

# FESCO: Strategy and New Investment Possibilities



**New York, March 2007**





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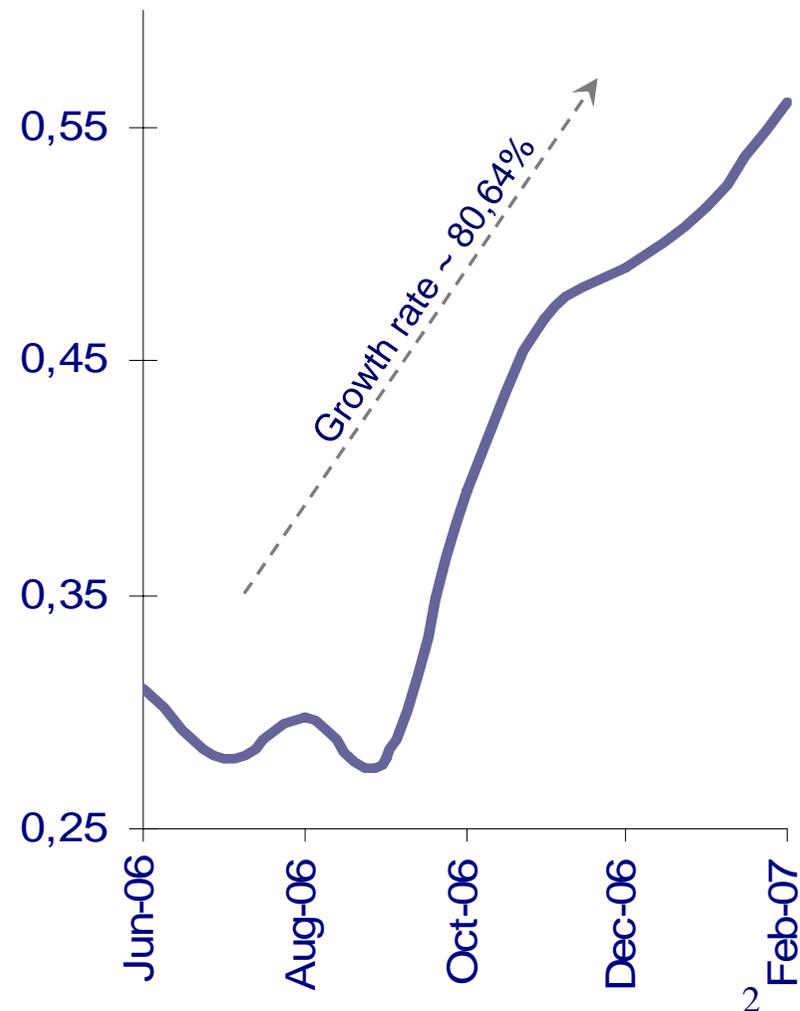
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# FESCO Group Overview



- Largest Russian inter-modal transportation group which provides container and dry-bulk shipping, stevedoring and railway services, shipping linear services spring from the ports of the Russia's Far East
- Founded in 1880, reorganized as a joint stock company in 1992
- *Controlling stake (61%) consolidated by IIG group in 2002*
- Listed on RTS since 1995
- Total assets of over US \$1,460 m.
- Market capitalization exceeding US\$ 1000 m.

Share price performance (\$)



