



NAVIGATING
THROUGH CHALLENGING ENVIRONMENT

9M16 Operational and Financial Results

Investor conference call
December 5, 2016

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Today's Speakers



Maxim Sakharov
Vice President and CFO

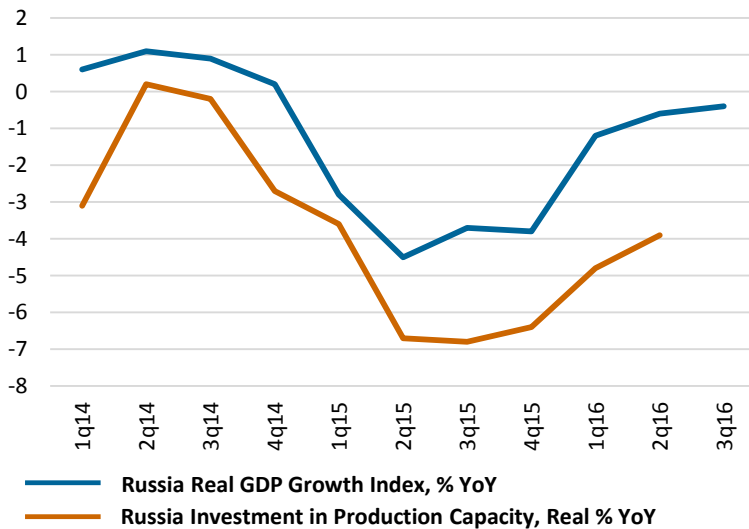


Alexander Isurin
President and CEO

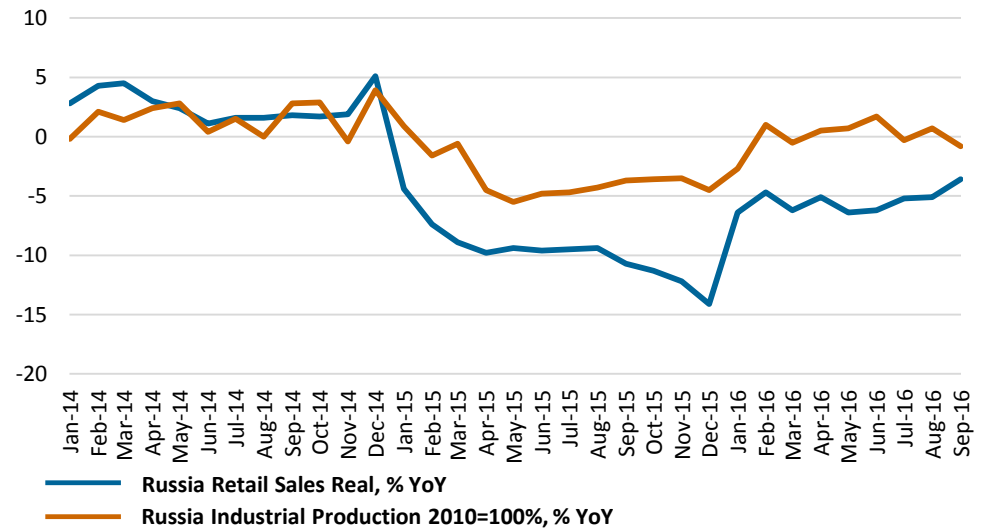
Macroeconomic Overview

- Macroeconomic conditions remain challenging with the most key indicators still in the negative zone to those of the previous year
- A significant slowdown in the rates of decline indicates the possible end of a period of stagnation and the soft transition to recovery phase
- Third quarter 2016 results were supported with the moderate recovery of the Russian transportation market, but it still not enough to offset the drop in the beginning of the year
- The market trends over the second and the third quarters of 2016 illustrate the return to normal market seasonality
- The Group continued to focus on the development of its core business, operational efficiency and cost discipline:
 - ✓ The Group was developing new services and routes and expanding its geographical presence
 - ✓ FESCO is optimizing its rolling-stock in order to reach its optimal structure and increase operational and financial performance

