

**FESCO Transportation Group  
1Q2015 Operational and Financial Results**

Investor conference call – May 29, 2015

## Today's Speakers

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**Konstantin Sokolov**  
*President and CEO*



**Victor Belyakov**  
*Vice President and CFO*



**Alexander Isurin**  
*Vice President, Sales  
and Commerce*

## Key 1Q2015 highlights

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### Market Positions remain strong

In 1Q2015, FESCO was #1 in the Russian Far East Region by import container handling at sea port terminals with the market share of 38% and the leader by volume on export-import sea container service lines where the Group operates with the market share of 45%

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### Operational and Financial results

- In line with the market, the container handling at VMTP was 18% YoY down to 90.1 thousand TEU. Export-import sea container transportation down by 10% YoY to 84.8 thousand TEU. The intermodal transportation and rail container transportation services increased by 2.7% to 57.5 thousand TEU and by 8.5% YoY to 76.2 thousand TEU respectively
  - Group revenue decreased in 1Q2015 by 15.8% YoY driven primarily by significant drop in container business
  - Group EBITDA increased by 5.4% YoY as cost reductions mitigated the impact of the revenue decline
  - Group EBITDA margin is up by 4pp to 18%. Port EBITDA margin up 13pp to record 58%
  - FX initiatives were completed at Port with 81% of Port revenue denominated in USD
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### CAPEX reduction to maximize FCF

- Cash CAPEX in 1Q2015 was substantially reduced from USD19.2 m to USD3.8m YoY to maximize FCF
  - The Group is focusing on maintenance CAPEX to address the volatility in current economic environment
  - CAPEX guidance lowered for 2015 down to maintenance level in the range of USD 20-25m
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## Addressing Market Headwinds

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### Focus on efficiency improvement and cost optimization program

In 1Q2015 FESCO began the implementation of initiatives aimed to improve the efficiency and cost optimization to address the market headwinds

- Change in management team and in organizational structure aimed to strengthen the commercial and financial functions
- Focus on operational efficiency and cost cutting program
- Improvement in labour productivity across all divisions

### Liability profile optimization and proactive deleveraging

- The maturity of RUB bonds 5O-02 was extended until November 28, 2017 with 40% amortization in 2016 and interest rate increase up to the market level
- FESCO commenced a voluntary cash tender offer for its 2018 Notes and 2020 Notes. The aggregate principal amount of the 2018 Notes and 2020 Notes tendered and accepted for purchase was USD 128.9m at 51% of par value and USD 91.1m respectively (USD 220.1m in aggregate principal amount of both issues of Notes).
- FESCO commenced a public offer to purchase for up to RUB 4bln in RUB bonds at fixed price of 80%. The principal amount of the RUB bond tendered and accepted for purchase was RUB2.9 billion at a fixed price of 80% of par value
- On pro-forma basis Net Debt reduced from USD 897m to USD 776m as of 31.03.2015 with pro-forma NetDebt/LTM EBITDA ratio lowered from 5.0x to x4.3x

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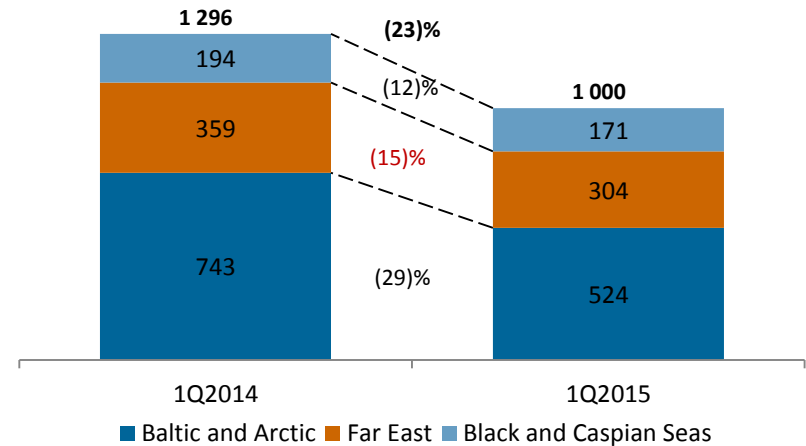
## **1Q2015 Market overview**