# Corporate Governance

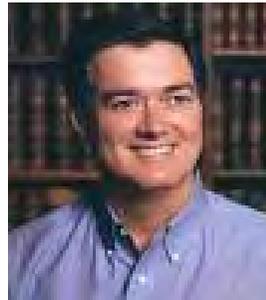


## ***INTRODUCING BEST GOVERNANCE & TRANSPARENCY PRACTICES***

**New Board (2007 Board elections):** New Independent candidates to the Board with deep industry experience:



**Ralf Jahnske –**  
CEO of TransCare



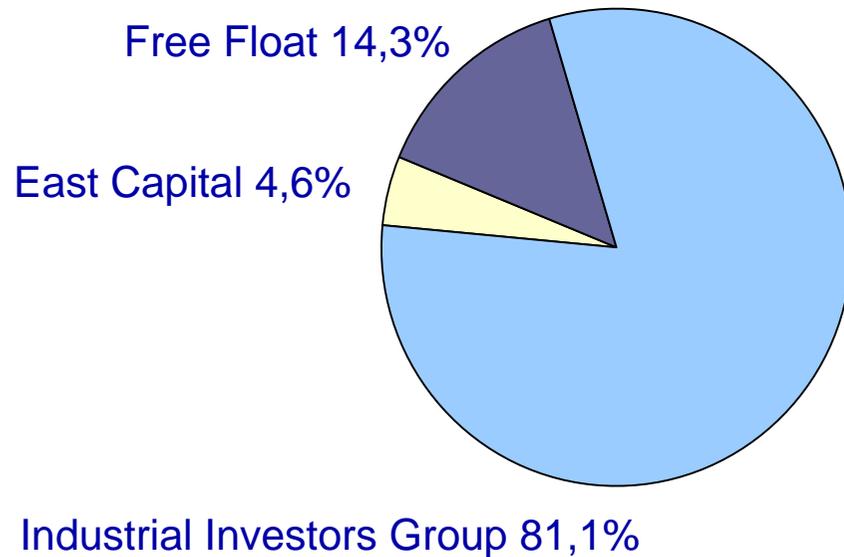
**Bill Owens –**  
former Governor of Colorado

- ✓ Shares transferred from Vladivostok to Moscow: for better security of ownership title and more convenience for shareholders
- ✓ New Charter, Board and General Meeting regulation approved, complying with best corporate governance practices, listing and regulatory requirements
- ✓ Creation of a dedicated Internal Audit, Control and Financial Risk Management department, chaired by the senior executive, appointed by shareholders
- ✓ Dedicated IR section on the Corporate Web Site – bi-lingual, up-to-date and meaningful information for shareholders