Real GDP and Investment in Production Capacity



Retail Sales and Industrial Production

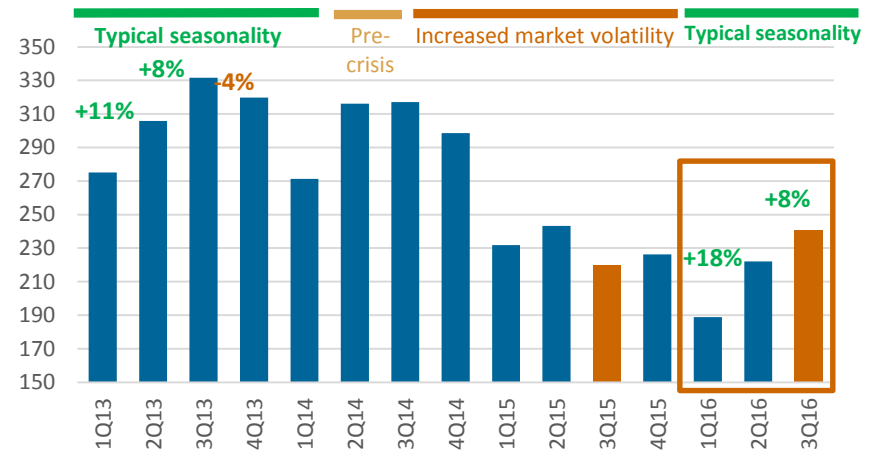


Source: Federal State Statistics Service; Bloomberg

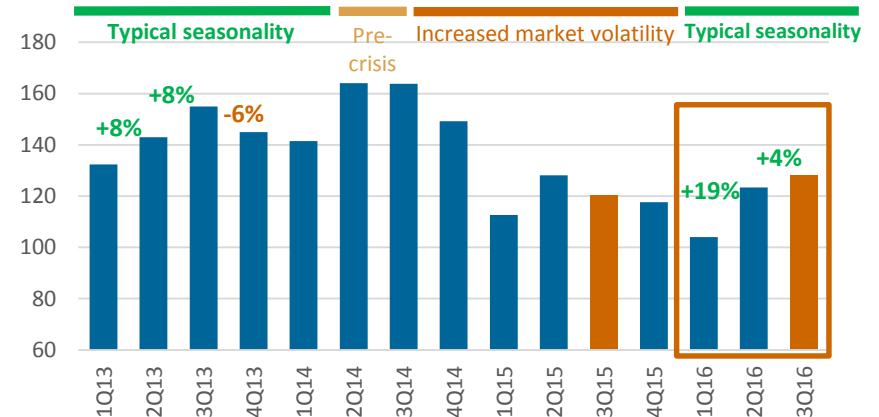
Sea Container Transportation Market Dynamics

- Historically, the container transportation market is exposed to seasonality with pick volumes in 2Q and 3Q
- The volatility on the market is coming down and the market dynamics in 2016 demonstrates signs of typical seasonality
- From 3Q14 to 2Q16, the transportation volumes were volatile due to macroeconomic slowdown and rouble depreciation
- In 2Q16, the key macroeconomic indicators reached their lowest values and started modest recovery
- Since July 2016, the consumer confidence index turned into positive trend signaling demand recovery
- All these factors together led to recapture of import transportation volumes and growth of export transportation volumes:
 - ✓ Container handling in the Far Eastern ports declined by 6.8% YoY but increased by 9.6% QoQ
 - ✓ Export-import sea container transportation volumes reduced by 1.4% while it improved by 6.5% QoQ

Container throughput in the Far Eastern ports (ths TEU)¹



Export-import sea container transportation volumes in the Far East (ths TEU)²



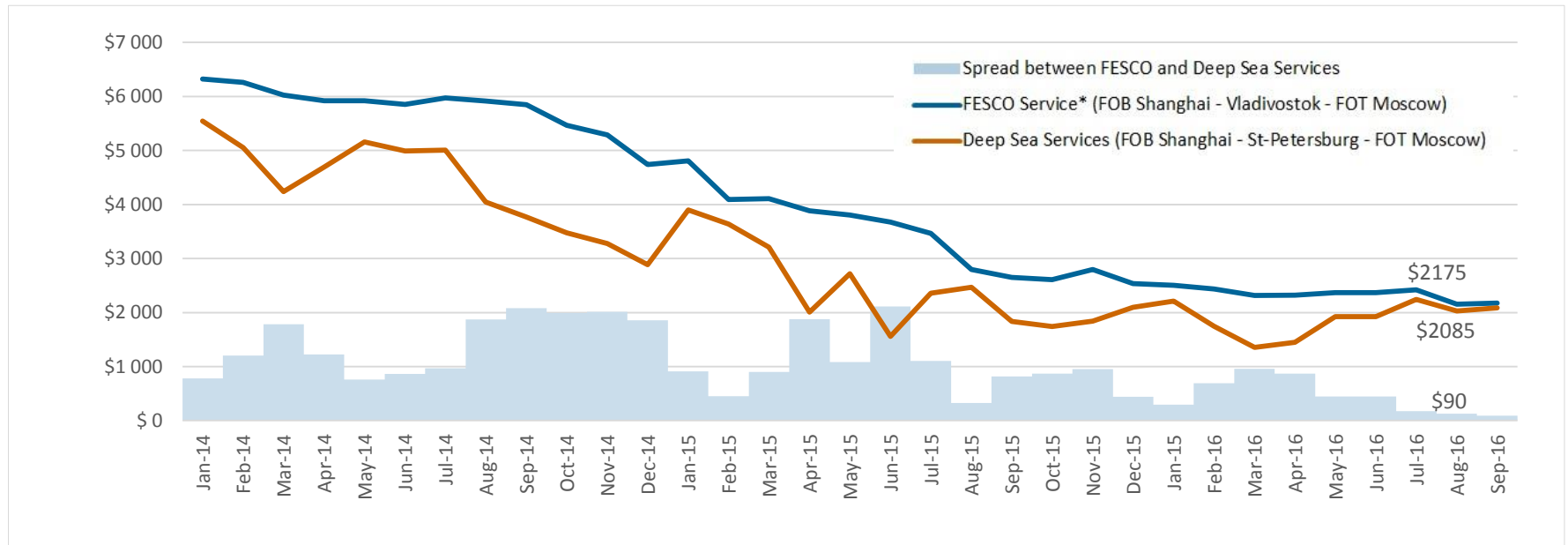
The container transportation market is coming to its typical path

¹Source: Morcenter -TEK – calculation is based on key Far East ports only

²Source: Morcenter -TEK – calculation is based on key Far East ports, loaded export and import containers only