# Russian Port Market Update for 1Q2015

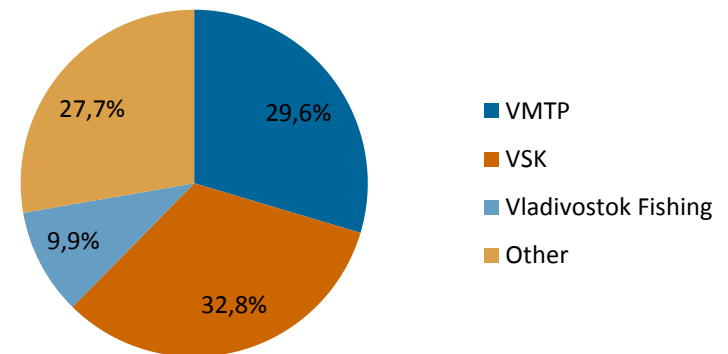
## Comments

- Total container throughput at Russian ports demonstrated a decline of 23% YoY in 1Q2015 on the back of macroeconomic volatility, RUB devaluation and following decrease in domestic consumption
  - Import in containers decreased by 27% YoY, export decreased by 24% YoY, cabotage was up by 1% YoY
- In the Far East basin demonstrated better performance compared to the Russian market with total container throughput decrease of only 15% YoY
- In 1Q2015, FESCO was #1 in the Russian Far East Region by import container handling at sea port terminals with the market share of 38% and the leader by volume on export-import sea container service lines where the Group operates with the market share of 45.2%

## Container Throughput in Russian Ports, 1Q 2015



## Shares of Major Container Operators in Far East



Source: Morcenter TEK, Company information

# Russian Rail Market Update for 1Q2015

## Comments

### Rail cargo load

- Rail cargo load on the Russian Railways network decreased by 0.4% YoY in 1Q2015 on the back of decreased transportation of crude oil and refined products (-0.5%), fertilizers (-1.0%), construction materials (-22%), cement (-9.1%) and in spite of increased volumes of coal (+0.5%), iron and manganese ore (+0.7%), ferrous metals (+11.6%), grain and flour products (+26.4%) and some other positions

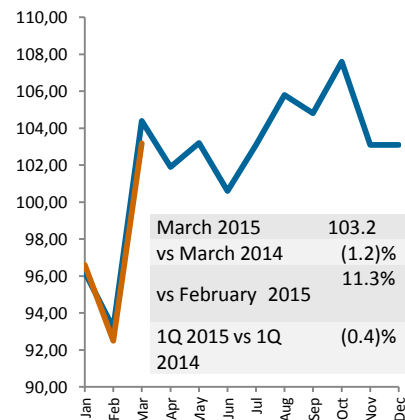
### Container rail volumes

- Container rail volumes on the Russian Railways network decreased by 7.7% YoY in 1Q2015

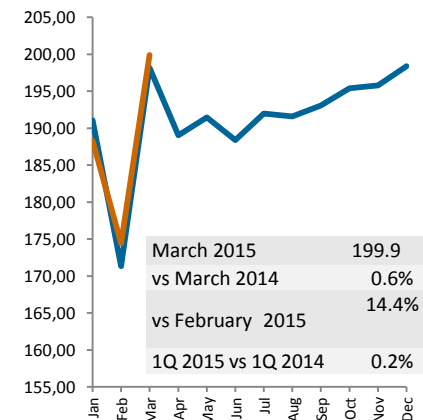
### Railcar rates

- Gondola rates remain at low level . In 1Q2015, average market gondola rates decreased by 3.1% YoY

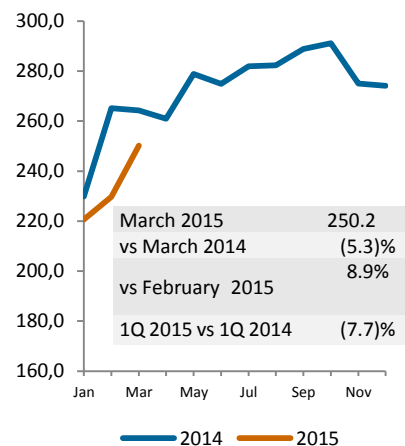
## Freight Transportation Volume (m tons)



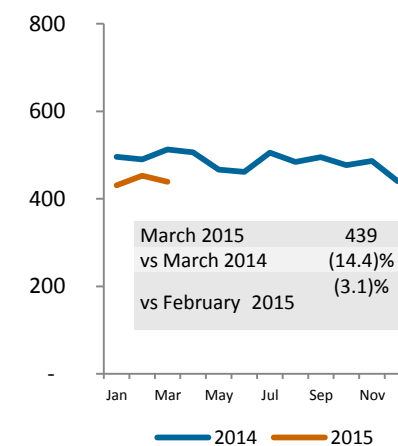
## Freight Transportation Turnover (bn tons-km)



