

Control and audit

Internal controls

An integral part of corporate governance, our risk management and internal control system embraces all operations, key business processes and governance levels. Its key objective is to provide reasonable assurance in the Company's ability to achieve its strategic and day-to-day goals amid uncertainty and unfavourable conditions.

Risk management and internal controls are continuous integrated processes performed by governing bodies and employees as part of their duties.

To provide governing bodies with complete and accurate information on the Company's operations, FESCO established the Internal Audit Department.

The Department is responsible for the regular and independent assessment of how effective and reliable the Company's risk management and internal controls are as well as their improvements. The Internal Audit Department also works to enhance the effectiveness and efficiency of corporate governance practices and business processes and reduce costs, oversees safe and sustainable use of assets, and ensures compliance with corporate governance principles.

The Department is governed by the FESCO Internal Audit Policy.

External audit

The Annual General Shareholders Meeting appointed Kept as the Company's external auditor for 2023. The external auditor is responsible for auditing the Company's financial and operating performance as prescribed by the applicable laws of the Russian Federation and pursuant to the contract signed between the Company and the auditor. According to clause 4, article 5 of Federal Law No. 307-FZ On Audit Activities dated 30 December 2008, no open tender is required to select the issuer's external auditor.

The issuer shall select the external auditor through a tender procedure (Russian laws on procurement do not apply to said tender procedures). The Company shall select its external auditor by collecting and comparing bids submitted by the auditors. The proposed nominee for the external auditor role shall be approved by the General Shareholders Meeting.

Risk management

Risk management system

The risk management system (RMS) is a set of risk management components (culture, competences, methodology, practices, resources), methods, and processes integrated into the Group companies' strategic planning and operational management and designed to achieve its goals. The RMS relies on international and national risk management standards.

Today's companies require dynamic and flexible risk management to promptly respond to external and internal changes. The Company identifies and monitors risks on an ongoing basis, assessing the effectiveness of its risk management measures and using, among other things, the Company's emerging opportunities for business development and value growth.

We keep improving our risk management system to timely respond to changes, maintain strong performance, and increase efficiency amid risks and uncertainty.

In 2023, RMS was developing in line with the approved plan to 2023. The following measures were adopted as part of the plan:

- establishment of the Risk Management Department, a unit responsible for the Group's risk management
- identification and initial assessment of FESCO's strategic risks
- regular monitoring of key sanctions risks, including the development of plans for their management
- creation of a list of risk indicators (quantitative or qualitative indicators reflecting the current risk level at varying time horizons)
- regular updates about key FESCO risks and their changes submitted to the Company's management

Risk management at FESCO



Risk mitigation initiatives

Board of Directors

- Defines principles of and approaches to the RMS
- Approves by-laws setting out the risk management policy
- Considers matters related to the organisation, functioning, and efficiency of the RMS
- Assesses RMS efficiency

Risk Management Department

- Coordinates risk management processes
- Develops methodological documents
- Organises employee training
- Analyses the risk portfolio and develops proposals on action plans and reallocation of resources in relation to the management of relevant risks
- Prepares consolidated risk reporting
- Monitors the risk management process
- Secures the risk management process and informs the governing bodies about its effectiveness

Internal Audit Department

- Carries out internal audits of the effectiveness of risk management initiatives and assesses the effectiveness of the RMS
- Provides information on risks identified during internal audits, their assessment, and risk management initiatives

Audit Committee

- Exercises control over the reliability and efficiency of the RMS
- Analyses and assesses the implementation of the risk management policy
- Executes preliminary consideration and preparation of recommendations to the Board of Directors on matters relating to the RMS

Executive Board / President

- Ensures efficient risk management for the Group

Risk Committee

- Decides on the approach and costs of key risk management
- Decides on roles and responsibilities for key risk management
- Monitors the status of key risks and the adequacy of measures to manage them

Risk owners

- Identify individual risks
- Assess individual risks
- Draft initiatives to manage individual risks in accordance with the selected risk management approach
- Implement initiatives to manage individual risks

All Group employees

- Take part in the risk management process within their remit

RMS functioning principles



Corporate map of material risks

As part of the RMS, a list of key risks and risk owners were identified, risks were assessed, and risk management initiatives were developed and implemented.