Freight rates dynamics

Deep Sea Rates vs. Intermodal Transportation Rates (\$ / 40' TEU)



- Container Deep Sea freight rates are on the all-time low levels. There are no clear factors for rate recovery due to a dramatic fall of cargo volumes following the economic recession and excess supply of Deep Sea fleet on the market
- Competitors in marine lines and port sectors selectively reduce rates to secure cargo volumes and better utilize existing infrastructure, therefore all CAPEX and facilities expansions in the ports of the Russian Far East are on hold

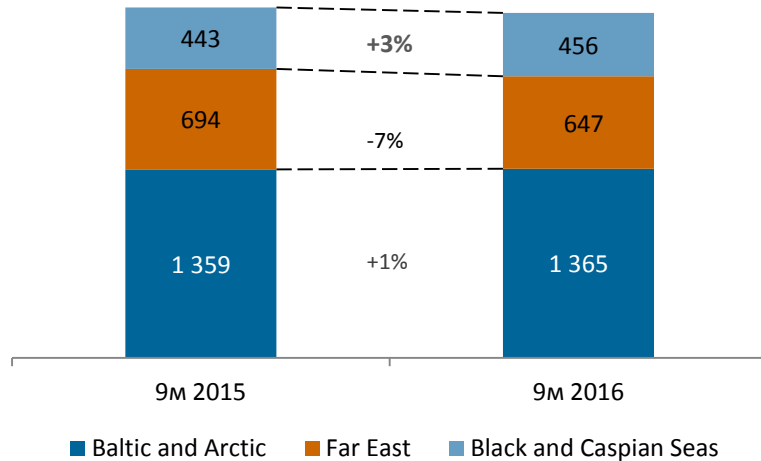
Deep Sea rates and intermodal rates demonstrate negative dynamics. Deep Sea rates remain at its all-time lows

*18% VAT was included into tariff till February, 2015; starting March, 2015 VAT is 0%

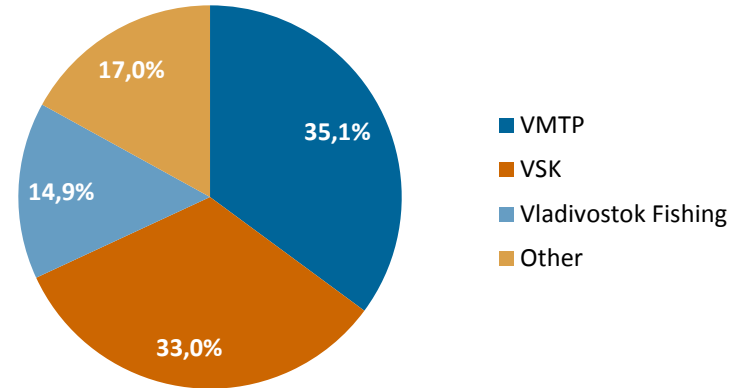
Source: Worldcontainerindex, Drewry, Lloyd's list

Russian Port Market Update

Container Throughput in Russian Ports, 2016 ('000 TEU)



Shares of Major Container Operators in Far East, 2016



- Total container throughput at Russian ports decreased YoY driven by economic recession, FX rates fluctuations and decline in domestic private consumption and production of cars, which started the modest recovery in 2Q16 only
- The Far East basin demonstrated decline in volumes compared to Baltic and Arctic basins as serves resilient trade flows between Russia and Asian countries
- In 9M2016, FESCO retained leading positions among container sea port operators and service lines in the Russian Far East:
 - ✓ 37% market share in import container handling in ports (by volume)¹
 - ✓ 35% market share in export-import sea container service lines (by volume)²

Low trade volumes impact the container market performance

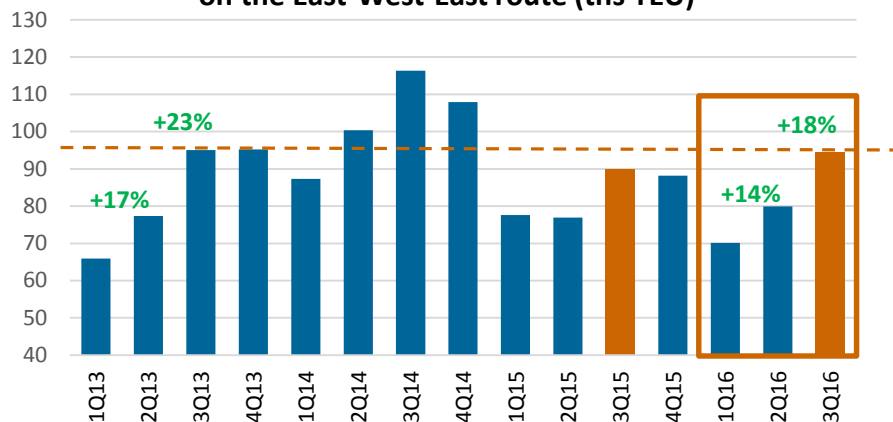
¹Including loaded and empty containers in key ports in Far East only

