

Russian transport industry overview and key trends

Global economic growth slowed slightly in 2016 with a reversal in the downward trend, as evidenced by the improved situation in the second half of the year.

Positive changes also took place in the Russian economy in 2016. These results will serve as a basis for further improvements in the economic position of the Russian Federation.

Key trends and changes in the global and Russian economies

According to the International Monetary Fund, global GDP growth slowed slightly to 3.1% in 2016 from 3.4% in 2015. However, forecasts from international expert organisations predict global economic growth will accelerate in 2017 and 2018.

The economic dynamics varied in countries around the world in 2016. In developed nations, GDP growth slowed to 1.6% from 2.1% in 2015. However, in certain leading economic centres growth accelerated over the course of the year. In the United States, GDP growth totalled

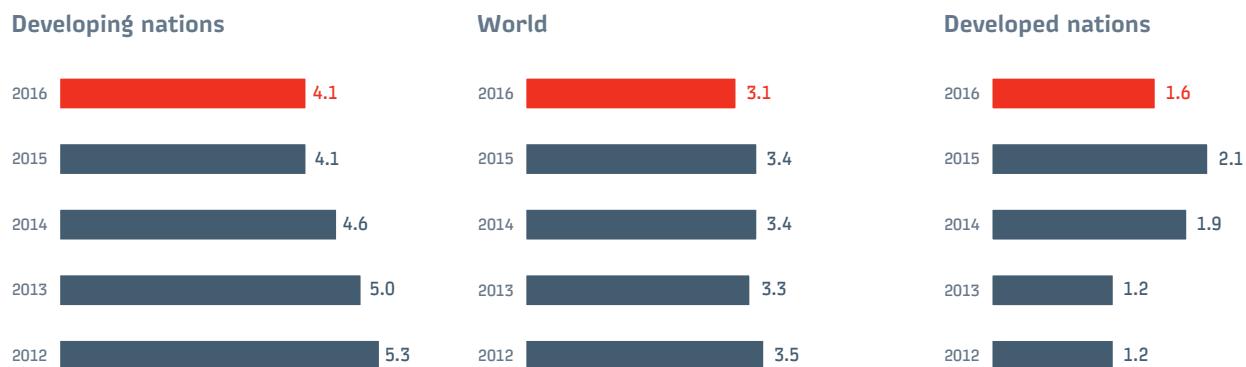
1.9% in annual terms in the fourth quarter versus 1.6% in the first quarter, while in the United Kingdom such growth was 2.2% and 1.8%, respectively. The continuation of stimulus and quantitative easing programmes in certain countries were of great importance for the economic dynamics of developed nations and the global economy.

In the group of developing nations, GDP growth totalled 4.1% in 2016, or the same as in 2015. This was facilitated by stimulus measures in China as a result of which this country's GDP growth did not slow

as much as anticipated as well as a decrease in the depth of GDP decline in Russia and Brazil.

The positive trends that have started taking hold in the global economy are confirmed by the dynamic growth on stock markets, which shows investors are confident about the prospects for global growth. The global economy was positively impacted by the decision of OPEC nations to reduce oil production, which led to growth in global oil prices and improved the situation in exporting countries.

GDP growth rates for the world, developed nations and developing nations in 2012-2016, % vs. previous year



The situation in the Russian economy improved in 2016 partly as a result of stability in the global economy, an increase in global prices for oil and other Russian exports as well as the economy's adaptation to difficult external conditions. Evidence that these processes intensified in the Russian economy in 2016 can be seen in the significant growth in the business activity index (PMI) in the services and manufacturing sector, which transitioned from recession to growth.

The depth of decline in Russian GDP decreased in 2016 and stood at 0.2% versus 2.8% in 2015. The economy gained some support from external demand, which resulted in exports declining at a less significant rate than in 2015.

