

## 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

### M&A and integration failures

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

### IT system and technologies

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

### Infrastructural constraints

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

### 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

### Compliance

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



## Market overview

In 2023, global economy experienced recovery coupled with a series of macroeconomic shocks caused by shifts in value chains and relevant responses from

national governments. Another distinctive feature was a continued rise in the cost of living.

## Russian economy

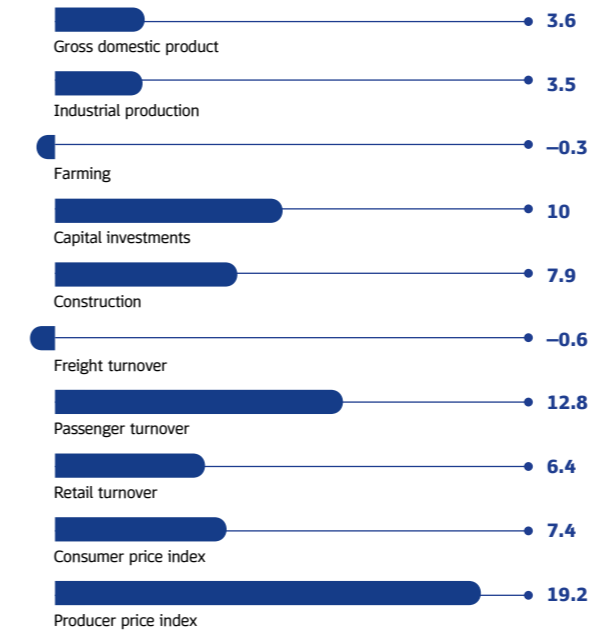
Russian economy grew by 3.6%, with final consumption of households as the key contributor and the consumer price index rising by 7.4% YoY.

A slight decline in total freight turnover is due to lower figures in pipeline and air transportation partially offset by a 22% increase in road freight turnover. The producer price index showed the highest volatility, with companies forced to pile up stocks due to changes in international logistics and to continue building new market ties. Throughout the year, the trade balance was positive, with exports exceeding imports.

Changes in surplus indicate that trade is adapting and logistics and payment routes are stabilising.

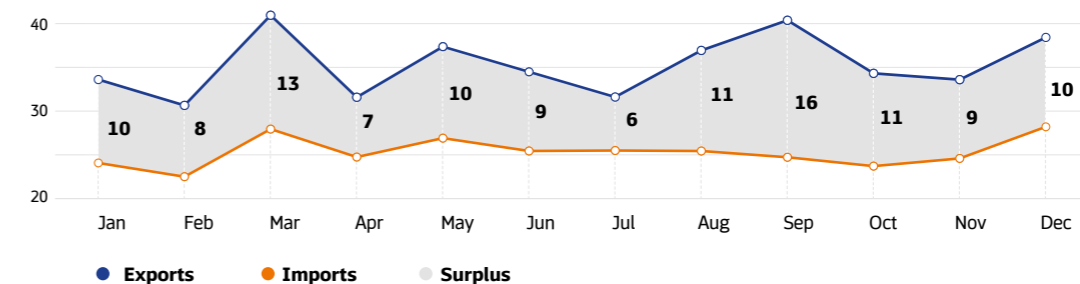
Total merchandise trade in Russia was USD 710.1 billion, down USD 137.6 billion YoY. Export geography changed, as the share of Europe shrank by 68% to USD 85 billion and businesses partially refocused on Asia. China remained Russia's key trading partner in Asia accounting for 42% of exports and 59% of imports. In 2023, trade with China soared to a record USD 240 billion, with its share in Russia's merchandise trade going up to 34% as a result of successful redistribution of commodity flows.