# Shareholding Structure

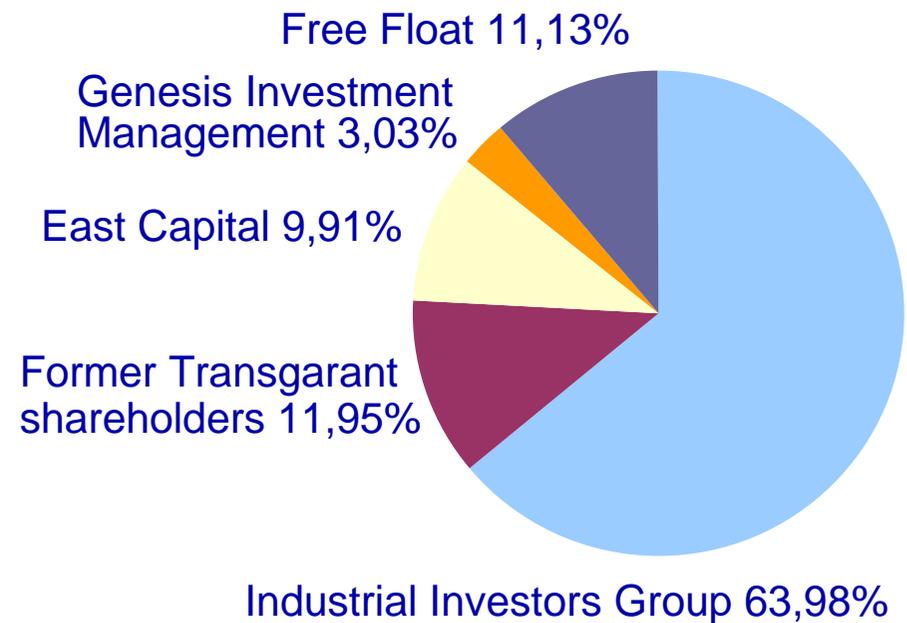


### Shareholders structure before March 10, 2007



Source: FESCO data

### Shareholders structure after March 10, 2007



Source: FESCO data



## IIG: Majority Shareholder



- ✓ Industrial Investors Group (IIG) is the Russian leading independent investment company, focused on leveraged buyouts, structured equity finance, venture and growth capital investments as well as privatizations in Russia and CIS countries;
- ✓ Since 1999, IIG has been actively investing in Russian economy, focusing on sectors and industries with great consolidation opportunities and strong growth potential;
- ✓ Target sectors include logistics, transportation, consumer goods, mining, hi-tech industries and healthcare;
- ✓ IIG has been also actively engaged in developing venture projects based on sound business models and substantial development prospective.



# FESCO “Door-To-Door” Strategy



## The Company operates in four segments:

- ✓ Shipping – fleet of 64 vessels including 24 container vessels, 12 bulkers and 13 timber carriers
- ✓ Largest national network of sea and inland container terminals, stevedoring companies (40% of domestic market) + a number of new acquisitions in progress