²Including loaded containers in key ports and Korsakov Port only

Source: Morcenter TEK, Company information

Russian Rail Market Update

Rail container transportation volumes on the East-West-East route (ths TEU)¹

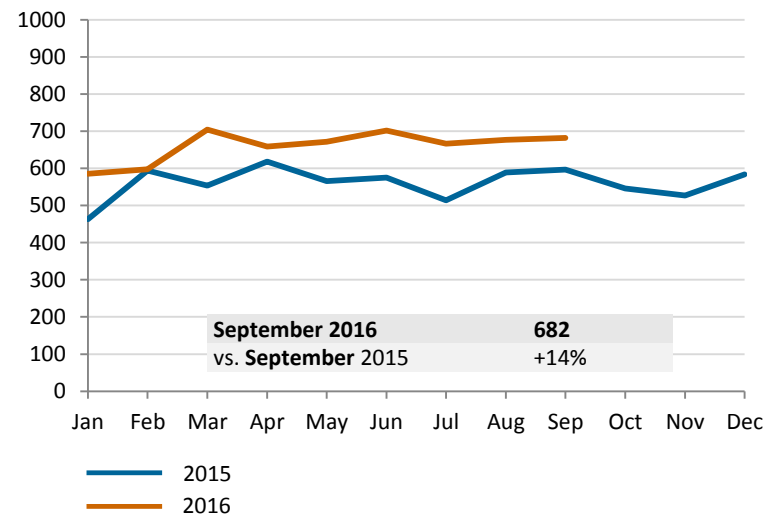


- Rail container transportation volumes on the East-West-East route fell by 2.9% YoY but increased by 5.0% QoQ.
- The key reason of positive dynamics over last two quarters is FX exchange rate stabilization and improved consumer confidence, which in their turn led to realization of differed demand and stock replenishment
- Since May 2016, the fitting platforms rates have been fluctuating between 850 and 900 RUB/day/railcar. The rates in September are espoused to insignificant seasonal decrease in demand
- Box cars rates flattened out, the demand is growing slowly (+2% vs. 9 months 2015)

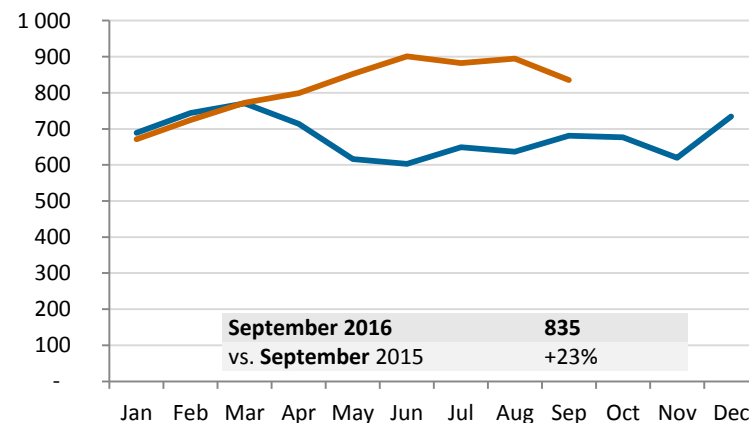
¹Source: Russian Railways – calculated for loaded dry containers on the Russian Far East - Moscow route

²Source: Russian Railways, Company information

Box Cars Rates, RUB/day/railcar²

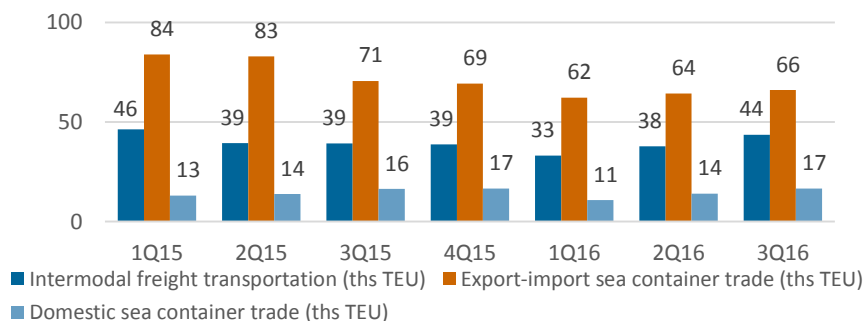


Fitting Platforms Rates, RUB/day/railcar²



Divisional Performance: Liner and Logistics Division

Intermodal and export-import sea container transportation



LLD financial results

| | 9M16 | YoY | 3Q16 | QoQ |
|---------------|-------|---------|------|---------|
| Revenue (\$m) | 256.1 | -13.0% | 95.2 | -0.8% |
| EBITDA (\$m) | 8.3 | -40.7% | 6.1 | +3.4% |
| EBITDA margin | 3.2% | -1.6 pp | 6.4% | +0.3 pp |

