

# STRATEGY

## KEY FACTORS UNDERPINNING OUR STRATEGY FROM 2022 TO 2027

### MACRO ENVIRONMENT

#### GLOBAL ECONOMY

- Sharp slowdown in global economic growth to 1.7% in 2023.
- Average global GDP growth rate at 2.7% until 2027.
- Decline in global trade due to high inflation and a shift in demand from goods back to services at their pre-pandemic levels.
- In the long term, the economies of Asia and Africa will grow faster than those of Europe and Americas.
- New leaders in terms of economic growth are projected to emerge in Asia: India and Southeast Asia.
- Increased level of uncertainty in global markets due to geopolitical tensions in Ukraine.

**1.4 BLN PEOPLE**

India's population in 2022, surpassing China

**-1.3 PP**

downward revision of global economy growth for 2023

**5.3%**

growth forecast for China's economy in 2023 due to the easing of quarantine restrictions

#### RUSSIAN ECONOMY

- Russia's GDP is expected to decline by 2.6% in 2023 as a result of reduced external demand (due to sanctions on Russian exports and a global economic slowdown).
- Looking ahead to 2027, GDP is expected to grow slowly in a range of 1.5% to 2.5%.
- Russia's economic growth will be driven predominantly by consumer demand and substitution of imported goods and components.
- The decline in the physical volume of Russian exports will slow down in 2023 and begin to recover from 2024.
- Strengthening of integration between Russia and China.
- Increasing cooperation with the BRICS countries.

**44%**

share of China in Russia's imports in 2022

**>50%**

China's share in Russia's container handling in Q4 2022

There are different forecasts for the Russian economy:

- Ministry of Economic Development of the Russian Federation: **-0.8%** in 2023, **+2.6%** in 2024;
- World Bank: **-3.3%** in 2023, **+1.6%** in 2024

#### LONG-TERM TRENDS IN CONTAINER LOGISTICS

- Russian companies will be ramping up assets across the intermodal chain.
- High pressure on the logistics infrastructure on the eastern side.
- Higher logistics costs associated with the opening of new logistics routes.
- Increased spread of e-commerce logistics.
- Implementation of proprietary IT solutions to achieve deeper integration with customers.
- Enhanced role of electronic platforms and logistics marketplaces.

#### Sustainable development

- Customers and agents expect more in terms of compliance with sustainability commitments.
- Environmental requirements are closely monitored to create services that best respond to them.
- Change is initiated to ensure compliance with sustainability principles across the supply chain.

#### GLOBAL CONTAINER MARKET

- The global container market is highly correlated with the world's GDP and will grow at an average annual rate of 2.3%.
- Pressure on supply chains has decreased but will still exceed pre-pandemic levels in 2023.
- A surplus of vessels and containers is expected amid weak global economy.
- Global freight and time-charter rates will settle down slightly above pre-pandemic levels.
- Implementation of the ESG strategy worldwide will put additional pressure on regional carriers that do not have sufficient resources to switch to greener container vessels.

#### RUSSIAN CONTAINER MARKET

- After a decline in the Russian container market in 2022, a slow recovery is expected until 2027 at an average annual rate of 5%.
- The tendency towards building supply chains based on their own assets will be actively supported by Russian operators.
- Extra pressure on the infrastructure in the east of Russia.
- Container transit is not expected to recover to 2021 levels in the span of the next three years.
- The reinstatement of logistics routes via the ports of the Northwestern Federal District can be expected in the medium term until 2025.
- Basic indexation of rates for freight rail transport and infrastructure services is estimated at 8% in 2023, 7.1% in 2024 and 4.6% in 2025.

**-16%**

decline in the Russian container market in 2022

**14%**

share of transit in Russia's container market in 2022



## DEFINING OUR TARGET MARKET

Eurasia is FESCO's target growth market.

Factors that make Eurasia a potential market for the Company:

- economic growth in China, India, and Southeast Asia;
- Russia's stronger focus on Asian markets;
- FESCO's strong brand in Eurasia;

- development of the Trans-Arctic Transport Corridor;
- development of Russia's trade with Central Asia (Uzbekistan and Kazakhstan) and the Middle East (Egypt and Turkey).

## MISSION, VISION AND VALUES

Goal: we want to be the best container logistics provider for our customers in Eurasia.

Over the recent years, we have remained steadfast in our vision and focused on the customer and their needs.

## KEY PRINCIPLES

### PROCESSES

To encourage better cross-functional working across the Company, we make a continuous effort to improve our business processes through the redesign of our production systems and adoption of lean manufacturing.

Quality service indicators are integrated into our incentive policy. Our streamlined system enables us to create digital solutions and increase the quality of our services to meet the growing market demand.

To improve its processes, the Company runs the following projects as a strategic initiative:

- Service Excellence, a project to improve customer experience;
- FESCO's online services to submit transportation requests and have access to information on a 24/7 basis.

### ASSETS AND A RELIABLE SUPPLIER NETWORK

Our assets provide a solid foundation to meet our customers' logistics needs. FESCO works consistently to:

- optimise the rolling stock fleet;
- upgrade and optimise the vessel fleet;
- increase the fitting platform fleet to keep its railway container transportation market share and become less sensitive to container transportation market volatility, as well as maintain meaningful presence in that market segment;
- develop its own handling capacity;
- expand its terminal network across all Russian regions.