## Containerised Cargo Transportation Volume ('000 TEU)



## Gondola Railcars in Russia, RUB/day/railcar



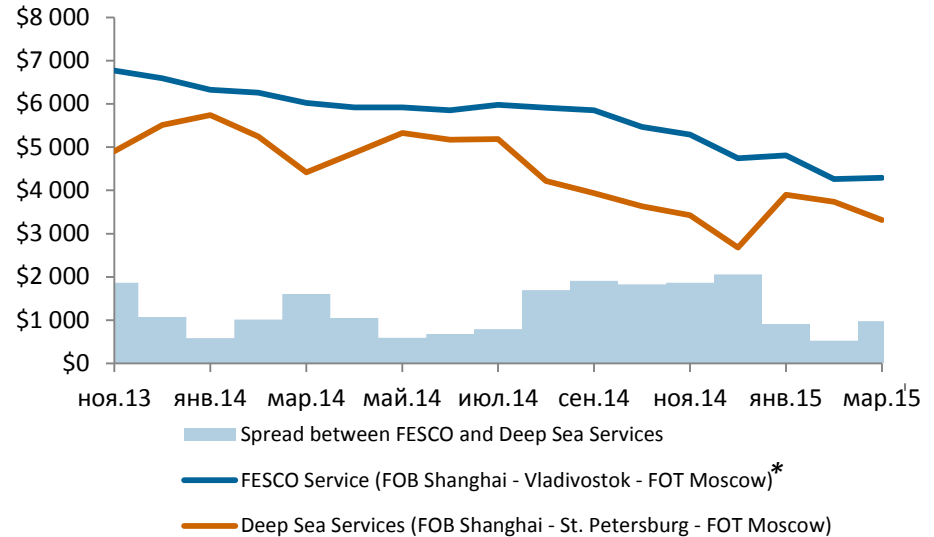
Source: Rosstat, Russian Railways, Company information

# Global container freight market update for 1Q2015

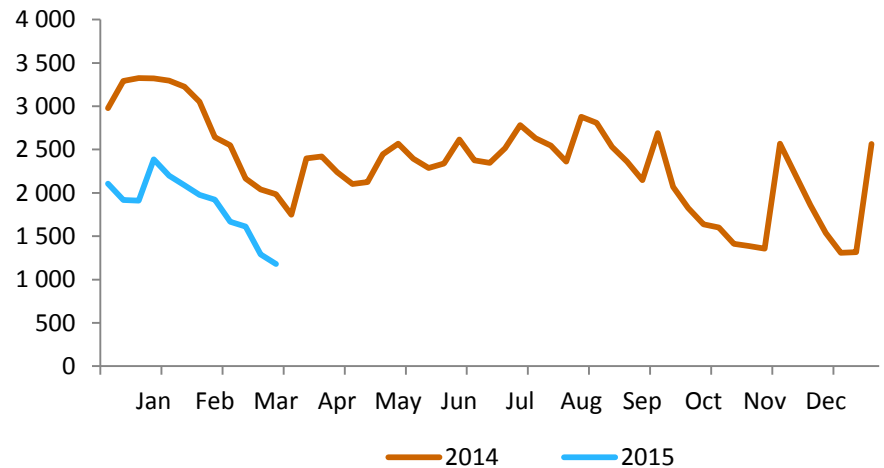
## Comments

- Shift of the Russian trade focus towards Asian countries should support the freight forwarding business in the region
- Global freight rates stay at historic lowest level
- Previous attempts to introduce a general rates increase (GRI) were unsuccessful.
- FESCO intermodal service via Vladivostok and the Trans-Siberian Railway is competing with the deep sea route between Asia and European Russia
- The competitiveness of Trans-Siberian route is increasing due to depreciation of RUB-denominated rail tariff component
- Decrease in FESCO Intermodal Transportation rates was in line with Deep Sea rates YoY decrease and RUB depreciation

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



## Shanghai – Rotterdam Freight Rate (\$ / 40' TEU)



\*Includes VAT 18%

Source: Worldcontainerindex, Drewry, Lloyd's list



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## **Divisional Overview**

# Port and Bunkering Divisions: Key Operational and Financial Metrics

## Comments

### Port Division

- Container throughput in 1Q2015 decreased in line with negative market trends
- General cargo volumes decreased mainly due to decline in ferrous metals and chemicals throughput
- Division's revenue and EBITDA decreased on the back of weakening volumes.
- The operational costs at port were reduced by 51%YoY impacted by RUB devaluation and cost reduction. EBITDA margin improved to a record 58.3%

### Bunkering Division

- Bunkering revenue increased due to volumes growth
- EBITDA margin decrease was impacted by negative trend in oil prices