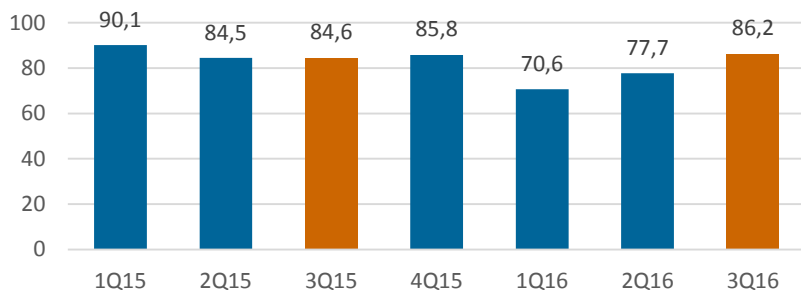
- The Group is focusing on new business development and penetrating new geographies outside of Russia. In 9M16, following this approach FESCO launched several new routes, including transit service for Chinese cargo through the Russian Far East via Corridor “Primoriye-1”, an all-land service from China to Russia, and the development of export shipments via Corridor “North – South”
- The operational performance was influenced by general market trends:
 - ✓ Export-import sea container trade volumes declined by 18.9% YoY and by 6.6% QoQ
 - ✓ Intermodal freight transportation volumes declined by 8.3% YoY. While in 3Q16, intermodal freight transportation increased by 11.1% QoQ
 - ✓ Domestic sea container transportation volumes decreased by 4.0% YoY but in 3Q16 increased by 1.7% QoQ
- The decrease in import-export and intermodal volumes and negative global freight rate dynamics resulted in a decline in revenue and EBITDA at the Liner and Logistics Division.
- In 3Q16, the improved financial performance resulted from:
 - ✓ Sea line routes optimization and attracting additional partners to vessel sharing agreements allowing to enhance operational efficiency and reduce costs
 - ✓ Disposal of Ro-Ro vessels and providing Ro-Ro transportation services through the utilization of third-party vessels, which also allowed to optimize cost structure

Improved profitability in 3Q16 is as a result of market share growth and optimization measures

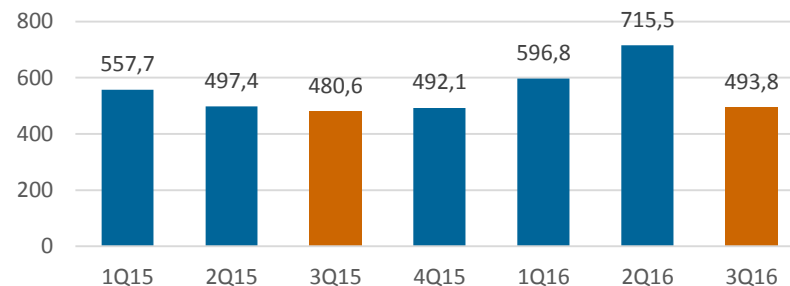
Source: Russian Railways, Company information

Divisional Performance: Port Division

Container throughput, ths TEU



General and non-container throughput, ths tonnes



- VMTP container throughput decreased by 9.5% YoY, while it improved by 1.9% QoQ, which is in line with market trends
- General cargo and non-container throughput surged by 17.6% YoY and significantly outperformed the market. The growth was achieved mainly through increased handling volumes of ferrous metals
- In 9M2016, financial results decreased due to a decline in container handling volumes

- EBITDA declined by 20.1% YoY to \$38.5m due to:

- ✓ Reduction of rates for oil products handling due to bunkering business reorganization and availability of excess capacity
- ✓ Non-price trade preferences provided to customers in order to attract additional volumes
- ✓ Differed accruals related to the Group's labor contract obligations
- ✓ Accrued costs related to the general cargo accumulation and storage in the Port in the end of September, the financial results from which will accrue in next reporting period

Port financial results

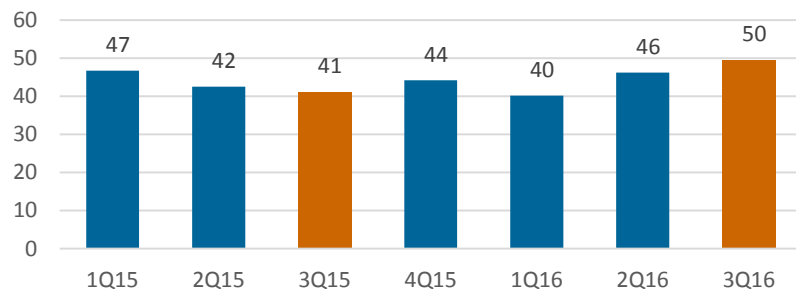
| | 9M16 | YoY | 3Q16 | QoQ |
|---------------|-------|---------|-------|---------|
| Revenue (\$m) | 77.8 | -12.6% | 25.6 | -13.2% |
| EBITDA (\$m) | 38.5 | -20.1% | 12.0 | -27.3% |
| EBITDA margin | 49.5% | -4.7 pp | 46.9% | -9.0 pp |

Cargo throughput volumes for the 3Q2016 overpassed the previous year values for both containerized and non-container cargo

Source: Morcenter TEK, Company information

Divisional Performance: Rail Division

Rail container transportation, ths TEU



Rail financial results

| | 9M16 | YoY | 3Q16 | QoQ |
|---------------|-------|---------|-------|----------|
| Revenue (\$m) | 66.5 | -18.7% | 23.2 | -2.9% |
| EBITDA (\$m) | 14.3 | -9.5% | 7.0 | +55.6% |
| EBITDA margin | 21.5% | +2.2 pp | 30.2% | +11.3 pp |

- FESCO is improving its fleet of rail cars in order to reach the optimal and more profitable structure of the fleet. In 3Q16, the Group increased its core rolling stock and rented 95 fitting platforms and 23 box cars. At the end of September 2016, the Group signed an agreement to swap non-core rolling stock for 262 fitting platforms, which the Group is planning to put into operation by the end of the year
- As part of the strategy to extend its geographical reach and in response to market demand, the Group launched FESCO Minsk Shuttle, a regular container train from Vladivostok to Minsk in 3Q16
- Rail container transportation increased by 4.3% YoY to 136.0 thousand TEU and in 3Q16 by 20.5% QoQ to 49.6 thousand TEU
- Rail shipments in box cars improved by 32.2% to 13,361 shipments and in 3Q16 by 25.6% QoQ, to 4,766 shipments
- In 3Q16, the improved financial performance was driven by the positive effect from renting out gondola cars, which took place in the end of 1H16, and relative operations measures, including staff and operating costs reduction as well as improved productivity