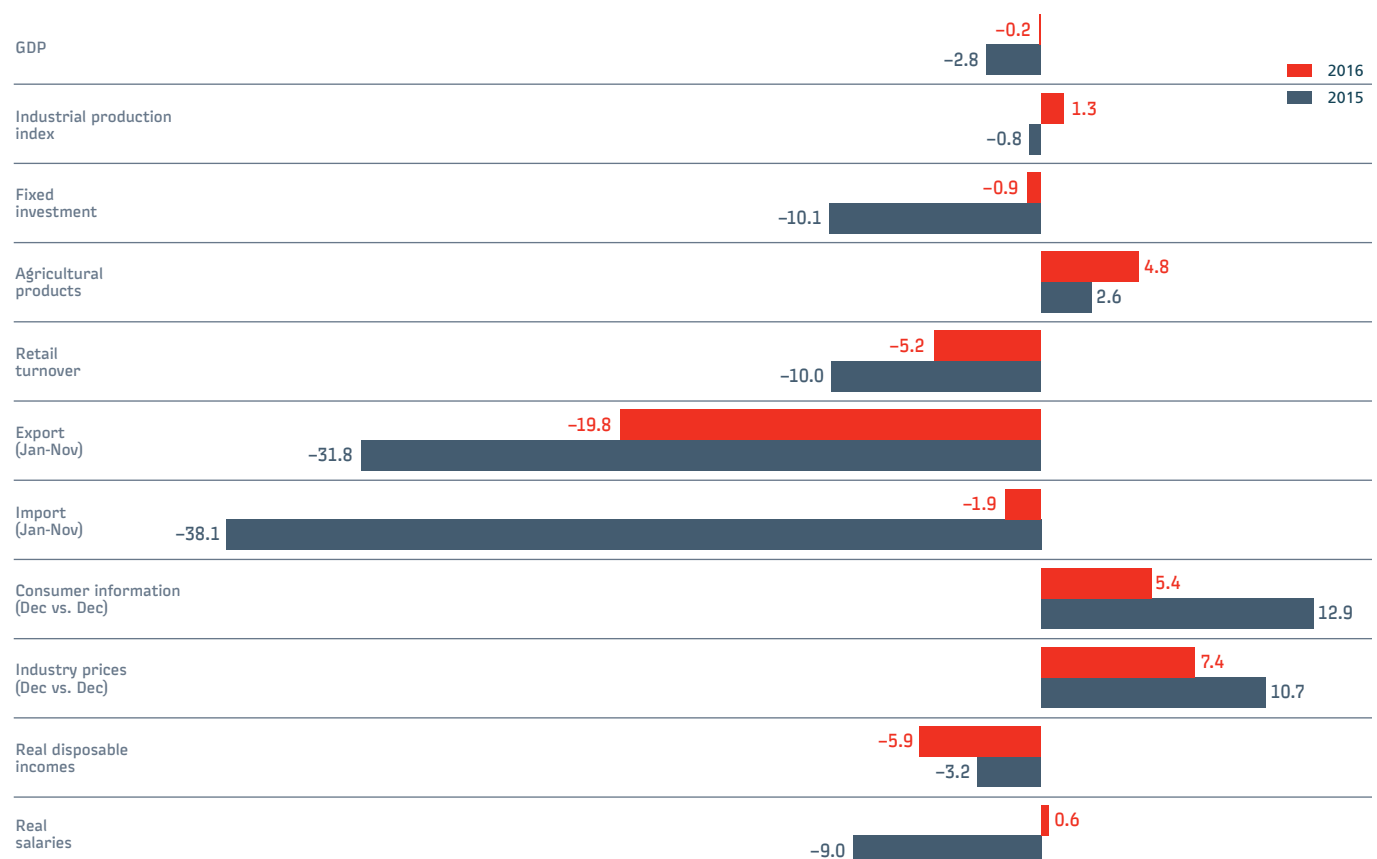
The improvement in the macroeconomic situation in Russia in 2016 was facilitated by industrial production dynamics, which were better than GDP dynamics. The industrial production index expanded 1.3% in 2016 following a decline of 0.8% in 2015. At the same time, the industrial sectors had different production growth rates. Whereas mineral resource output increased by 2.7%, the manufacturing sector saw less significant growth at 0.5%.