## Operating and Financial Performance of Port Division

	1Q2014	1Q2015	Y-o-Y change
<b>Total Container Volumes (TEU)</b>	<b>109,808</b>	<b>90,117</b>	<b>(17.9)%</b>
<b>General Cargo Volumes ('000 tons)</b>	<b>826.7</b>	<b>557.7</b>	<b>(32.5)%</b>
Revenue (in \$ million)	44.4	31.9	(28.2)%
<i>Revenue (in RUB million)</i>	1,554	1,984	27.7%
EBITDA (in \$ million)	20.0	18.6	(7.0)%
<i>EBITDA (in RUB million)</i>	700	1,157	65.3%
EBITDA Margin (%)	45.0%	58.3%	13.3 pp

## Financial Performance of Bunkering Division

	1Q2014	1Q2015	Y-o-Y change
Revenue (in \$ million)	29.4	51.9	76.5%
<i>Revenue (in RUB million)</i>	1,029	3,208	211.7%
EBITDA (in \$ million)	3.8	4.6	21.1%
<i>EBITDA (in RUB million)</i>	134.4	281.1	109.2%
EBITDA Margin (%)	12.9%	8.9%	(4.0) pp

Source: Company information

## Rail Division: Key Operational and Financial Metrics

### Comments

- Rail container transportation by Transgarant and Russkaya Troyka significantly outperformed the rail container market which decreased by 7.7% in 1Q2015.
- Transgarant rail cargo load declined due continues rail market weakness and drop in iron ore and construction materials transportation
- RUB devaluation and lower gondola rates resulted in Rail Division's revenue and EBITDA decrease. Revenue in RUB increased by 6.5% YoY to RUB 1,658m
- EBITDA margin amounted to 18.4%,

### Operating and Financial Performance

	1Q2014	1Q2015	Y-o-Y change
<b>Rail container transportation (TEU)</b>	<b>70,219</b>	<b>76,182</b>	<b>8.5%</b>
Transgarant (TEU)	38,633	46,738	21.0%
Russkaya Troyka (TEU)	31,586	29,444	(6.8)%
<b>Rail cargo load (million tons)</b>	<b>4.9</b>	<b>4.7</b>	<b>(4.1)%</b>
Rail cargo turnover	7.59	9.56	25.9%
Revenue (in \$ million)	44.6	26.7	(40.1)%
<i>Revenue (in RUB million)</i>	1,557	1,658	6.5%
EBITDA (in \$ million)	13.3	4.9	(63.2)%
<i>EBITDA (in RUB million)</i>	465	302.8	(34.9)%
EBITDA Margin (%)	29.8%	18.4%	(11.4) pp

## Liner and Logistics Division: Key Operational and Financial Metrics

### Comments

- Intermodal freight transportation was up by 2.7% YoY to 57.5 thousand TEU
- Drop of import to Russia resulted in 10.2% YoY decrease of export-import sea container transportation volumes
- Domestic sea container transportation was up by 2.1% YoY to 13.1 thousand TEU
- The decrease of export-import volumes and negative dynamics of global freight rates resulted in the Division's revenue decrease
- EBITDA amounted to \$1m

### Operating and Financial Performance

	1Q2014	1Q2015	Y-o-Y change
Intermodal transportation (TEU)	55,995	57,525	2.7%
Export-Import transportation (TEU)	94,475	84,797	(10.2)%
Cabotage (TEU)	12,828	13,092	2.1%
Revenue (in \$ million)	137.3	97.3	(29.1)%
<i>Revenue (in RUB million)</i>	4,802	6,056	26.1%
EBITDA (in \$ million)	0	1.0	-
<i>EBITDA (in RUB million)</i>	1.0	64.2	6045%
EBITDA Margin, %	-	1.0%	1.0 pp

Source: Company information

## Shipping Division: Key Operational and Financial Metrics

### Comments

- Positive result from icebreaking fleet
- The new revenue stream from tanker operations for bunkering business
- Shipping Division's revenue was up by 41.9% YoY to \$28.1m
- Positive effect of fleet renewal on EBITDA.
- EBITDA margin reached 44.5%

### Operating and Financial Performance

	1Q2014	1Q2015	Y-o-Y change
No. of Vessels (EoP)	27	26	(3.7)%
Revenue (in \$ million)	19.8	28.1	41.9%
<i>Revenue (in RUB million)</i>	694	1,751	152.3%
EBITDA (in \$ million)	4.4	12.5	184.1%
<i>EBITDA (in RUB million)</i>	157.9	780.0	394.1%
EBITDA margin (%)	22.2%	44.5%	22.3 pp