Focus on core rolling-stock consolidation

Source: Company information

Divisional Performance: Shipping and Bunkering Divisions

Shipping financial results

| | 9M16 | YoY | 3Q16 | QoQ |
|----------------------|-------|---------|-------|---------|
| Revenue (\$m) | 45.3 | -32.0% | 12.7 | -31.0% |
| EBITDA (\$m) | 15.6 | -25.7% | 3.5 | -31.4% |
| EBITDA margin | 34.4% | +2.9 pp | 27.6% | -0.2 pp |

- In line with its strategy to improve operational efficiency, the Group disposed of three vessels including two Ro-Ro ships
- 9M16 Shipping Division's financial results were significantly affected by lower time-charter rates and a general lack of demand for container fleet
- In 3Q16, the Group did not participate in special project for delivering goods to the Arctic Region, which took place in 3Q15, as a result, the revenue declined by 31% QoQ

Bunkering financial results

| | 9M16 | YoY | 3Q16 | QoQ |
|----------------------|------|---------|------|--------|
| Revenue (\$m) | 15.3 | -84.9% | 4.7 | -77.2% |
| EBITDA (\$m) | -0.3 | -109.4% | 0.0 | n/a |
| EBITDA margin | n/a | n/a | n/a | n/a |

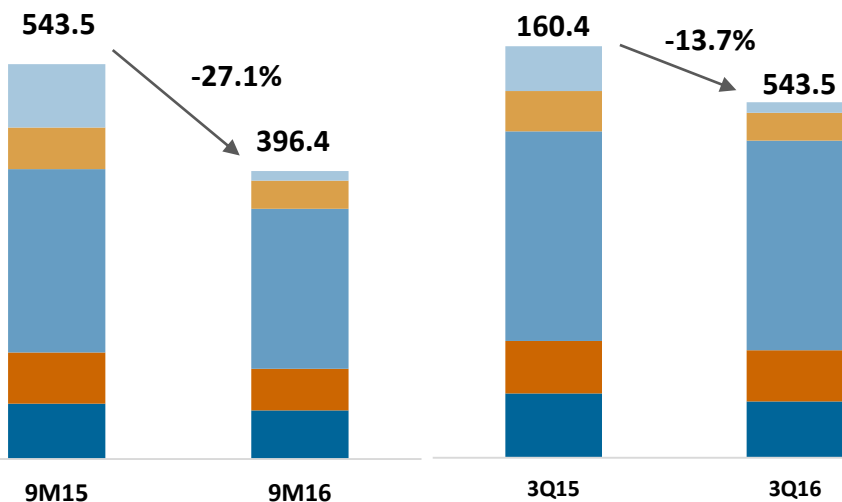
- Due to the Group's decision to review its bunkering business segment, the Bunkering Division significantly reduced its operations
- This allowed working capital to be substantially reduced but significantly affected the Group's financial results

Shipping and Bunkering Divisions are mainly focused on support the Group's core business

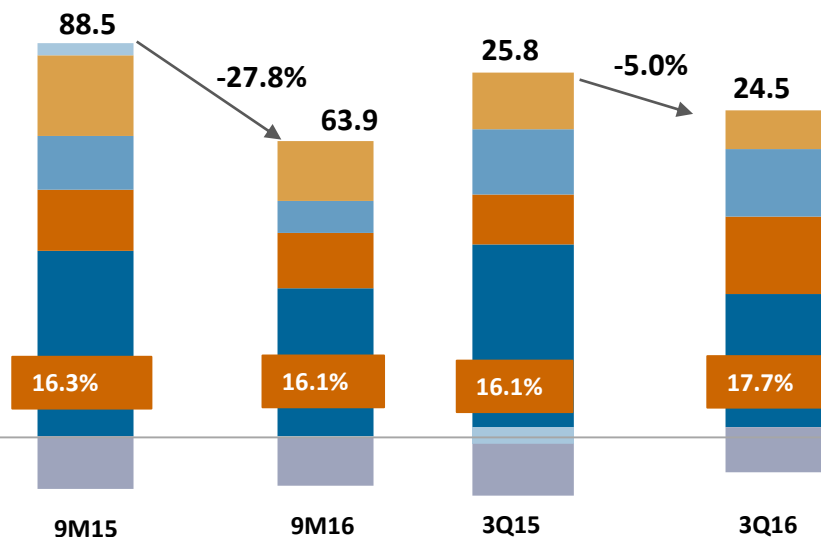
Source: Russian Railways, Company information

Consolidated Financial Results for the Group

Revenue, \$ million



EBITDA, \$ million and EBITDA margin



■ Port ■ Rail ■ LLD ■ Shipping ■ Bunkering ■ Corporate

EBITDA Margin

- Consolidated revenue decreased by 27.1% YoY to \$396.4m due to a decline in bunkering activity, as a result of which the revenue of this particular business segment decreased by 84.9%. Consolidated revenue, excluding its Bunkering division, reduced by 15.2%, mainly driven by a decline in general demand and cargo throughput volumes.
- EBITDA decreased in line with revenue, by 27.8% YoY to \$63.9m, EBITDA margin decreased slightly from 16.3% YoY to 16.1%. In 3Q16, the Group improved its EBITDA margin from 15.3% in 6M2016 to 16.1% in 9M2016, through the implementation of effective cost control and optimization measures.