In these conditions, there was some improvement in investment activity indicators. The decline in fixed investment was 0.9% in 2016 compared to a decrease of 10.1% in 2015. The depth of decline in construction work decreased to 4.3% in annual terms in 2016 from 4.8% in 2015.

At the same time, a low level of consumer demand was seen in 2016. Retail turnover declined by 5.2% due to a decrease in real disposable incomes (by 5.9%) and the continued savings model of consumer behaviour.

A positive result of 2016 was a substantial slowdown in inflation, which has a positive impact on expectations among economic agents concerning the economy's prospects. Consumer price growth slowed to 5.4% in 2016 from 12.9% in 2015 (December vs. December).

Change in Russia's macroeconomic indicators in 2015-2016, % vs. previous



Freight turnover

Freight turnover in Russia increased by 1.8% in 2016 compared with 2015 and totalled 5,180.3 bln tkm, according to the Russian State Federal Statistics Service.

Growth in freight turnover was seen in all types of transport.

Railway transport increased freight transport by 1.6%¹.

Air transport saw the biggest increase in freight turnover for the year (+20.6%).

Railway transport accounted for 45.2% of freight turnover in the country's transport system (down by 0.1 p.p. from 2015, but up 2.4 p.p. from the pre-crisis level of 2008).

Excluding pipeline transportation, railway transport remained unchanged at 87.1% in 2016.

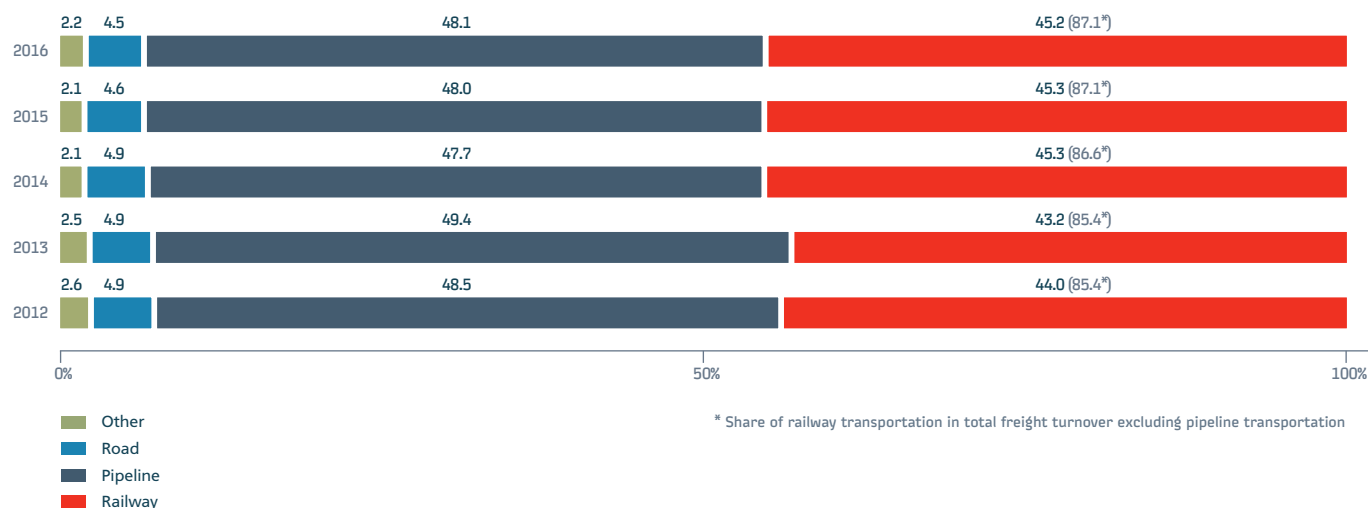
5,180.3 bln tkm

freight turnover in Russia in 2016

Freight turnover by transportation mode in 2016

Transportation mode	2016		Share of transportation mode in overall freight turnover, %	
	bln tkm	% 2015	2015	2016
Freight turnover by type of transportation, including	5,180.3	1.8	100.0	100.0
railway (loaded freight turnover)	2,342.6	1.6	45.3	45.2
road	234.5	0.8	4.6	4.5
sea	42.8	7.6	0.8	0.8
inland waterways ²	64.7	3.4	1.2	1.3
air (transport aviation)	6.6	20.6	0.1	0.1
pipeline	2,489.1	1.8	48.0	48.1
Reference: share of railway transport excluding pipelines			87.1	87.1