- ✓ Railroad transportation and logistics – more than 15,000 own railcars of different types
- ✓ Multi-modal services – network of forwarding companies



# FESCO in Transport & Logistics



Unique combination of companies offering a full spectrum of transportation services nationwide and internationally

## Shipping

Far Eastern Shipping Co.  
(FESCO)



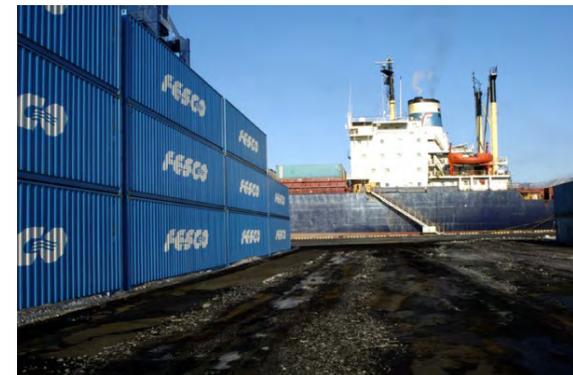
## Rail Operations

Russian Troika  
Transgarant

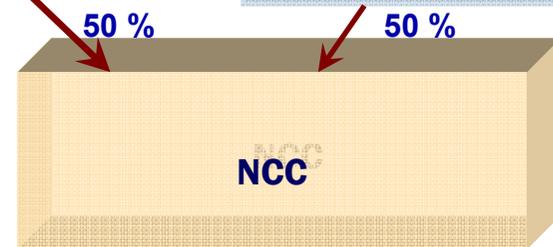
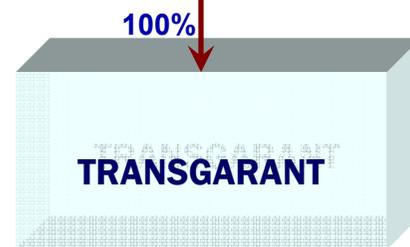
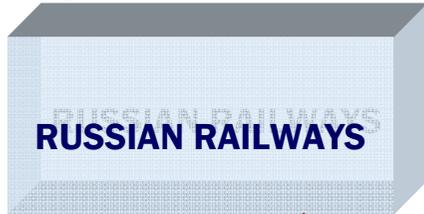


## Port Operations

NCC



# FESCO Group Structure



# Russian Troyka



- ✓ 50/50 joint venture between FESCO and the Russian Railways launched in 2004 and currently operating a fleet of 1000 modern 80-ft fitting platforms
- ✓ In 2007 more than 200 new rail cars are scheduled for delivery
- ✓ Regular service between port Vostochny and Moscow started in 2005.
- ✓ Scheduled trains to Taganrog (Hyundai Car Plant) and Izhevsk (KIA Car Plant)
- ✓ **Overall strategy: entering the Asia-Europe transit container market and establishing a seamless link via the Trans-Siberian Railway into Europe**



