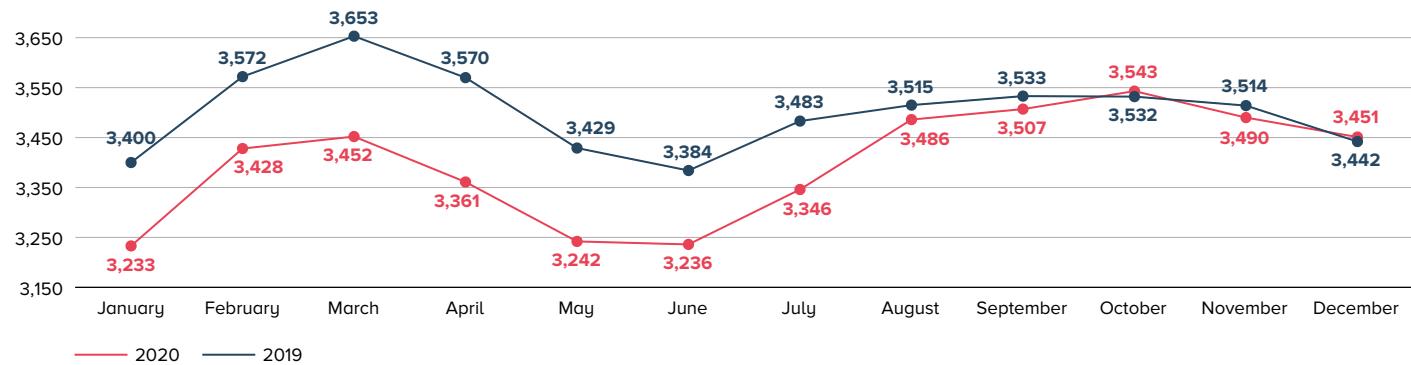
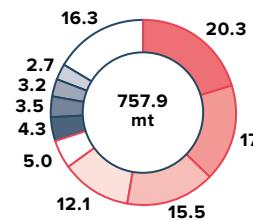
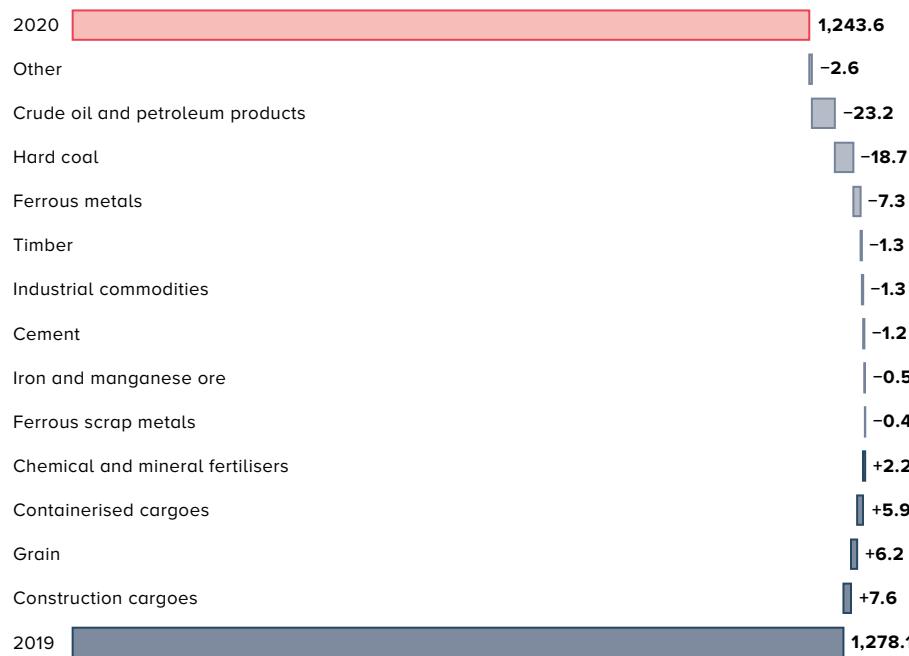
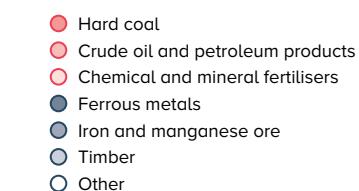
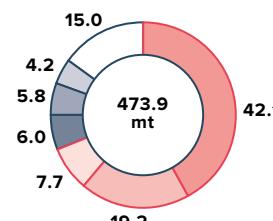
In terms of tariff classes, low-margin cargoes dominated the freight shipment structure, gaining 0.3 pp since 2019. The shares of mid- and high-margin cargoes grew by 0.2 pp and decreased by 0.5 pp, respectively. The most expensive cargoes (Class III) were the most sensitive to changing market conditions with a drop of 7.7%, while Class II and Class I freights only fell by 2.1% and 2.2%, respectively.