## SOLUTIONS

Expanding our service offering is key to our strategy. We seek to provide integrated added-value services, which enable customers to outsource logistics functions.

These services include:

- multimodal transportation;
- customs clearance;
- warehouse operations, responsible storage and cross-docking;
- LCL deliveries.

We promote project logistics, which enables the Company to capitalise on its extensive experience in project cargo transportation and build long-term business relations with EPC contractors and direct customers.

We offer comprehensive logistics solutions to the timber, mining, and agricultural sectors.

## PEOPLE

As we develop digital solutions, grow our assets, and create new logistics products, our people remain at the heart of our business. We strive to provide our employees with all the tools and support they need to achieve their full potential.

Attracting and retaining talent remains our core focus.

## KEY STRATEGIC AREAS OF DEVELOPMENT

### TERMINAL NETWORK DEVELOPMENT ACROSS OUR REGIONS OF OPERATION

FESCO is building a backbone network of container terminals and logistics parks to strengthen its presence in Russia and the CIS, improve customer experience, and offer high-margin products.

The key areas of geographic expansion are the Far East, Siberia, the Urals, Moscow, and north-western regions.

### DEVELOPMENT OF PORT VLADIVOSTOK AND FESCO GAYDAMAK TERMINAL, FESCO'S STEVEDORING ASSETS

In the development of these assets, FESCO relies on expectations that Russia will enhance its focus on the Asian market.

Our projection of a stronger trend for a demand shift from European to Asian products has paid off. Ports in the Russian Far East and land border crossings with Russia will remain the main entry points for Asian goods.

In addition to container imports and transit flows, exports are also set to go up until 2027 as new production facilities are commissioned across Russia with a focus on the Asian market.

Given Port Vladivostok's plans to retain its leadership standing in the market of Russia and the Russian Far East, the port of Vladivostok needs to add new capacity.

Under its development programme until 2027, Port Vladivostok plans to:

- remain the leader by container handling among stevedoring companies of Russia and the Russian Far East;
- maintain its 42%+ market share in the Far East;
- keep its capacity utilisation levels at 80–90%;
- engage in a set of measures to expand its capacities to 1.1 million TEU by 2027.

FESCO Gaydamak Terminal development programme envisages the creation of modern grain handling facilities using elevators with a capacity of over 400 thousand tonnes per year that will be unique for the Russian Far East.

## MARITIME SEGMENT DEVELOPMENT

The main strategic objectives of FESCO's maritime segment are:

- maintaining leadership in domestic and international services in the Russian Far East;
- 30% increase in shipping services by 2025 compared to 2022;
- raising the share of new geographies and businesses to 32% of FESCO's total shipping services;
- improving fleet efficiency and driving average vessel age below 15 years.

## GEOGRAPHIC EXPANSION

With robust quality of logistics solutions in key areas of business, FESCO is well-positioned to expand its geography by scaling up its expertise and competencies to new regions.

### TURKEY

The volume of trade between Turkey and Russia in 2022 reached a record USD 60 billion, almost double the volume of 2021.

Container market is expected to reach 400 thousand TEU by 2027

### SOUTHEAST ASIA

The trade between Russia and Vietnam has almost doubled in the past five years. Realignment of logistics routes between Southeast Asia and Russia and the resulting increase in traffic through the Russian Far East increases FESCO's expansion potential in Southeast Asian markets

### INDIA

The volume of trade between Russia and India has more than tripled in two years to around 150 thousand TEU, with an annual growth rate of 12% since 2016

### CIS (UZBEKISTAN AND KAZAKHSTAN)

In 2022, Russia became Uzbekistan's main trade partner accounting for USD 8.2 billion (up 40% YoY)

## GROWTH IN THE SHARE OF SALES IN THE SEGMENT OF ADDED-VALUE SERVICES

Development of SCM<sup>1</sup> services and project logistics.

## SOLIDIFYING OUR MARKET POSITION

In addition to organic growth opportunities, FESCO remains open for any potential strategic partnerships with market leaders, M&A deals, and synergies.

Expansion tools:

- creating a product range in countries focused on Russia;
- working through agents/representatives;
- setting up corporate offices and engaging in partnerships with local operators;
- putting in place assets (Company-owned vessels and terminals).

## RISKS

The implementation of FESCO's long-term plans and targets involves various risks, some of which are beyond the Company's

control. If materialised, the risks can result in actual events that differ significantly from the expectations set out above.

### Macroeconomy

- Economic downturn caused, for example, by geopolitical events or a pandemic
- Protectionist government policies
- Lower market volumes and prices

### Compliance

- Regulations related to taxation, customs, VAT, data privacy
- Anti-monopoly laws
- Sanctions policy

### M&A and integration failures

- Integration failures
- Incomplete realisation of synergies
- High costs
- Lack of savings

### Infrastructural constraints

- Limitations of the Russian Railways' network
- Delayed timing of railway debottlenecking

### IT system and technologies

- Development of proprietary information systems to meet market needs
- Creation of marketplaces

### Commercial tools

- Maintaining a sales culture
- Maintaining a high quality of service

### Employee retention and engagement

- Dependence on highly qualified management teams and staff with technical and operational expertise at all organisational levels

<sup>1</sup> Supply chain management.