# Transgarant



- ✓ 4-th largest Russian private railway operator with over 13,000 pieces of diversified rolling stock, including over 70% in full ownership (planning to acquire over 1000 new stock in 2007)
- ✓ Strategy of “Boutique Rail Services”: unique and custom-built railcars for clients with high-margin cargo
- ✓ Large corporate clients, long term contracts with major national commodity producers and exporters
- ✓ Rapidly increasing revenues and operational margins (positive changes in railway tariff policies)
- ✓ Wide geography of operations, access to CIS cargo base (Ukraine, Moldova, Kazakhstan)
- ✓ Strong team of professionals, excellent selling force across the country



# National Container Company



- ✓ Largest national container operator with strategic presence in Baltic and Black sea
- ✓ 80% of clients are international line operators such as: MAERSK, MSC, CMA CGM, OOCL, ZIM, Teamlines, Unifeeder, etc
- ✓ First Container Terminal (FCT) is the largest and most professional container terminal in Russia, handling over 40% of the total volume of all Russian terminals
- ✓ Baltic Container Terminal (BCT) - the most ambitious Russian container infrastructure project, addressing growing container flows and increasing congestion in St.Petersburg port
- ✓ Novorossiysk container terminal (NUTEP) – the most modern (2004) container outlet in Russia and the principal gateway in south of Russia
- ✓ Largest container terminal operator in Ukraine: in 2006 Iliechevsk terminal (UTK) processed 324,036 TEU. The forecast for 2007 is 412.900 TEU with 1.000.000 TEU having been reached by 2010.



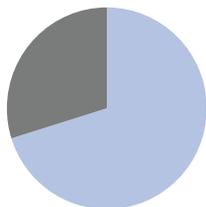
# Russian Transportation Market



## Growth in Russian cargo systems

1998 – 200m tonnes

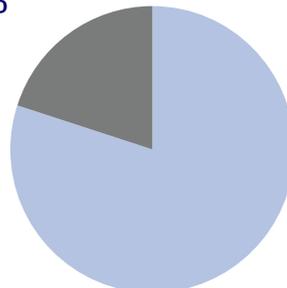
Baltics  
30%



Russia  
70%

2006 – 420m tonnes

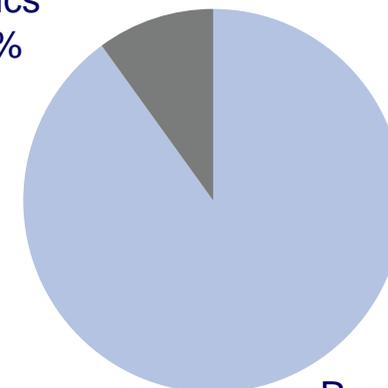
Baltics  
20%



Russia  
80%

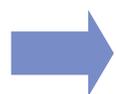
2010E – 600m tonnes

Baltics  
10%



Russia  
90%

Source: Russian Ministry of Transport; SeaNews; Expert



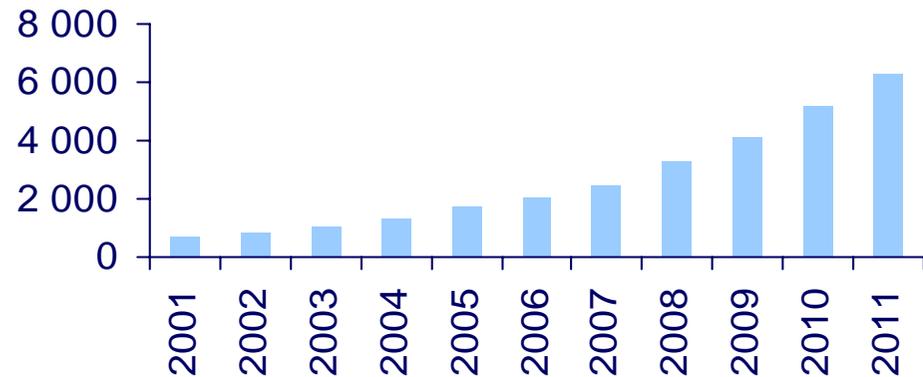
**Volumes of shipments will raise by 50% by 2010, as the share of Russian ports is constantly going up...**