### Russia's key macroeconomic indicators in 2022–2023, %



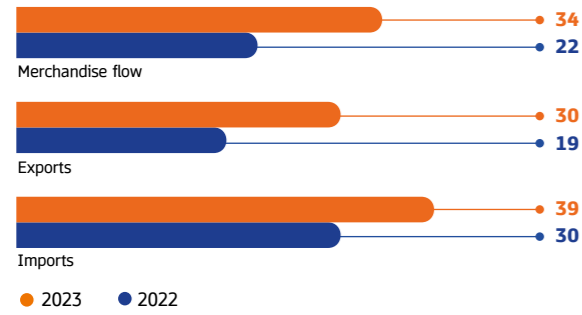
◊ Source: Eurasian Economic Commission

### Russia's international trade by month of 2023, USD bln



◊ Source: Central Bank of the Russian Federation

### China in Russia's merchandise flows in 2022–2023, %

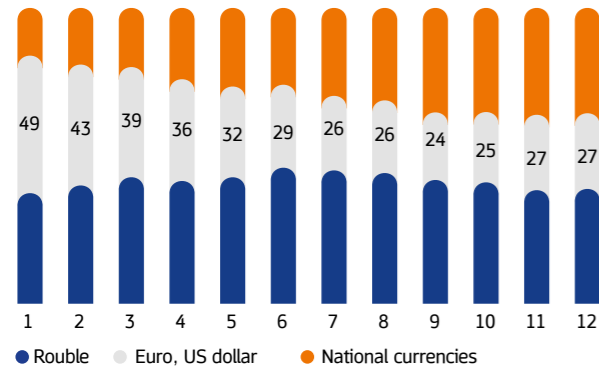


Source: Federal Tax Service of Russia, General Administration of Customs of the People's Republic of China

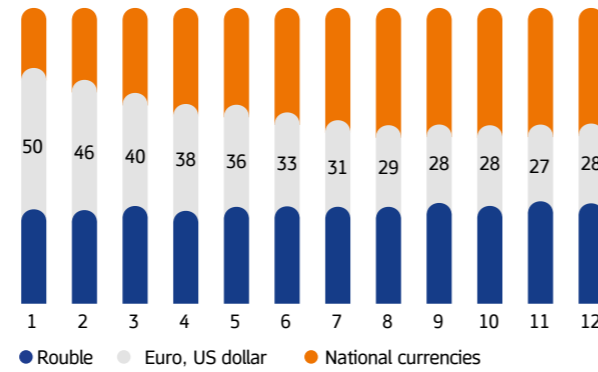
A key driver impacting Russian trade was rebuilding of the payment system. In 2023, the share of payments in rouble and other national currencies increased by more than 25% to 75–80% of total international trade, which proves the successful adaptation of trade and payment routes to a new environment.

### Russia's international trade settlements by month of 2023, %

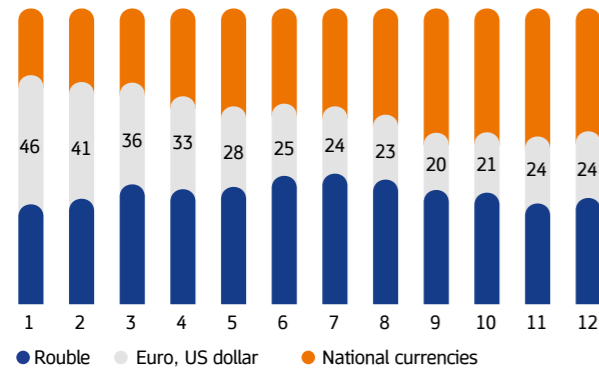
#### Exports total



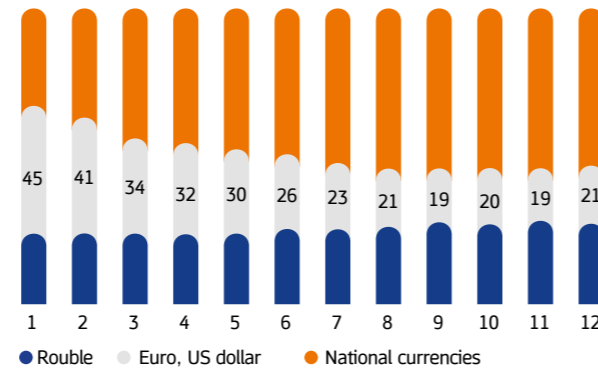
#### Imports total



#### Exports Asia



#### Imports Asia



Source: Company data

The key driving force behind changes is the Asian market, including China, India, Turkey and Iran, which accounts for over 37% and 40% of export and import payments in national currencies, respectively.

Russian industrial production is growing fast, as evidenced by the composite PMI which demonstrated a significant improvement compared to 2022. Russia is among the few countries retaining this figure above 50 points, falling behind only Saudi Arabia and the United Arab Emirates as at the end of 2023. The index peaked at 56.8 in March 2023 driven by indirect effects of sanctions, in particular increasing import substitution accelerated by the complete exit of foreign businesses from the Russian market, localisation of car parts manufacturing and assembly, and a growing number of investment projects across the country, including infrastructure construction. Russia is going through active reshaping of industries, which supports positive expectations for the near future.

