

The governance control is regulated either via a three-tier system (General Meeting, Board of Directors / Supervisory Board, sole executive body) or via a two-tier system (General Meeting, sole executive body).

FESCO has control over the following key matters related to operations of the Group's companies:

- approval of budgets, strategic development programmes, business plans, investment programmes and projects;
- approval of certain transactions and actions specified by the Articles of Association of FESCO and its controlled entities;
- approval of candidates to be elected as the sole executive body or to the Board of Directors / Supervisory Board at FESCO's controlled entities;
- preliminary consideration of matters related to the appointment of management at the controlled entities;
- approval of candidates to the auditors at certain controlled entities.

In 2020, the Board of Directors and the Executive Board of FESCO passed about 170 resolutions related to governance at controlled entities. Pursuant to these resolutions, the governing bodies of FESCO's controlled entities made over 200 decisions.

# Control and audit

## INTERNAL CONTROLS

FESCO has in place the Internal Audit Department to perform internal audit functions and provide governing bodies with complete and accurate information on the Company's operations.

The Internal Audit Department is responsible for improving the effectiveness and efficiency of corporate governance practices and business processes; identifying potential for cost reduction and income increase; assessing the performance of the internal control and risk management system; providing independent guarantees and consultations on various aspects of business. The Department is governed by the FESCO Internal Audit Policy.

In 2020, the Company continued to improve its risk management system (RMS) focused on the successful operation of FESCO Group and making effective decisions amid uncertainty.

The RMS provides reasonable certainty that the Group's strategic and operational goals will be achieved by means of identifying and managing risks. The RMS is governed by FESCO's Regulations on Risk Management.

## AUDIT COMMISSION

The Company's financial and operating performance is monitored by the Audit Commission, which acts in the interests of shareholders and reports directly to the General Shareholders Meeting. The Commission's activities are governed by the Company's Regulations on the Audit Commission.

The Annual General Shareholders Meeting elected the following officers as members of the Audit Commission: Artem Belsky, Konstantin Kostenevsky, Aleksandr Lobankov, Evgeny Timofeev, Aleksandra Shumkina.

## EXTERNAL AUDIT

The Annual General Shareholders Meeting appointed AO KPMG as the Company's external auditor for 2020. 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

In 2020, FESCO continued to develop its risk management system. The following steps were taken to improve the efficiency of risk management and introduce a comprehensive risk-based approach to decision-making:

- a new format (risk session) was piloted to identify and properly respond to risks related to business processes;
- the establishing of a risk management culture continued to involve all employees in the risk management process;
- automation of IC-based risk management system continued: Risk management.

To improve the efficiency of the risk management system, FESCO developed and launched an automated risk management database. The efforts to automate the risk management system will continue in 2021.

FESCO identifies and monitors risks on an ongoing basis, assessing the effectiveness of its risk management measures and using the emerging opportunities for business development and value growth. The Group informs its shareholders and regulators that certain risks with significant potential impact on the Company's financial results and valuation cannot be managed.

### Key stages of the risk management system

| Stage                                   | Process   | RMS participants                   |
|---|---|------------------------------------|
| Risk identification                     | Initial risk identification in business processes   | All employees                      |
|   | Risk confirmation   | Risk expert                        |
|   | Preparation of risk profiles, specifying the following: <ul style="list-style-type: none"> <li>• business process;</li> <li>• risk type;</li> <li>• risk owner;</li> <li>• person in charge of assessment;</li> <li>• risk coordinator</li> </ul> | Risk expert;<br>risk owner         |
| Risk assessment                         | Probability and impact assessment (qualitative or quantitative)   | Risk owner                         |
|   | Approval of risk profile  | Risk expert;<br>chief risk manager |
| Development of risk management measures | Development of action plan, determination of indicators and persons responsible for monitoring them   | Risk owner                         |
|   | Approval of risk management action plan   | Chief risk manager                 |
| Monitoring and reporting                | Preparation of quarterly risk management reports, including: <ul style="list-style-type: none"> <li>• recording the indicators;</li> <li>• updating the status of initiatives;</li> <li>• updating risk assessment scores.</li> </ul>             | Person responsible for monitoring  |
|   | Approval of risk management report  | Risk owner                         |
|   | Preparation of risk maps  | Chief risk manager                 |

## Description of material risks

| Detailed description  | Impact assessment / probability | Comment   | Risk management   |
|---|---------------------------------|---|---|
| <b>Financial risks</b>  |                                 |   |   |
| The most material financial risks for FESCO are liquidity and credit risks. Other financial risks have limited impact on the Company's business                                       | High/low                        | The risk did not materialise in 2020. It continues into 2021.   | The cash flow budget, including short- and medium-term planning tools, is the key instrument for managing liquidity risks. Credit risks are managed by capping new receivables and analysing counterparty contract risks  |
| <b>Commercial risks</b>   |                                 |   |   |
| FESCO's 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 2020, the COVID-19 pandemic and associated global market changes greatly contributed to the materialisation of this risk. However, FESCO's crisis response efforts helped to partially offset the impact. The risk remains in 2021 | The Group mitigates commercial risks through a balanced pricing policy with discounts and preferences to reliable counterparties. 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 in order to respond efficiently to market changes |
| <b>Political risks</b>  |                                 |   |   |
| Political risks are associated with the internal government policies in the regions of operations, which can impact the Group's companies and potentially hurt the Group's business   | Medium/medium                   | In 2020, the impact of risk materialisation was assessed as insignificant   | The Company operates in strict compliance with the applicable laws of the Russian Federation and keeps track of all regulatory changes which affect its operations. The Company is able to adjust its operations in a timely manner, and seeks to maintain an ongoing dialogue with regulatory authorities on compliance-related matters  |
| <b>Operational risks</b>  |                                 |   |   |
| Given the Group's significant transport assets (rail cars, containers, ships), the management of operational risks was one of the key priorities in 2020 due to their sheer number    | Medium/high                     | In 2020, the impact of risk materialisation was assessed as insignificant. The risk remains in 2021   | As part of its risk mitigation initiatives, FESCO upgrades container terminals, invests in repairs and new equipment, streamlines shipment structure and refines its management and control quality system  |