However, it has to be noted that the Company reported a loss of RUB 45.7 bn from coal shipments in 2020, mainly driven by coal volumes transported from the Kuzbass region to the Far Eastern Railway.

Losses largely stem from downward adjustments (applicable to haul distances exceeding 3,300 and 3,500 km) and higher unit costs of transportation along the Baikal–Amur Mainline on routes to ports of the Vanino–Sovetskaya Gavan hub.

Handling by transportation type

Item	2019		2020		Change in volume, %
	mt	share, %	mt	share, %	
Handling	1,278.1	100.0	1,243.6	100.0	-2.7
Domestic	788.2	61.7	757.9	60.9	-3.8
Export, including	478.3	37.4	473.9	38.1	-0.9
via ports	316.9	24.8	331.7	26.7	4.7
via border crossings	161.4	12.6	142.2	11.4	-11.9
Import and transit	11.6	0.9	11.8	0.9	1.7

Daily average handling volumes evolution, thousand t**Dynamics of loading volumes, mt****Domestic handling by cargo type in 2020, %****Handling volumes evolution in 2020, mt****Export handling by cargo type in 2020, %**

Handling by cargo class in 2020

Item	Low-margin cargoes (Class I)	Mid-margin cargoes (Class II)	High-margin cargoes (Class III)
Handling (change y-o-y), mt	751.4 (-2.2 %)	371.3 (-2.1 %)	120.8 (-7.7 %)
Share in total handling volumes	60.4 % (+0.3 pp)	29.9 % (+0.2 pp)	9.7 % (-0.5 pp)

Freight turnover

In 2020, total freight turnover accounted for 3,221 bn tkm (down 2.5% y-o-y), where loaded turnover declined by 2.2% to 2,544.8 bn tkm and empty turnover dropped by 3.8% to 676.2 bn tkm.

The decrease in freight turnover was lower compared to handling volumes and mainly attributable to the rising average haul, which was prompted by higher

export volumes going to Russian ports and increased transit container shipments driven by the return of empty containers from Europe to China as per new logistics schemes.

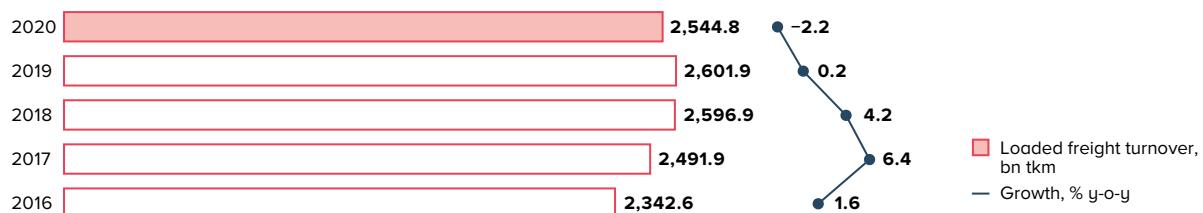
The domestic, export and transit loaded turnover contracted by 4.8% (to 968.3 bn tkm), 0.5% (to 1,401.4 bn tkm) and 4.5% (to 63.2 bn tkm), respectively. However, import turnover rose by 1.6% to 112 bn tkm.

In terms of cargo types, in 2020, the shares of other cargoes, chemical fertilisers and ores grew by 1.2 pp, 0.5 pp and 0.1 pp, respectively, while those of ferrous metals and mineral and construction cargoes added 0.3 pp each. The shares of crude oil and petroleum products and coal, two major contributors, decreased by 1.2 pp each, compared to 2019.