### JP Morgan Russia Composite PMI



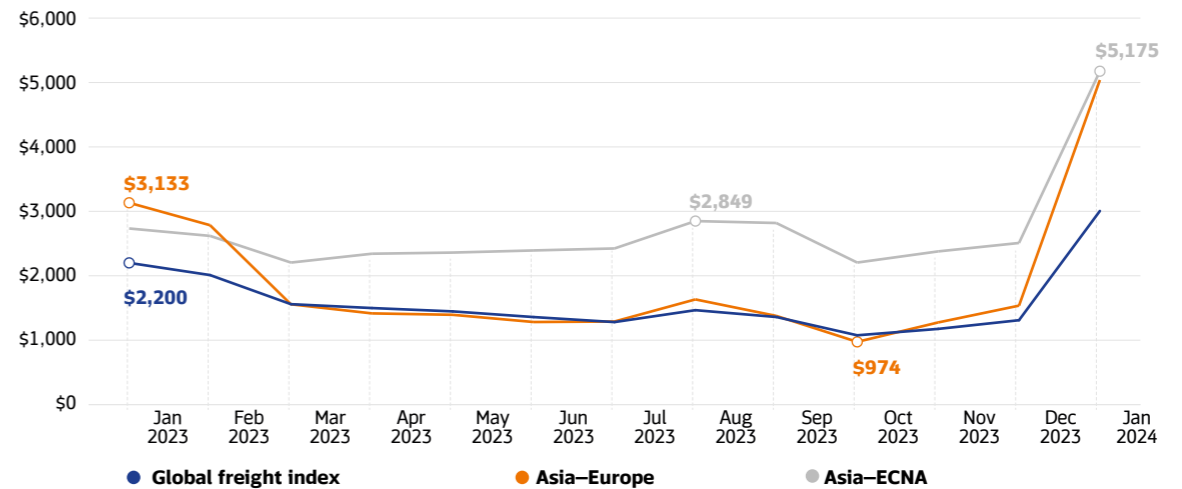
Source: PMI TM by IHS Markit

## Global container logistics

In 2023, global logistics continued to evolve amid changes in the economic landscape and emergence of new trade ties. Such factors as the Panama Canal drought, geopolitical risks in the Middle East, and advancement of the global ESG agenda had a material impact on container transportation. The reporting

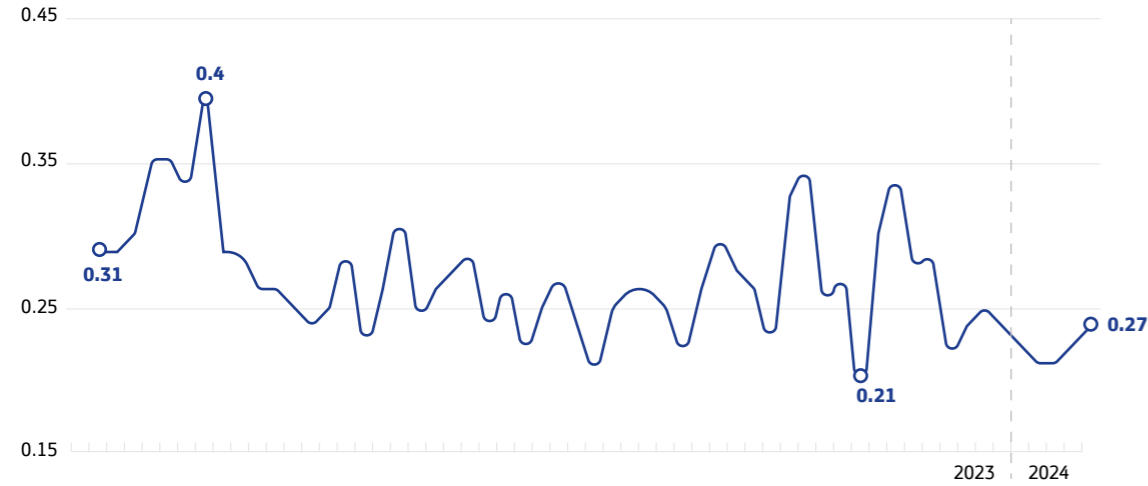
year saw a continued decline in international freight rates, which had peaked in 2021–2022. The rates were under pressure from the growing offer of global transportation capacities amid weaker demand for container transportation across the world.