Source: Company information

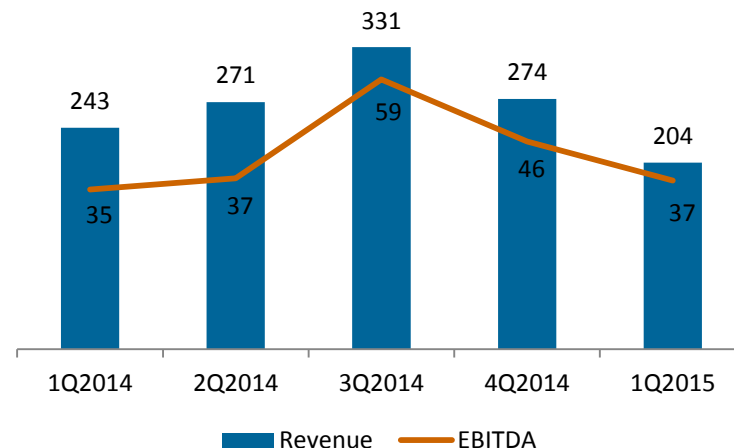
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## **1Q2015 Financial Results**

# Consolidated Quarterly Financial Results for the Group

- Group's financial results were affected by declining volumes and RUB depreciation, but cost-control measures and conversion of export-import tariffs in port from RUB to USD boosted the profitability
- In 1Q2015, Group's consolidated revenue decreased by 15.8% YoY to \$204.2m. Consolidated EBITDA increased by 5.4% to \$36.9m
- In RUB terms revenue in 1Q2015 was up by 49.5% YoY to RUB 12,683m, while EBITDA was up by 87.5% YoY to RUB 2,301m
- Revenue and EBITDA in RUB continue to grow steadily on quarterly basis

## Quarterly Revenue and EBITDA Development (\$m)



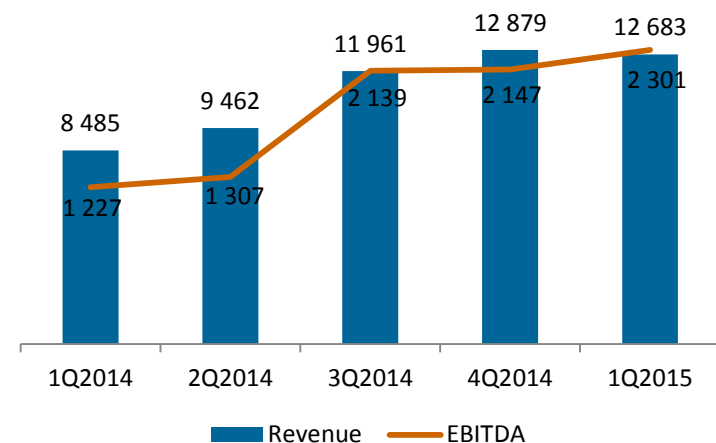
## Revenue and EBITDA Dynamics

\$m	1Q2014	1Q2015	Y-o-Y
Revenue	242.5	204.2	(15.8)%
EBITDA	35.0	36.9	5.4%
Margin, %	14.4%	18.1%	3.7 pp

RUBm <sup>1</sup>	1Q2014	1Q2015	Y-o-Y
Revenue	8,485	12,683	49.5%
EBITDA	1,227	2,301	87.5%
Margin, %	14.4%	18.1%	3.6 pp

## Quarterly Revenue and EBITDA Development (RUBm)<sup>1</sup>



Source: Company information

<sup>1</sup> Calculation is based on average quarterly \$/RUB exchange rate

## Divisional Quarterly Results

### Revenue per Division in \$m

(\$m)	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Port Division	44.4	45.5	50.6	44.6	31.9
Rail Division	44.6	40.4	40.7	39.2	26.7
Liner and Logistics Division	137.3	167.5	172.2	146.0	97.3
Shipping Division	19.8	13.5	24.6	23.5	28.1
Bunkering	29.4	41.5	84.1	63.4	51.9
Corporate	0.0	0.0	0.0	0.0	0.0
<b>Revenue</b>	<b>242.5</b>	<b>270.7</b>	<b>331.0</b>	<b>274.2</b>	<b>204.2</b>