Source: Federal State Statistics Service

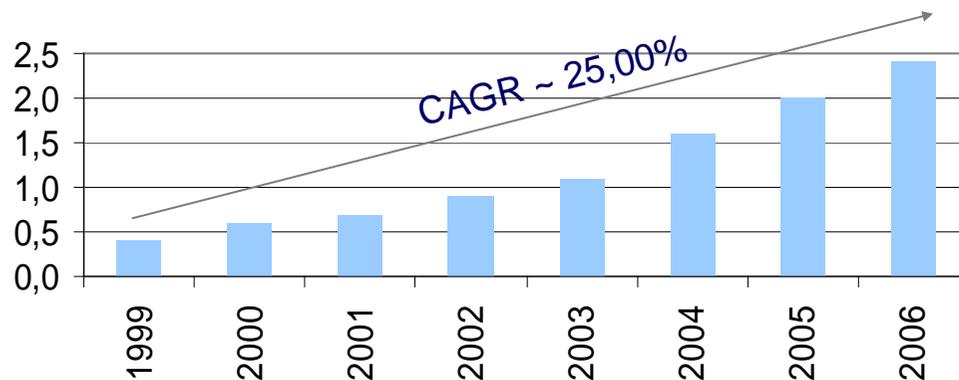
# Container Market Trends



Volume – Russian container terminals (TEU'000s)



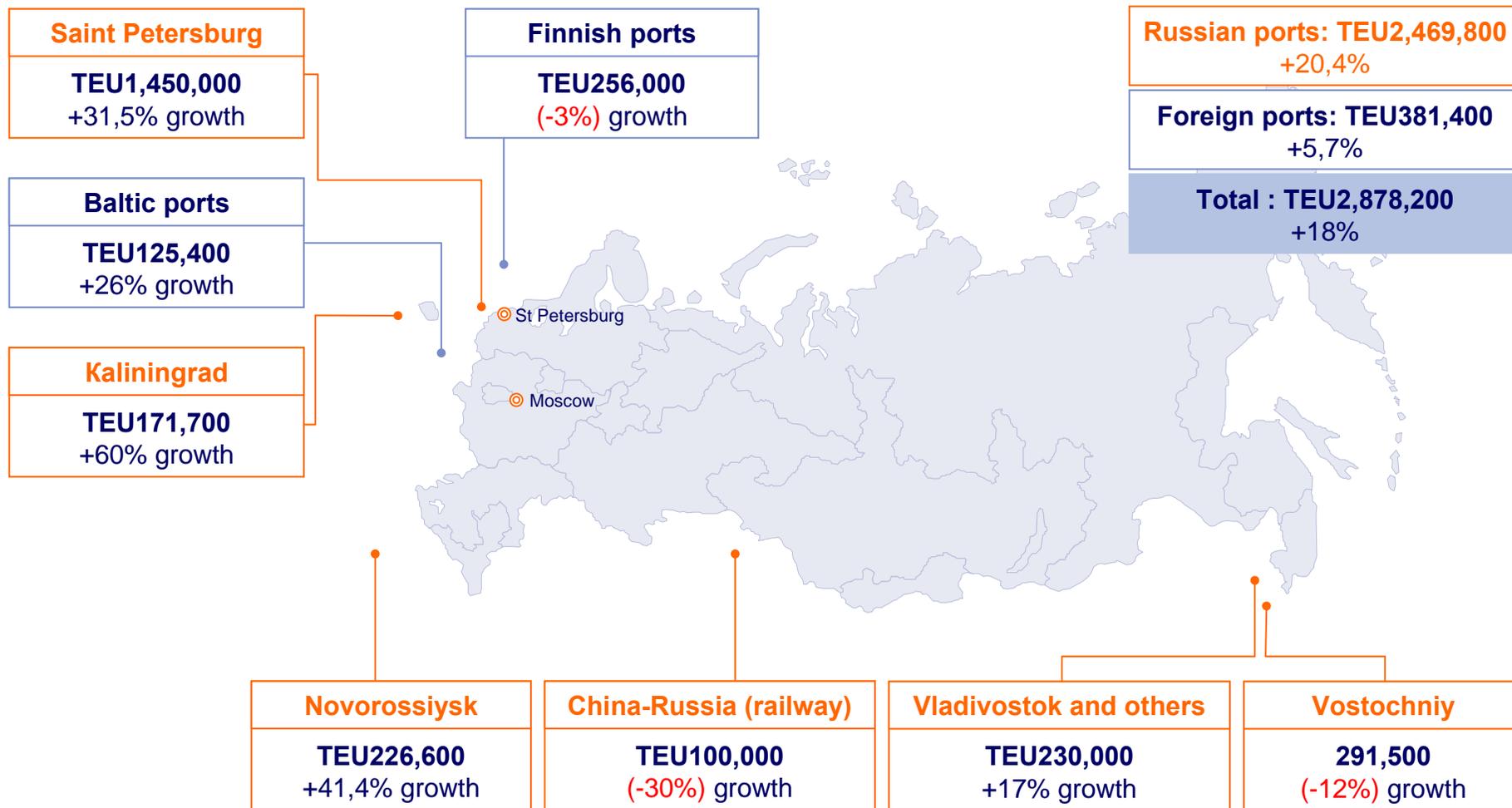
Russian container volumes (TEUm)