### Freight rate for a 40-foot container shipped from China to North Europe and the west coast of North America, USD



Source: Freightos

### Container availability index (CAx) for 40-foot containers in Shanghai

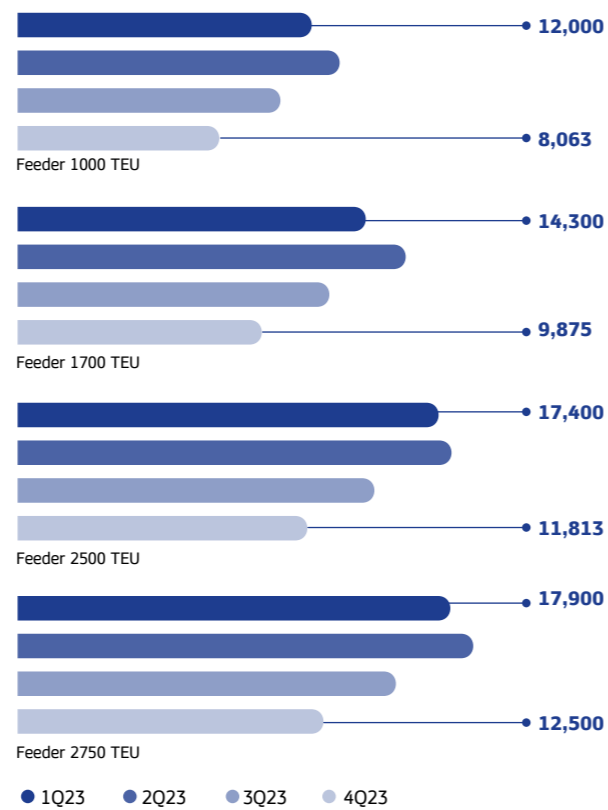


Source: Container Xchange

The Suez Canal crisis and the ensuing rerouting of vessels around Africa caused a rise in freight rates for transportation between Asia and North European ports and imbalance in container availability.

The container shipping industry saw record-high orders for new vessels in 2021 and 2022, with most of them to be commissioned in 2023–2024. The new vessels are set to boost container transportation capacities and supply. The diversion of vessels around Africa increased transit time and ensured balanced deployment of transportation capacities on the existing routes. While freight transit from China to Rotterdam took 10–14 days longer, a trend towards lower time-charter rates persisted, with an ongoing decline seen for main vessels types.

### Time-charter rates, USD



Source: Braemar



## Russian container market

In 2023, the Russian container market grew across the board compared to the previous year. The growth is primarily due to the low base of 2022, when international trade suffered a severe blow from sanctions, and the manufacturing sector did not manage to fully recover from multiple lasting lockdowns.

Logistics flows also benefitted from new market trends, such as:

- buyout of assets from foreign companies exiting Russia and their upgrade
- localisation of car parts manufacturing and assembly in Russia
- growing import substitution to ensure social security
- a larger number of investment projects
- parallel imports
- refocusing on the domestic market

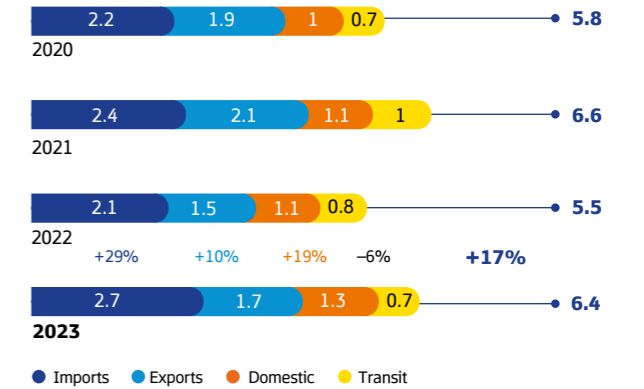
The above factors reshaped the market and container flows. That said, in 2023 the Russian container market expanded by 17% YoY to 6.4 million TEU, which is below the 2021 result of 6.6 million TEU.

The market grew in all domains, except for container transportation, which shrank to 702 thousand TEU. The decline was due to political restrictions forcing the EU to look for alternative routes bypassing Russia. Going forward, the Red Sea crisis and higher freight rates may cause transit flows to be redirected to Russia. In 2023, imports showed the biggest growth as a result of strengthening ties with friendly countries, redirecting trade to these countries, and developing parallel imports. An expansion of exports by 1.7 million TEU came on the back of recovery and adaptation of Russian industries to the current environment. Domestic transportation volumes reached 1.3 million TEU, which is directly linked to the localised manufacturing of certain goods and active construction of industrial facilities in the country.