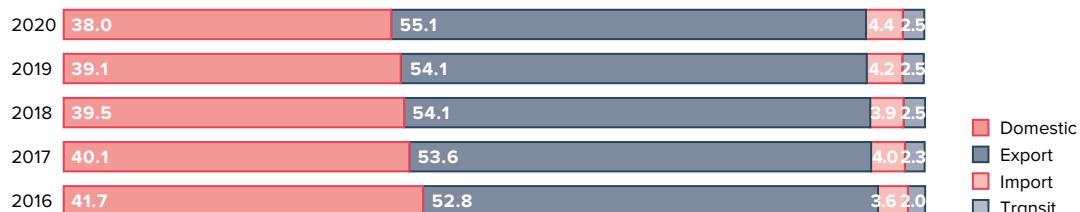
Average haul, km

Item	2016	2017	2018	2019	2020	Change y-o-y, %
Loaded ¹	1,764	1,800	1,835	1,851	1,862	0.6
Empty	1,199	1,236	1,274	1,269	1,256	-1.0

Loaded freight turnover evolution



Loaded freight turnover breakdown, %



¹ Including freight luggage.

Transportation and logistics services

Operating in a highly competitive and volatile market, Russian Railways seeks to provide comprehensive services across all transportation types and expand its customer offering. Advanced 3PL/4PL logistics technologies lie at the centre of our business, ensuring our ability to serve the maximum number of consumers.

Container and RoLa solutions

Russian Railways hit an all-time high with some 5.8 m TEU containers transported in 2020, up 15.9% y-o-y, with transit traffic growing the fastest, primarily along the China–Europe–China axis.

The loaded container traffic grew by 17.8% to 3.98 m TEU, with its share in total transportation volumes rising to 68.6% (up 1% vs 2019). In terms of cargo types, transportation volumes increased for ferrous metals (up 46%), consumer and industrial goods (up 28%), chemicals and soda (up 24%), food (up 33%).

In 2020, transit container transportation through Russian Railways' network reached 800.6 thousand TEU. Container transit, including the return of empty containers from Europe to China under the new logistic arrangements, totalled 830.9 thousand TEU, up 34.4% y-o-y. The East–West transport corridor accounts for the bulk of container transit, with 570.0 thousand TEU transported in 2020 (up 63.9% y-o-y).

Container trains are a top pick for our customers. Russian Railways now covers more than 1,200 container routes, both domestically and internationally. In 2020, the Company hit an all-time high with over 31,500 container trains (including those in transit) passing through its network, with the share of full train shipments reaching 64.2% (up 4.0% y-o-y). In case of loaded containers, the share of full train shipments stood at 74.2% (2.95 m TEU), up 5.4% y-o-y.

Container traffic through Russian Railways' network in 2020

Direction	Transportation volumes, thousand TEU	Change y-o-y, %
Domestic	2,320.4	+11.6
Export	1,453.0	+13.5
Import	1,225.5	+15.6
Transit	800.6 ¹	+37.6
Total, including loaded containers	5,799.4	+15.9
	3,980.0	+17.8

In 2020, the range of cargoes transported in containers exceeded 3,400 items, which was made possible in reliance on new container formats, such as open top, flexitank and liner bag containers.

Russian Railways focuses on expanding RoLa routes. In 2020, it started testing RoLa shipments between Kaliningrad and St Petersburg, Moscow/Sosnogorsk and Vorkuta.

Developing transit transportation in 2020

In 2020, transit transportation (including empty railcars) stood at 27.86 mt, down 2.4% y-o-y. Total income from transit transportation rose by 16.1% y-o-y to RUB 54.2 bn.

Compared to 2019, the transit traffic growth was mainly attributable to containerised cargoes (up 43.1% y-o-y in absolute terms), which was driven by rising transportation volumes along the China–Europe–China axis.

Performance highlights of major transportation and logistics subsidiaries and affiliates

Federal Freight Company

Federal Freight Company (FFC) is a network-wide operator of freight rolling stock. The company is a subsidiary of Russian Railways and the largest railway freight operator in Russia.

In 2020, FFC continued to be a leader of the freight rolling stock market in terms of the share in freight turnover (10.3%) and the share in the Russian railcar fleet (11.1%). As at the end of 2020, FFC operated a total of 132,800 cars. In 2020, FFC's revenue was RUB 69.9 bn (down 35% y-o-y, under RAS), sales revenue stood at RUB 4.9 bn (down 82%) and net profit amounted to RUB 3.6 bn (down 85%).

¹ Excluding the delivery of empty containers from Europe to China as per new logistics schemes.

GEFCO

Based in France, GEFCO is a global provider of 3PL/4PL logistics solutions and services. With 350 operational sites all over the world and a footprint spanning over 150 countries, the company is among Europe's Top 10 logistics operators. Russian Railways holds a 75% stake in GEFCO.