Source: Russian Ministry of Transport; SeaNews; Expert

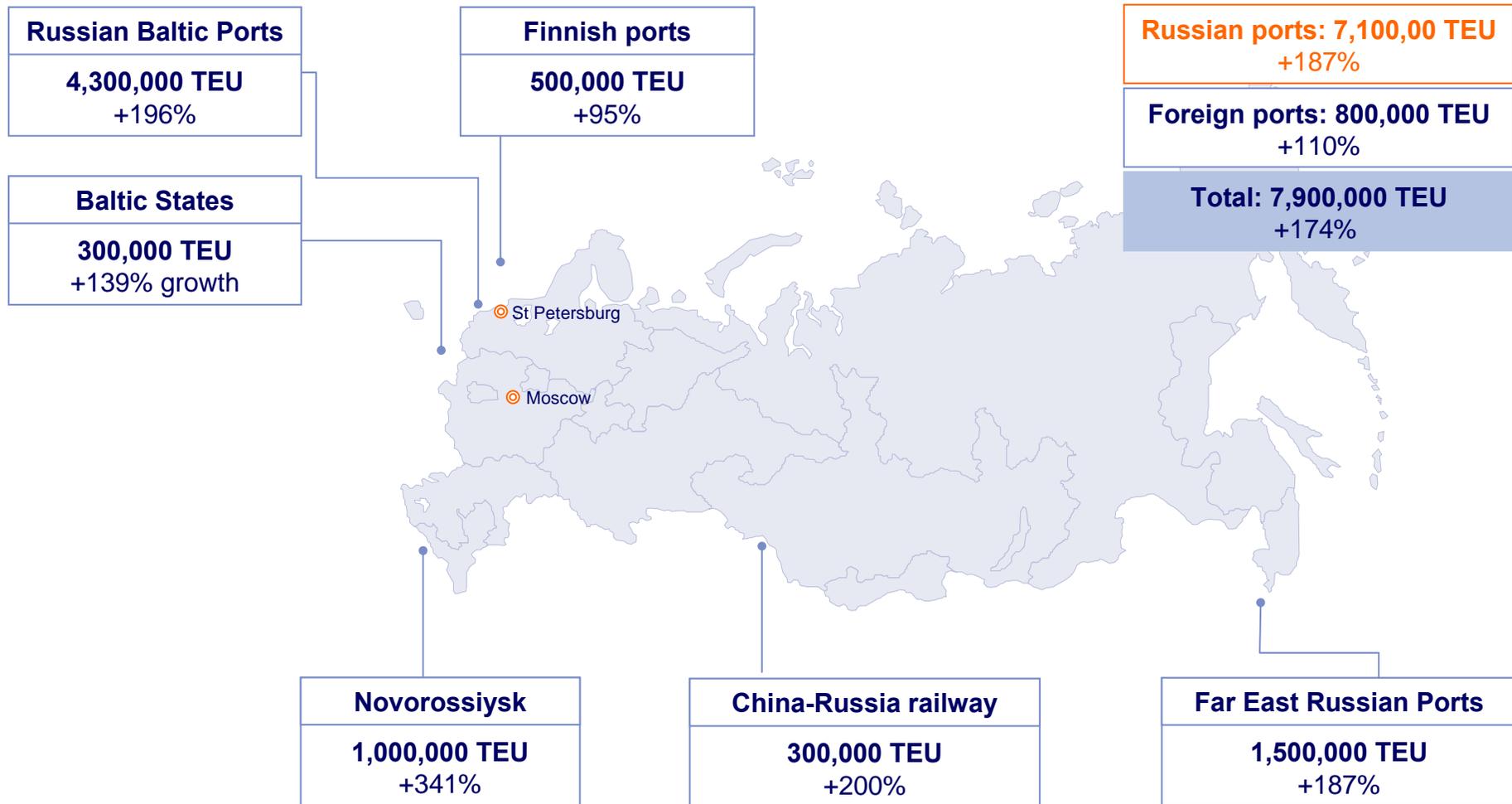
- Demand for containerized cargo transportation fuels demand for:
  - container shipping
  - railway container transportation
  - forwarding
  - container depots and freight station services
  - stevedoring operations
  - warehousing and logistics services
  - trucking and distribution
- The domestic container market is currently very small and underdeveloped
- Poor and obsolete infrastructure, mostly in the regions
- Lack of intermodal cooperation
- Low standards of service

# Container Turnover in Terminals (2006)



**The negative growth rates are due to the cargo flows having been re-directed to the North-Western Ports of Russia (St.Petersburg, Kaliningrad)**

# Container Turnover in Terminals (2012)\*



Source: TransCare forecast

\* forecast

# FESCO: Focus on Leadership



- **Target: to create Russia's leading integrated intermodal transportation company providing total one-stop-shop logistics solutions by combining unrivalled experience and access to**
  - Russian maritime container shipping
  - Russian sea port terminals and stevedoring services
  - Russian railways, and
  - Overland capacities
- **Leading position in the Russian import, export and transit of container and bulk traffic transport market segments would benefit from growth in**
  - Russian trade flows
  - Containerisation of cargo exports
  - Interest in the opportunity of a land-bridge alternative for Far Eastern cargo traffic into Europe
- **Creating value for our shareholders by moving away from traditional, low-margin and asset intensive maritime transport into value added intermodal transport services with integrated "one-stop-shop" transport solutions offerings**

