

STRATEGIC RISKS

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

GLOBAL ECONOMIC AND POLITICAL ENVIRONMENT

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

- restrictions imposed by most countries in connection with the COVID-19 pandemic;
- fluctuations in the prices of oil and other commodities;
- China's economic slowdown;
- trade war between China and the United States;
- trade war between China and Australia;
- UK exit from the European Union;
- geopolitical situation.

The specified factors may slow down the global economy and trade, which would have a negative knock-on effect on Russia's GDP, national currency and national and international transportation volumes.

The COVID-19¹ pandemic was the most significant challenge for the world economy. At the end of February 2020, the World Health Organisation raised the threat level of the coronavirus epidemic to «very high» (the highest risk level). As at the end of 2020, most countries will retain quarantine measures until at least the end of May 2021.

Since 2014, sanctions pressure on Russia has been steadily increasing.

In 2014, Russian entities and individuals have been subject to both individual and sectoral sanctions imposed by the US, the European Union 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.

In 2018, new US sanctions came into effect, but they do not directly concern Russian individuals or legal entities: goods and technologies considered by the American authorities as relating to national security were forbidden for export to Russia (for example, avionics, submersible vessels, some kinds of gas turbines, gaging equipment, etc.). The only exclusions were the goods and technologies required for security of civil aviation.

In 2020, US sanctions policy remained at a high level of activity. At the same time, the United States have switched from direct sanctions to sanctions affecting Russia's partners in international investment projects. The most significant ones were the sanctions against Nord Stream 2 and TurkStream, provided by the country's defense budget (NDAA) for 2020. The sanctions can be put in force for companies participating in the construction of gas pipelines, as well as for top managers of these companies. Despite some softening of the position, the European Union has not yet lifted sanctions against Russia and links their withdrawal with the full implementation of the so-called Minsk Agreements.

New sanctions against Russia's economy or transportation companies also cannot be excluded, with the Company and the industry at risk of being severely affected, should it materialise.

¹ The disease was first identified in December 2019 in the Chinese city of Wuhan, and later spread beyond China and affected hundreds of countries and regions around the world, including Russia.

With regard to poor predictability of the factors specified above, the Company monitors the sanctions environment and adjusts its debt and financial policy to factor in potential adverse effects from new or revised sanctions.

In order to minimise the negative impact of macroeconomic factors, the Company implements an investment programme based on performance adjustments taking into account changing demand structure, corrects price policy, implements a cost minimisation programme and takes other measures to improve competitiveness in the domestic and foreign markets. In 2021, the Company will focus on developing a service component to respond more flexibly to client requests and expand its presence in the Asia-Pacific region

DETERIORATION OF RAILWAY OPERATING ENVIRONMENT

In recent years, increasing containerisation has been the key driver behind the growth of the rail transportation market, which has also been supported by a prudent tariff policy for container shipments, easier access to the rail infrastructure, developing technology for high-speed container trains, construction and re-construction of the container terminals at large transportation hubs.

Infrastructure fees for container transportation growing at above-average rates, additional limitations introduced for container trains, shutdown of terminal capacities used for container processing (in terms of the policy of local authorities of large metropolises aimed to withdraw freight operations outside the city line), as well as other restrictive technical measures may have a material adverse effect on the competitiveness of the entire railway industry and, therefore, on the performance of the railway container transportation market.

The Company will continue working together with Russian Railways and other railway administrations to promote further development of containerisation processes and container shipment practices.

RUSSIAN GOVERNMENT REDUCING OR TERMINATING SUPPORT FOR TRANSIT RAIL CONTAINER TRANSPORTATION

Russia provides state support for the development of rail container transportation in West – East and East – West directions. These subsidies are a significant factor in the price competitiveness of transit transportation compared to sea freight

The Company has publicly advocated for increased government support for transit transportation.

CHINESE GOVERNMENT REDUCING OR TERMINATING SUPPORT FOR RAIL CONTAINER TRANSPORTATION

The Chinese government supports international rail transportation, including transit routes. Government subsidies are a strong driver of the pricing attractiveness of rail shipments from China in comparison to sea freight. Cancellation of, or reductions in the government support may have an adverse effect on rail container transportation on relevant routes.

To minimise the impact, the Company takes measures to bolster the competitive edge of existing services, expand the network of international routes, and optimise its logistics.

COMPETITION FROM ALTERNATIVE TRANSPORTATION

The rail container transportation market strongly depends on the alternative transportation markets. The pricing environment in rival transportation segments has been favourable for the rail container business.

From January to December 2020, the generalised Shanghai Containerized Freight Index (SCFI index) rose from almost 1,000 to 2,783 points as at 31 December 2020. Such unprecedented increase in rates led to the demands of forwarders and shippers to antitrust regulators in Europe, the United States to intervene in the

situation. In September 2020, the Ministry of Transport of the People's Republic of China urged the representatives of sea lines not to raise spot rates on routes from China to the United States. This led to an immediate rate growth restraint. In the future, with a significant drop in sea rates, the attractiveness of rail transportation will decrease.

To minimise sequences of this risk, the Company takes measures to bolster the competitive edge of existing services, expand the network of international routes, develop sales network in China and Europe using subsidiaries and optimise logistics.

STRONGER COMPETITION IN THE RAIL CONTAINER TRANSPORTATION MARKET

Increase in the market demand usually leads to a mid-term competition growth driven by existing companies actively purchasing rolling stock and new players entering into the market. In the short term, this has led to a rapid increase in rolling stock prices. In the medium to long term, when the market enters the downward phase of the economic cycle, it can result in lower prices of operator services due to accumulating supply and demand imbalances.

The Company plans to minimise the impact of this risk by taking measures to improve the price competitiveness, client service, and rolling stock efficiency, as well as by a prudent flatcar purchasing policy ensuring an adequate supply-and-demand balance.