The Group maintains profitability despite decline in volumes and average rates in 2016

Source: Company information

Note: RUB-denominated financial results are based on average quarterly \$/RUB exchange rate

Managing Costs and CAPEX

Costs and Expenses Optimisation Programme

| (\$m) | |
|--|-------------|
| Reduction of vessel fleet voyage costs | 13.7 |
| Personnel expenses optimization | 8.7 |
| Container fleet optimization, including geographical rebalancing of containers | 4.9 |
| Office rent | 2.6 |
| Other | 5.2 |
| Total benefit | 35.1 |

- Total benefit of management actions in 9M16 mitigating negative market dynamics is estimated at approximately to \$35.1 MM

Capital Expenditures

| (\$m) | 9m2016 | 9m2015 |
|---------------------------------|-------------|-------------|
| Port Division | 1.2 | 2.9 |
| Rail Division | 10.2 | 8.4 |
| Liner & Logistic Division (LLD) | 0.1 | 0.2 |
| Shipping Division | 3.4 | 2.8 |
| Corporate Division / other | 0.2 | 0.4 |
| Gross CAPEX | 15.1 | 14.7 |

- CAPEX is being maintained at the level necessary to support day-to-day operations and maintain quality and safety standards
- Net CAPEX – \$5.7m
- Proceeds from disposals – \$20.8m

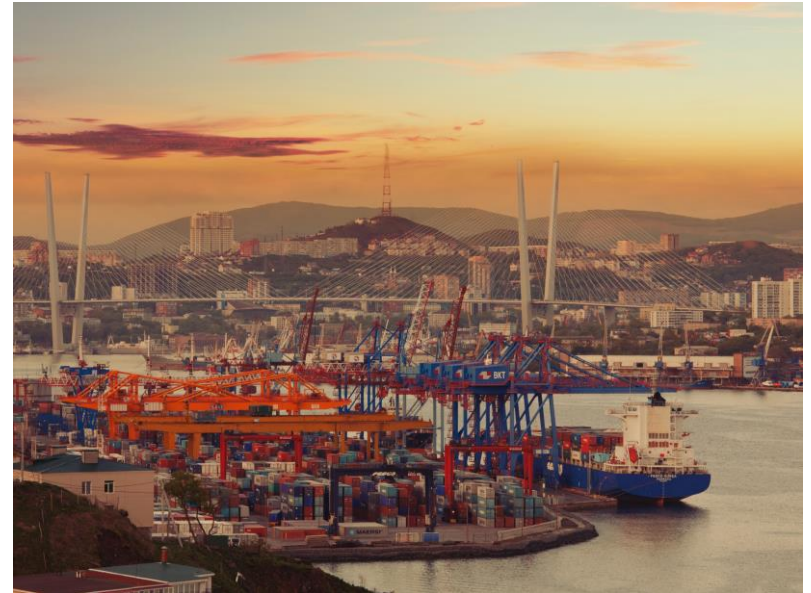
The Group is focused on operational efficiency and cost discipline

Contacts

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Appendixes

Operational Performance by Division for 9M16

| | Key Operating Metrics | 9M16 | 9M15 | YoY change | 3Q16 | 3Q15 | QoQ change |
|----------------------------|--|---------|---------|------------|-------|-------|------------|
| Port operations | VMTP container throughput (ths TEU) | 234.6 | 259.2 | -9.5% | 86.2 | 84.6 | +1.9% |
| | VMTP general and non-containerized cargo throughput (ths tonnes) | 1,806.0 | 1,535.7 | +17.6% | 493.8 | 480.6 | +2.7% |
| Rail Division | Rail container transportation (ths TEU) | 136.0 | 130.4 | +4.3% | 49,6 | 41,2 | +20.5% |
| | Rail shipments in box cars (units) | 13,361 | 10,104 | +32.2% | 4,766 | 3,796 | +25.6% |
| Liner and Logistics | Intermodal freight transportation (ths TEU) | 114.6 | 125.0 | -8.3% | 43.6 | 39.3 | +11.1% |
| | Export-Import sea container trade (ths TEU) | 192.5 | 237.5 | -18.9% | 66.0 | 70.6 | -6.6% |
| | Domestic sea container trade (ths TEU) | 41.6 | 43.3 | -4.0% | 16.6 | 16.4 | +1.7% |
| Shipping | Transportation fleet (units) | 19 | 22 | -13.6% | 19 | 22 | -13.6% |
| | Available days | 5,405 | 5,860 | -7.8% | 1,683 | 1,987 | -15.3% |
| | Ice-breakers (units) | 4 | 4 | 0.0% | 4 | 4 | 0.0% |
| | Available days | 582 | 656 | -11.3% | 181 | 141 | +28.4% |
| Bunkering | Bunkering volumes (ths tonnes) | 78.5 | 367.6 | -78.7% | 20.1 | 79.8 | -74.8% |