The company's revenue in 2020 dropped by 20% y-o-y to EUR 3.805 bn. Net profit for the same period totalled EUR 84.9 m, down 28% y-o-y. The company's performance was impaired by the shutdown of car and component making plants, including those owned by Group PSA, GEFCO's key customer, as a result of the COVID-19 outbreak and the related restrictions imposed on its focus markets in Europe.

RZD Logistics

RZD Logistics is the largest multimodal logistics operator in the CIS and the Baltics established as part of the development of the logistics business of the Russian Railways Group and one of Russia's leading players in logistics outsourcing for industrial facilities with a comprehensive supply chain management service offering. The company arranges freight transportation to more than 50 regular delivery destinations in Russia, Europe and China and provides logistics services for foreign trade in Eurasia (the CIS, the Baltics, China, Japan, Vietnam, India, and the European Union). It services over 160 cities in Russia and the CIS, 46 locations in China and seven destinations in Europe. The company keeps expanding its network which now exceeds 16,000 routes.

In 2020, RZD Logistics rendered transportation and logistics services for a total of RUB 33.4 bn (down 8% y-o-y, under RAS), while its net profit amounted to RUB 211.6 m.

UTLC ERA

United Transport and Logistics Company – Eurasian Rail Alliance (UTLC ERA) develops transit railway container services in Russia, Kazakhstan and Belarus. UTLC ERA is a joint venture of Russian Railways, Belarusian Railway and Kazakhstan Temir Zholy, with each founder having an equal shareholding of 33.33%.

In 2020, its transportation volumes increased by 64% y-o-y to 546.9 thousand TEU, accounting for 5.5% of total trade between China and Europe. UTLC ERA



accounted for 91% of all transit services along the China–Europe–China axis. In 2020, its revenue was RUB 49.3 bn and net profit stood at RUB 4.3 bn.

The growth mainly results from concerted efforts by shareholders seeking to increase the service speed and minimise technical delays throughout UTLC ERA's 1,520 mm gauge network. In 2020, the transit time between the borders of China and Europe amounted to 5–6 days, with the highest speed of 1,394 km/day achieved by the Altynkol–Baltiysk train in July 2020.

Improving the quality of transportation services

FT ETP progress in 2020

The Freight Transportation electronic trading platform (FT ETP) currently connects over 97 service providers (up 42.6% vs 2019), including:

- 82 rolling stock operators;
- 8 stevedores;

- 3 terminal and warehouse operators, including the Moscow-based Central Directorate for Management of the Terminal & Warehouse Complex (Russian Railways' subsidiary).

In 2020, the Company developed an enhanced FT ETP interface for interaction with service providers (rolling stock and port terminal operators) and launched a cloud service, thus helping them save on in-house IT services.

Managing the terminal and warehouse infrastructure

In 2020, the Central Directorate for Management of the Terminal & Warehouse Complex (Russian Railways' subsidiary) embarked on the CD Freight Forwarder project which aims to minimise customer involvement in the cargo delivery process. The project kicked off in June 2020 when a team of logistics experts was set up to develop and market new products and services. Total income from the project grew

fivefold by the end of 2020, resulting in 447 freight forwarding contracts signed and 123 new customers acquired.

Improving the quality of transportation services

To attract customers and provide easier access to its services and infrastructure, Russian Railways opened sales offices across all its network in Russia. The Company is currently operating 69 regional and local sales offices. In the reporting period, sales offices attracted around 3,000 new railway customers.

Russian Railways employs a multi-channel monitoring system to collect customer feedback. According to VCIOM, as at September 2020, Russian Railways' consolidated customer satisfaction index in the freight transportation segment remained moderately positive at 61.7% (up 1.4 pp vs December 2019 through February 2020).

Activities of the Consumer Council on Operations of Russian Railways

The Consumer Council on Operations of Russian Railways and its subsidiaries and affiliates is a working body of the Russian Government Commission on Transport in charge of public scrutiny. Russian Railways and the Consumer Council mainly interact through the Company's representatives that attend meetings of the Council and its committees to consider Russian Railways' key activities.

In 2020, the Consumer Council focused on:

- regulatory framework improvements affecting railway operations and development;
- tariff regulation for railway services;
- financial projects and the investment programme of Russian Railways;
- customer satisfaction surveys in freight and passenger transportation;
- major investment projects of Russian Railways, including their process and price audits;
- transport safety enhancement.