### EBITDA per Division in \$m

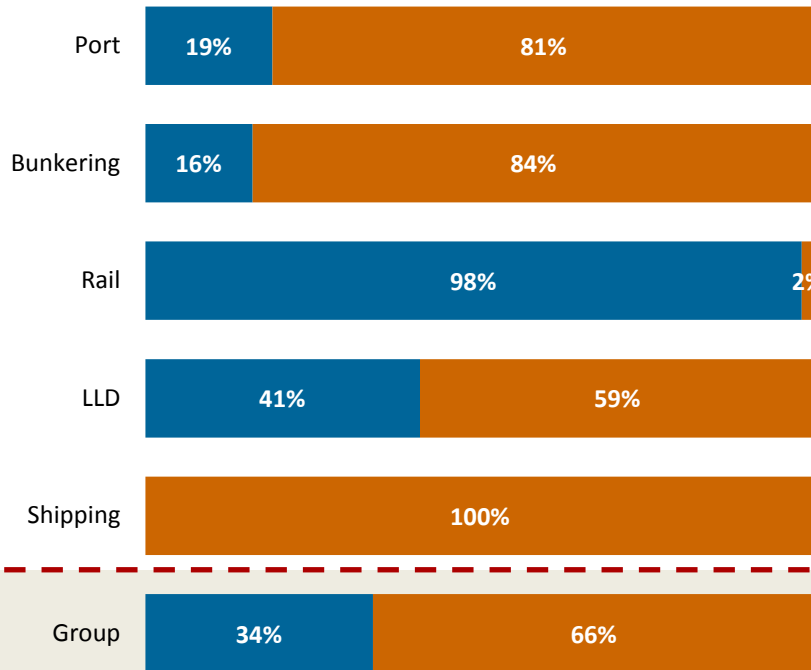
(\$m)	1Q2014	2Q2014	3Q2014	4Q2014	1Q2015
Port Division	20.0	20.6	27.1	25.6	18.6
Rail Division	13.3	11.2	12.1	8.8	4.9
Liner and Logistics Division	0.0	9.4	17.5	12.9	1.0
Shipping Division	4.4	(1.5)	5.1	4.9	12.5
Bunkering	3.8	2.4	3.3	0.5	4.6
Corporate	(6.6)	(4.7)	(6.0)	(7.2)	(4.6)
<b>EBITDA</b>	<b>35.0</b>	<b>37.4</b>	<b>59.1</b>	<b>45.5</b>	<b>36.9</b>

Source: Company info



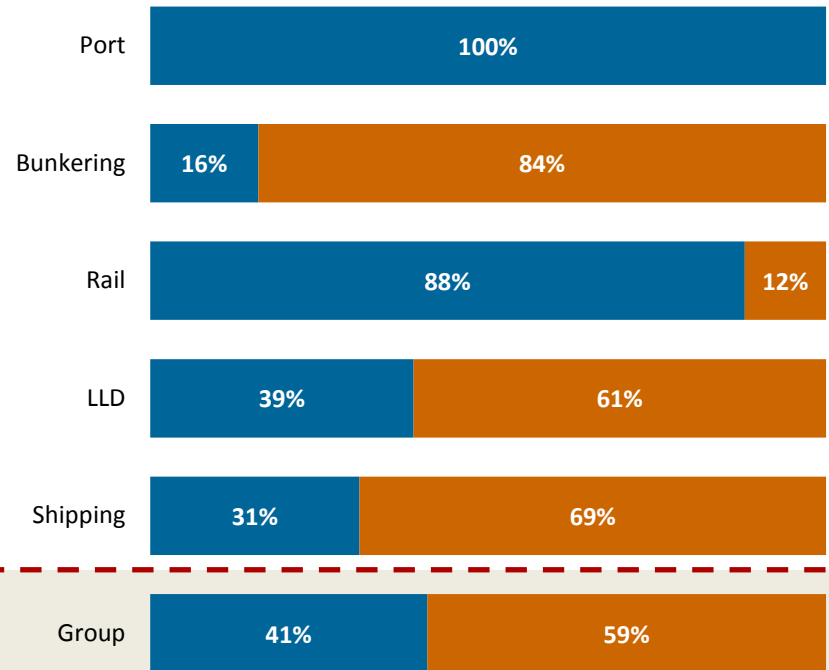
# Managing FX Risk

## Revenue, 1Q 2015



■ RUB

## Operating Costs, 1Q2015



■ USD

- Share of USD-nominated revenue in Port Division increased up to 81%
- On the Group's level share of USD-nominated revenue increased up to 66%

# Cost Optimization Program

	Port Division	Liner and Logistics Division	Rail Division	Shipping Division	Corporate
Key initiatives	<ul style="list-style-type: none"> <li>Focus on operational efficiency improvement with labor productivity growth, overheads reduction</li> <li>Improving productivity of equipment, reduction of maintenance budget</li> <li>Decrease in unit operating costs</li> <li>Decrease in administrative expenses (optimization of staff and salary fund)</li> </ul>	<ul style="list-style-type: none"> <li>Optimization of fleet usage and reduction in unit liner transportation costs</li> <li>Focus on improving operational efficiency, reduction of maintenance costs</li> <li>Reduction of administrative expenses (rent, IT, business trips etc.)</li> <li>Restructuring of refrigerator container transportation business to improve overall profitability</li> <li>Headcount reduction</li> </ul>	<ul style="list-style-type: none"> <li>Operational efficiency improvements to reduce maintenance expenses and overheads</li> <li>Fleet optimization and reduction in leasing costs</li> <li>Reduction of SG&amp;A costs, including headcount reduction</li> </ul>	<ul style="list-style-type: none"> <li>Further cost benefits from FX and newer fleet with lower maintenance costs and higher fuel efficiency</li> <li>Prudent cost management focusing on further optimization of maintenance costs and overheads</li> <li>Headcount reduction</li> </ul>	<ul style="list-style-type: none"> <li>Optimization of expenses for business trips, marketing, education</li> <li>Headcount reduction</li> </ul>