# FESCO Intermodal Strategy

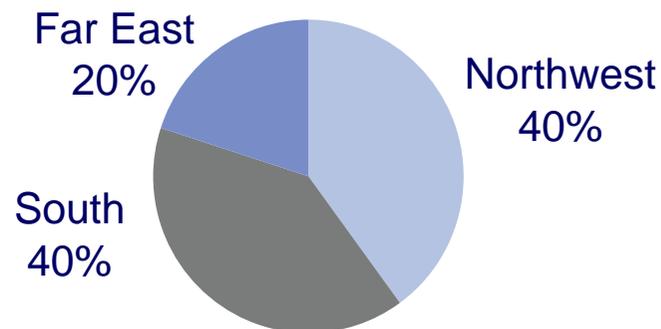


## Intermodal expansion



Single operator

## Breakdown of Russian cargo turnover by destination



Source: Russian Ministry of Transport

- Use FESCO core strengths to expand from shipping into railways, ports, forwarding and logistics
- Increase focus on cargo base in Russia and neighbouring countries
- Fleet renewal program: 9 container vessels in a pipeline until 2010
- Geographical diversification from our traditional base in the Russian Far East to the dynamic Baltic and Black Sea markets

# Strategy for Value Creation



**National player**

**Integrated  
transportation  
provider**

**Size makes a  
difference**

**Transformation from a collection of  
separate transportation assets  
into an integrated nationwide inter-modal  
transportation services provider**

## **RESULTS**

**in multiple benefits leading to increased  
shareholder value**

# Transformation into Integrated Services Provider



**National player**

**Integrated transportation provider**

**Size makes a difference**

- ✓ **Focusing on the Russian cargo base the company will have a significant, if not dominant, presence in all major Russian maritime gateways**
- ✓ **Such a presence will provide ample opportunities for the widest range of services to various types of customers**
- ✓ **Create a platform for the integration of other transportation assets, including international expansion**

# Transformation into Integrated Services Provider



**National player**

**Integrated transportation provider**

**Size makes a difference**

- ✓ **Combining shipping, stevedoring and railway assets together would save costs, reduce bottlenecks and enable us to maintain a seamless transportation chain;**
- ✓ **Existing transportation assets (ships, rail, ports) will be augmented by a comprehensive international and Russia-wide agency network providing unrivalled access for cargo owners;**
- ✓ **Consolidation of other, fragmented transportation sectors (trucking, forwarding, warehousing) is also possible.**

# Transformation into Integrated Services Provider



**National player**

**Integrated  
transportation  
provider**

**Size makes a difference**

- ✓ **Reduced volatility throughout market fluctuations in various transportation sectors (shipping, ports, etc.) resulting in the ability to acquire other players during market downturns**
- ✓ **Expanded and more professional business development/acquisition team**
- ✓ **Transfer of operational experience and best practices across similar operations**
- ✓ **Wider and cheaper financing options available for a larger company**

# Integrated Company: Glimpse into 2010



**CONTAINER**  
operations

**BULK**  
operations

**RAILWAY**  
operations

**LOGISTICS**  
activities

- ✓ Feeder lines and container terminals in the Baltics, Far East and the Black Sea
- ✓ 2 million TEU capacity terminals in FCT and BCT
- ✓ Major container operator in the Baltic States. Largest container terminals in South of Russia and Ukraine
- ✓ Establishment/acquisition of container terminal in Vostochny/Vladivostok

# Integrated Company: Glimpse into 2010



- ✓ Specialized bulk supply chain companies in metals, fertilizers, coal sector and chemicals
- ✓ Routing cargo mostly through own railcars, port terminals and bulk vessels
- ✓ Own bulk terminals

# Integrated Company: Glimpse into 2010



**CONTAINER  
operations**

**BULK  
operations**

**RAILWAY  
operations**

**LOGISTICS  
activities**

- ✓ **Integrated forwarding offering the widest range of transportation services**
- ✓ **Own trucking company serving most profitable cargo routes**
- ✓ **Addition of warehousing and local distribution services**

# Integrated Company: Glimpse into 2010



**CONTAINER  
operations**

**BULK  
operations**

**RAILWAY  
operations**

**LOGISTICS  
activities**

- ✓ **Largest private fleet of container platforms**
- ✓ **Largest private railway bulk and chemicals operator with the most modern fleet**
- ✓ **Network of container trains throughout Russia**
- ✓ **7-10 intermodal container terminals with integrated warehousing and customs facilities**



# **THANK YOU!**

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