Comprehensive risk management efforts made it possible to largely offset negative factors affecting the Group's goals.

Detailed description	Assessment of impact / probability	Comment	Risk management
Commercial risks			
Commercial risks are risks of losses arising from external (demand, competition, market changes, etc.) and internal (quality and price of services provided, etc.) volatility	High/medium	In 2023, the impact of risk materialisation was assessed as insignificant. The risk remains in 2024	The Group mitigates commercial risks through a balanced pricing policy. The management of commercial risks is based on long-term partnerships with counterparties designed to increase the Company's financial stability in the hostile economic environment. Another tool is optimisation of internal business processes and shipment structure in order to respond efficiently to market changes
Geopolitical risks			
Geopolitical risks stem from the US, EU and other countries building up their sanctions pressure, including potential sanctions against FESCO, its customers and the industries where they operate, as well as FESCO's customers and suppliers exiting the market	High/medium	In 2023, the impact of risk materialisation was assessed as insignificant. In 2024, the risk probability is expected to increase	FESCO operates in strict compliance with the Russian and international laws and constantly keeps track of all regulatory changes affecting its operations. The Company regularly monitors the sanctions pressure, analyses the possibility of new sanctions, and promptly adjusts its activities, where necessary
Operational risks			
Given the Group's significant transport assets (railcars, containers, vessels, terminals), the management of operational risks is one of the key priorities due to their sheer number	Medium/medium	In 2023, the impact of risk materialisation was assessed as insignificant. The risk remains in 2024	As part of its risk mitigation initiatives, FESCO repairs and upgrades its assets, invests in new equipment, refines its control over the quality of asset management and protection
Financial risks			
The most material financial risk for FESCO is liquidity risk	High/low	The risk did not materialise in 2023. In 2024, the risk consequences are expected to increase	The cash flow budget, including short- and medium-term planning tools, is the key instrument for managing liquidity risks

Objectives for 2024 and the medium term

Among the priority areas of RMS progress and improvement are the following tasks stipulated in the FESCO's plan to develop its risk management system in 2024:

2024



updating internal methodological documents and reporting forms as regards risk management



integrating the risk management process into FESCO's key activities and business processes



improving the RMS performance and risk awareness by unifying, standardising, and automating risk management processes



increasing involvement of the Group's management in the risk management process



Information for shareholders

Shares

FESCO shares are traded on the Moscow Exchange and included in the Level 2 quotation list (ticker: FESH). In 2023, FESCO share price surged by 135% from RUB 33.59 as at 30 December 2022 to RUB 78.99 as at 29 December 2023. FESCO's market capitalisation increased from RUB 99.1 billion as at the end of 2022 to RUB 233.1 billion as at the end of 2023.

Exchange-traded bonds

FESCO fulfilled its obligations in full with respect to BO-01 and BO-02 bonds.

Cash to be paid to holders of 65,345 outstanding bonds was deposited with a notary due to the technical inability to fulfil obligations as stipulated by the issue documents.

Dividend policy

Pursuant to the Company's Articles of Association, resolutions on the payout of dividends are made by the General Shareholders Meeting following a recommendation of the Board of Directors. The recommendation is based on the Company's current financial position, taking into account its development plans. In 2023, no dividends were accrued or paid.

Share capital

As at 31 December 2023, the Company's charter capital amounted to RUB 2,951,250,000.

The Company's charter capital is divided into common registered uncertificated shares in the amount of 2,951,250,000 with a face value of RUB 1 per share.

All common shares have the same face value, are registered uncertificated securities, and provide equal rights to their holder (shareholder).

In accordance with the Articles of Association, the Company is entitled to place 737,812,500 common shares with a face value of RUB 1 each in addition to the outstanding shares.

Credit ratings

As at the end of 2023, the Company maintained an A rating with a positive outlook from National Credit Ratings, a Russian credit rating agency.

