

LETTER FROM THE PRESIDENT

Dear colleagues, customers, shareholders and partners,

I am happy to present the first annual report prepared in my capacity as FESCO Group's President and Chair of the Executive Board.

In 2019, FESCO completed debt restructuring and moved past the consequences of the 2014–2015 crisis, thus cementing its financial stability with end-of-year net debt / EBITDA ratio of 3.7x (not adjusting for IFRS 16).

This was made possible because in 2016 we started paying more attention to improving service quality in the key areas – intermodal transportation along the East–West route and Port handling in the Far East, which boosted our market shares to 46% and 44%, respectively. FESCO increased its market share in intermodal transportation by reducing delivery time for containers along the Asia Pacific – Moscow route to 24 days (two times faster than via the Suez Canal), ramping up its railways with regular train service to 45 destinations, and implementing IT solutions, including MY.FESCO to help customers order services and track cargo online (in 2019, 60% of all intermodal transportation orders were made online).

On the back of the quality improvement effort, the Port's management and employees achieved high-water mark handling volumes of 11.5 mt, including record container and general cargo volumes of 624.5 thousand TEU and 5.13 mt, respectively.

Thanks to its more stable financial position, FESCO was able to invest around RUB 4 bn in the development of the Port and the railway and maritime assets, including:

- RUB 1.7 bn in reconstruction of berths and terminals, purchase of five new harbour cranes, and small-scale port mechanisation;
- RUB 1.0 bn in railway assets, growing the fitting platform and box car fleets to 6,620 and 2,047 units, respectively;
- RUB 1.0 bn in the Shipping Division's assets, including RUB 0.7 bn in the purchase of two container carriers. We signed a contract to buy one multi-purpose ice-class ship with the delivery scheduled for 2020;
- RUB 0.1 bn in the development of information technologies that have enabled us to improve customer services, launch fully electronic processing for intermodal transportation of imports, and thus shorten document processing times at the Port from 5 days to 21 hours.

To ensure a better focus on the development of its key business lines, the Group sold its non-core assets – all gondola cars and pellet hoppers and part of the old fleet. FESCO also entered into a preliminary sales and purchase agreement for the grain transportation business (Trans-Grain and related assets).



Our emphasis on the key operations has proven effective, and this is just the beginning. In spite of the challenging economic environment, we are going to continue improving service quality while ramping up transit shipments from Asia to Europe and transportation within Russia. We will also be further expanding the terminal network and upgrading port equipment and the fleet.

Just like in 2019, we are going to continue investing in our employees, engaging them in the decision-making process, entrusting them with complex tasks, delegating the implementation of innovative projects, and providing opportunities for professional growth.

I would like to take this opportunity to thank our customers and partners, shareholders and investors, and production facilities' management and employees for their loyalty, support, and efficient cooperation.

It makes me proud to be part of such a professional team, and I intend to do my best in my new position in order to maintain and strengthen FESCO's market leadership.

Maxim Sakharov,

President, Chair of the Executive Board