The optimization initiatives will provide cost-cutting effect of approximately \$40 mln on the Group level in 2015

# CAPEX

## Comments

About five times decrease in CAPEX spending in 1Q2015 due to cutback of the expansion CAPEX:

Key CAPEX components in 1Q2015:

- Repairs and modernisation in Shipping, Rail and Port Divisions
- Acquisition of wheel sets in Rail Division

## Capital Expenditures

(\$m)	1Q2014	1Q2015
Shipping Division	(4.6)	(0.4)
Liner & Logistic Division	(0.0)	(0.0)
Rail Division	(6.2)	(2.1)
Port Division	(8.4)	(0.8)
Corporate Division / other	(0.0)	(0.3)
<b>Gross CAPEX</b>	<b>(19.2)</b>	<b>(3.8)</b>

# Leverage Overview

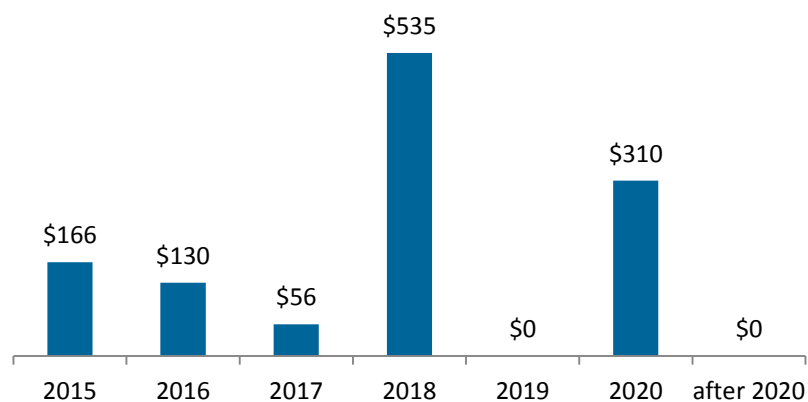
## Summary Overview

- \$875m of the acquisition financing and part of pre-existing loans refinanced by Senior Secured Notes due 2018 and 2020
- RUB 5bn bond due 2016 issued to refinance the remaining OpCo facility and pre-existing loans
- Majority of debt to be repaid after 2016
- No maintenance covenants

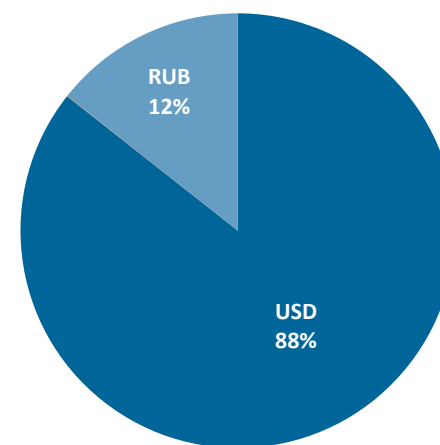
## Consolidated Group Financial Position

(\$m)	31-Mar-2015
Senior Secured Notes	843.6
Ruble Bonds	84.7
Bilateral Loan Facilities	159.7
Finance Lease	33.7
<b>Pro-forma gross debt<sup>1</sup></b>	<b>1,121.7</b>
Cash	(225.0)
<b>Pro-forma net debt</b>	<b>896.7</b>
LTM Adj. EBITDA <sup>2</sup>	179
Pro-forma net Debt/LTM Adj. EBITDA	5.0x

## Debt Maturity Profile as of 31.03.2015 (before buyback), \$m



## Total Debt Structure as of 31.03.2015 by Currency<sup>1</sup>



Source: Company information

Note: <sup>1</sup> Excluding non-recourse REPO Loan secured by 24.1% interest in TransContainer stake

<sup>2</sup> Adjusted EBITDA represents EBITDA less non-recurring consulting and marketing expenses

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## **Buyback Transaction Overview**