Structure of freight turnover by transportation mode, %



Passenger turnover

Passenger turnover in Russia decreased by 1.9% in 2016 compared with 2015 and amounted to 456.4 bln pass. km³, including:

- railway – 124.5 bln pass. km,
- road – 16.6 bln pass. km,
- air – 215.3 bln pass. km.

Passenger turnover in the country declined in 2016 due to a decrease in air transportation (by 5.1%) and road transportation (by 1.0%).

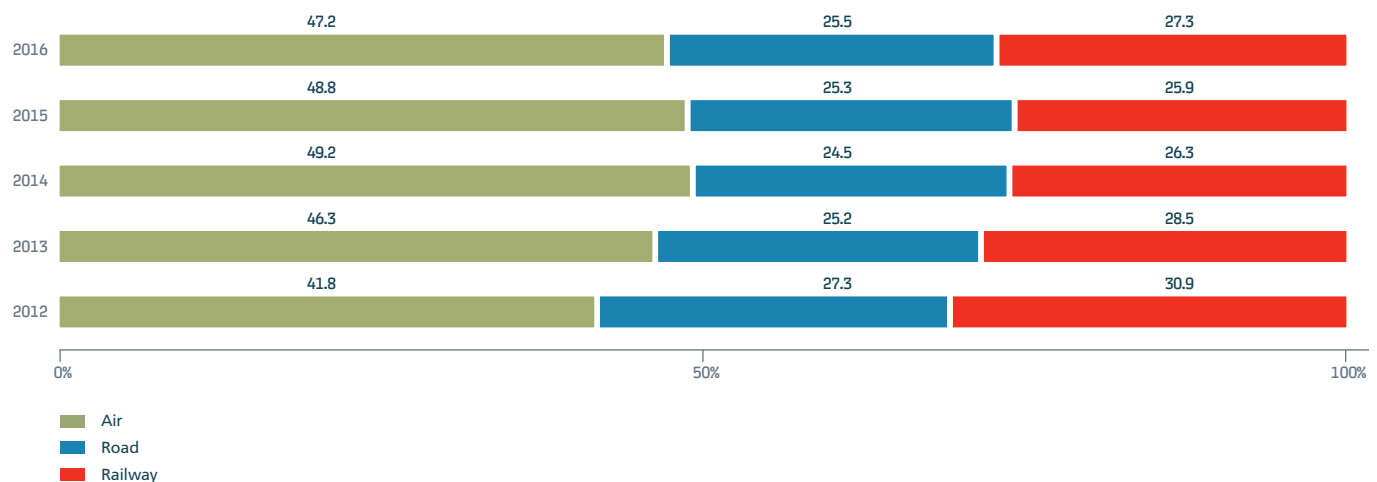
Road (bus) transportation makes up 25.5% of total passenger transportation (+0.2 p.p. versus 2015). Air transportation accounts for 47.2% of total public passenger turnover (–1.6 p.p. versus the 2015 level).

Railway passenger turnover increased by 3.4% versus the 2015 level, while its share of transportation expanded to 27.3% (by 1.4 p.p.).

Passenger turnover by transportation mode³

Transportation mode	2016		Share of transportation mode in overall passenger turnover, %	
	bln pass. km	% 2015	2015	2016
Passenger turnover via public transportation	456.4	–1.9	100.0	100.0
railway ⁴	124.5	3.4	25.9	27.3
road (buses)	116.6	–1.0	25.3	25.5
air (transport aviation)	215.3	–5.1	48.8	47.2

Structure of passenger turnover by transportation mode, %



¹ Railway freight turnover according to reporting data of Russian Railways.

² Reference: freight shipments by sea and internal 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.

³ Excluding urban and water transportation modes.

⁴ Passenger turnover according to reporting data of Russian Railways.