**6.4** <sup>+17% YoY</sup> mln TEU

Russia's container market in 2023

### Russian container market by type of transportation, mln TEU



Source: Russian Railways data, Morcenter-TFC, Company calculations

#### Imports

Imports were the main driver of Russia's container market, which grew by 29% or 617 thousand TEU YoY. The growth was due to recovery in China (land shipments up 60% YoY) and a 40% YoY increase in imports via Novorossiysk thanks to expanding trade with Turkey, India and Egypt. Imports via Far Eastern and Baltic ports went up 20% and 9% YoY respectively.

#### Exports

In 2023, container exports added 10% or 155 thousand TEU YoY, with the biggest growth seen in land shipments to China (up 27% YoY) due to economic recovery, lifting of lockdowns, and pivot towards the East. Exports via Far Eastern ports went up 7% YoY, consistently beating exports via St Petersburg ports (down 5% YoY).

#### Domestic shipments

Domestic shipments expanded by 19% YoY on the back of an increase in railway transportation driven by the localised manufacturing of certain goods.



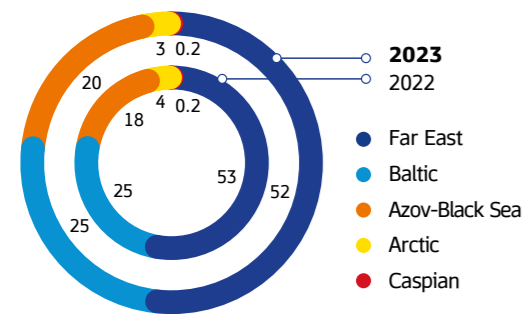
### Transit

In 2023, container transit shrank by 6% or 143 thousand TEU YoY mainly in the Asia–Europe direction due to the desire of some countries to switch to alternative transit routes (trans-Asian route, deep sea) bypassing Russia. Transit from the Russian Far East to Belarus grew by a significant 131 thousand TEU per year.

### Container handling

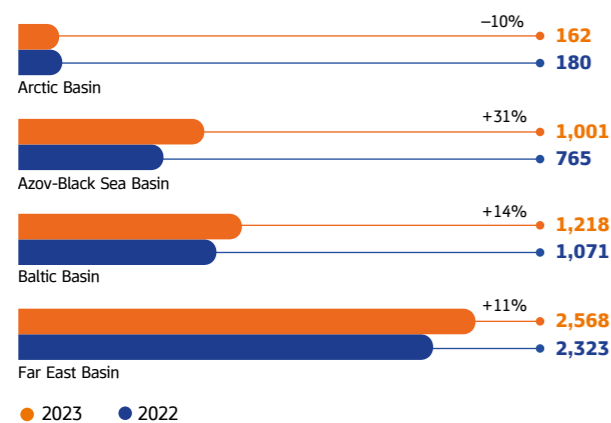
In the reporting year, container handling in Russian ports did not change dramatically across the basins. Handling in the Azov-Black Sea Basin rose to 1 million TEU thanks to sizeable growth of imports, while the Far East Basin saw a YoY increase in handling volumes of 11% despite a shrinking share. In the Arctic Basin, handling declined by 10% YoY.

#### Basins' shares in total container handling, %



Source: Morcenter-TFC

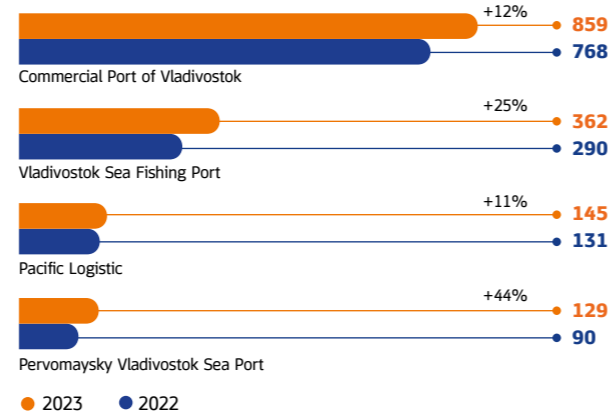
#### Loaded container handling in Russian ports in 2022–2023 by basin, k TEU



Source: Morcenter-TFC

The reporting year also saw growth across all basins, except for the Arctic Basin. The biggest contributor was the Azov-Black Sea Basin.