## Summary Overview of Buyback

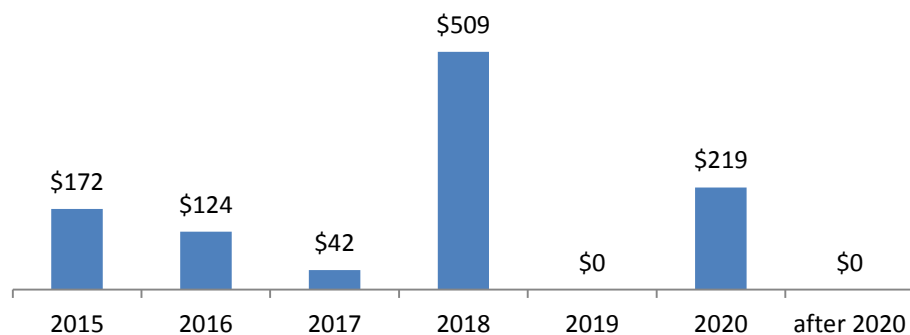
- On March 31, 2015 FESCO in order to optimize its liabilities profile commenced a cash tender offer targeting its \$550m 2018 Notes and \$325m 2020 Notes
- Upon completion of the tender offer on 11 May 2015 the aggregate principal amount of the 2018 Notes and 2020 Notes validly tendered and accepted for purchase pursuant to the offer was \$128.9 at 51% of par value and \$91.2m at 50% of par value, respectively (\$220.0 in aggregate principal amount of both issues of Notes)
- In addition FESCO commenced a Public tender offer for up to RUB 4bn in Ruble bonds series 5O-02 at fixed price of 80%. On April 17, 2015 the principal amount of the RUB bond validly tendered and accepted for purchase was RUB 2.9bn at a fixed price of 80% of par value
- Both bonds buy backs were funded by the Company with combination of its own and borrowed funds, including the placement of Ruble bonds series 5O-01 in amount of RUB 5bn and a repo loan from an international bank in amount of \$44m secured by Senior Secured Notes purchased by the Company
- Notes that FESCO has not tendered and accepted for purchase under the offer will remain outstanding and the terms and conditions of those notes will remain in effect

Sources	\$m	Uses (cash spending)	\$m
RUB bonds 5O-01	97	2018 Notes	66
Repo loan	44	2020 Notes	45
Shareholder loan	10	RUB bonds 5O-02 <sup>1</sup>	49
Own funds	9		
<b>Total Sources</b>	<b>160</b>	<b>Total Uses</b>	<b>160</b>

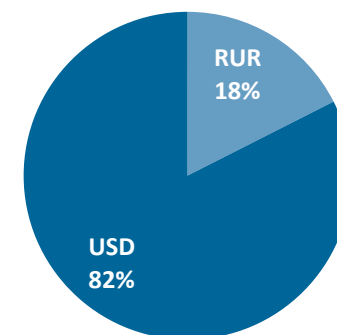
## Sources & Uses / Pro Forma Capital Structure

\$m	31-March-15	x EBITDA	Pro Forma	x EBITDA
(Cash)	(225)	(1.3)x	(216)	(1.2)x
2018 Notes	544		415	
2020 Notes	310		219	
RUB bonds 50-02 <sup>1</sup>	86		34.3	
Bonds transaction expenses	(11)		(9)	
RUB bonds 50-01	-		85.5	
Finance lease obligations	33.7		33.7	
Working capital and trade financing	34.7		34.7	
Repo loan secured by Senior Secured Notes Purchased	-		44	
Loan from shareholder	-		10	
Other bilateral loans	125		125	
<b>Total Net Debt<sup>2</sup></b>	<b>896.7</b>	<b>5.0x</b>	<b>776.2</b>	<b>4.3x</b>

Pro-Forma Debt Maturity Profile as of 31.03.2015 (with buyback), \$m

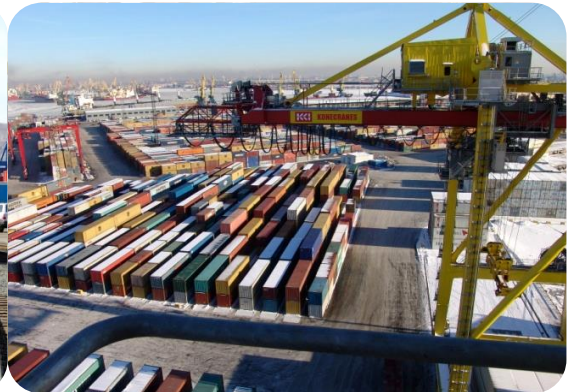


Debt structure by currency (with buyback)<sup>2</sup>



Note: <sup>1</sup> RUB/USD Exchange rate 58.4643 as of 31.03.2015

<sup>2</sup> Excluding Repo loan secured by 24.1% stake in TransContainer shares as of 31.03.2015



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