Source: Company information

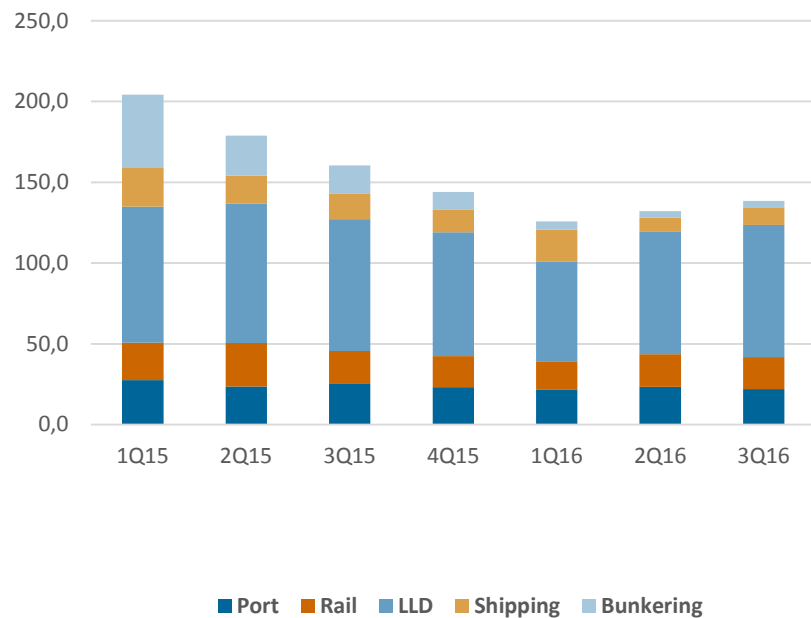
Financial Performance by Division for 9m16

| Division | Revenue (\$m) | | | | EBITDA (\$m) | | | | EBITDA margin | | | |
|------------------------|---------------|---------------|--------------|---------------|--------------|---------------|-------------|--------------|---------------|----------------|--------------|----------------|
| | 9M16 | YoY | 3Q16 | QoQ | 9M16 | YoY | 3Q16 | QoQ | 9M16 | YoY | 3Q16 | QoQ |
| Port | 77.8 | -12.6% | 25.8 | -14.0% | 38.5 | -20.1% | 12 | -27.3 | 49.5% | -4.7 pp | 46.5% | -8.5 pp |
| Rail | 66.5 | -18.7% | 23.5 | +3.1% | 14.3 | -9.5% | 6.9 | +53.3% | 21.5% | +2.2 pp | 29.4% | +9.6 pp |
| Liner and Logistics | 256.1 | -13.0% | 95.1 | -1.3% | 8.3 | -40.7% | 6.1 | +3.4% | 3.2% | -1.6 pp | 6.4% | +0.3 pp |
| Shipping | 45.3 | -32.0% | 12.3 | -33.9% | 15.6 | -25.7% | 3.5 | -31.4% | 34.4% | +2.9 pp | 28.5% | +1 pp |
| Bunkering | 15.3 | -84.9% | 4.3 | -78.9% | -0.3 | n/a | 0.0 | n/a | n/a | n/a | n/a | n/a |
| Intragroup / Corporate | n/a | n/a | n/a | n/a | -12.6 | -7% | -4.1 | -10.9% | n/a | n/a | n/a | n/a |
| Group | 396.4 | -27.1% | 138.5 | -13.7% | 63.9 | -27.8% | 24.5 | -5.0% | 16.1% | -0.2 pp | 17.7% | +1.6 pp |

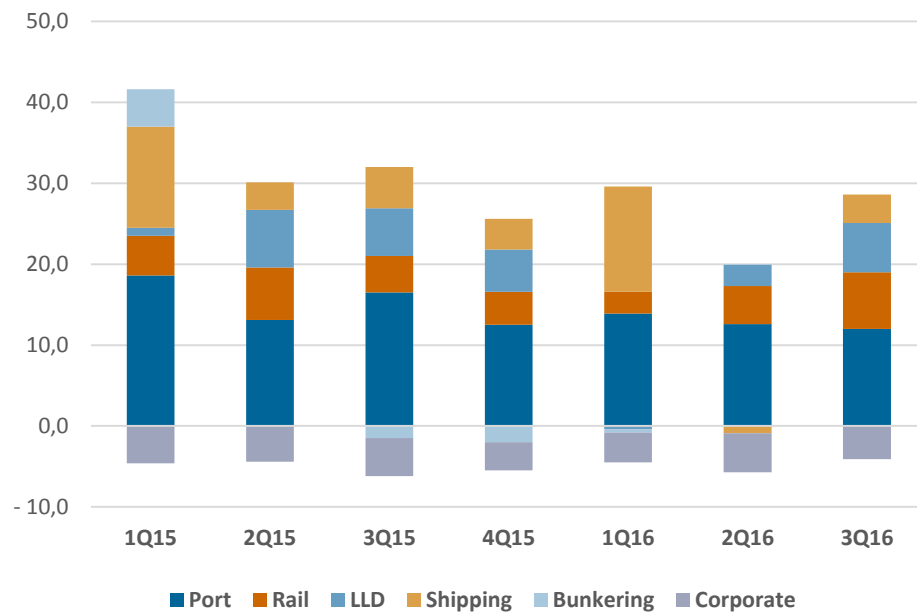
Source: Company information

Consolidated Financial Results for the Group

Revenue, \$ million



EBITDA, \$ million and EBITDA margin



Source: Company information

Note: RUB-denominated financial results are based on average quarterly \$/RUB exchange rate