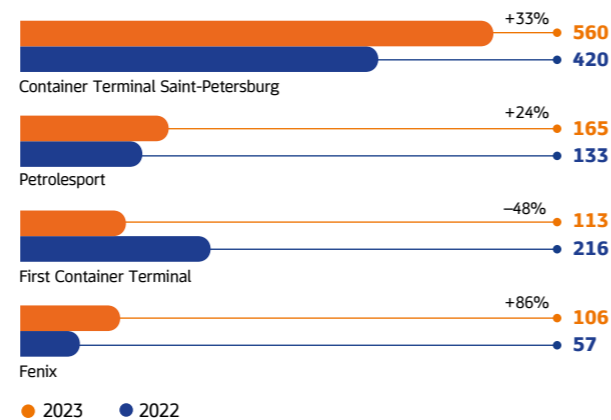
#### Container handling in major container terminals of the port of Vladivostok in 2022–2023, k TEU



Source: Morcenter-TFC

In 2023, container handling at VMTP increased by 12% YoY, with Vladivostok Sea Fishing Port showing the largest increase for the year (cargo turnover up 25% YoY). Pacific Logistic showed an 11% growth YoY, increasing cargo turnover to 145 thousand TEU.

#### Container handling in major container terminals of the Port of St Petersburg in 2022–2023, k TEU



Source: Morcenter-TFC

Among the terminals of St Petersburg port, only First Container Terminal recorded a decline in container handling (down 48% YoY). Container Terminal Saint-Petersburg showed the biggest growth, increasing its loaded container handling to 560 thousand TEU.

# Operational overview

## Maritime container transportation

FESCO provides domestic, export, import, and transit container transportation services and is the leader in shipping containers from Southeast Asian countries to Russia via the Far East. We also offer integrated services to transport dangerous, oversized, LCL, and general cargo along with special equipment. The Group operates 19 international and domestic sea routes, with its transportation geography spanning over 110 ports globally.

In 2023, we did the following in the international transportation segment:

- expanded the geography of the FCXP maritime service (Far East) connecting the ports of China and Russia, adding vessel calls to Lianyungang, Nansha, Dalian, and Shantou
- actively developed the FVDL service (launched in 2022) from Vietnam's main ports (Haiphong, Ho Chi Minh) to Russia, with over 28 thousand TEU transported (up 2.4x vs 2022). On top of that, we increased shipping frequency to Vietnam from once a month to once a week and set up a logistics hub at the port of Ho Chi Minh to consolidate and ship containerised cargo from Southeast Asia (Thailand, Malaysia, etc.) to Russia using the FVDL
- thanks to the expanded agent network we launched regular maritime container transportation from Bangladesh and Myanmar to Vladivostok with transshipment in the ports of China and Vietnam
- provided our own fleet and expanded our regular FBOL deep-sea service connecting the ports of China, India and Russia (St Petersburg)
- launched two services in the Black Sea to connect Novorossiysk with Egypt (FESCO Egypt Direct Line) and India (FESCO Indian Line)

In 2023, we did the following in the domestic transportation segment:

- replaced vessels with higher-capacity ones which, together with robust commercial activities, served to increase YoY transportation volumes by 24% to 105 thousand TEU
- ensured a seamless delivery of cargo required by the Far Eastern regions of Russia with a short navigation period as part of shipments to the northern territories of Russia. In 2023, FESCO vessels made five trips in severe ice conditions to deliver over 1.5 thousand TEU of consumer goods, construction materials, and other essentials to Chukotka
- launched FSKL, a regular maritime cargo transportation line between St Petersburg and Kaliningrad, with 16.3 thousand TEU transported in 2023. Key types of cargo include consumer goods, construction materials, and household appliances

These measures helped the Company to:

- ramp up international shipping by 23% YoY to 419 thousand TEU
- increase domestic maritime transportation by 24% YoY to 105 thousand TEU

>110 ports

our transportation geography globally

#### Key operating results of maritime container shipments, k TEU

Indicator	2020	2021	2022	2023	YoY change, % 2023/2022
International routes, k TEU	295	288	342	419	23
Domestic routes, k TEU	80	81	84	105	24

Source: Company data