



**NAVIGATING  
NEW HORIZONS**

# ABOUT THE REPORT

The Annual Report of Far-Eastern Shipping Company PLC. was pre-approved by FESCO's Board of Directors on August 4, 2023.

In this Annual Report (the Annual Report, the Report), the terms "FESCO" or the "Company" shall mean Far-Eastern Shipping Company PLC.

## DISCLAIMER

This Annual Report has been prepared based on information available to Far-Eastern Shipping Company PLC. and its controlled entities at the time of its drafting, including information provided by third parties. The Company reasonably deems this information to be complete and reliable as at the date of the Annual Report's publication. However, it is in no position to claim or guarantee that no adjustments, amendments or other changes will be made to the said information later on. This Annual Report may also include certain forward-looking statements pertaining to the business activities, economic performance, financial position, economic and operating results of the Company, its plans, projects and performance expectations, dividend and capital expenditure policies, trends in prices, rates, volumes of transportation, production and consumption, costs, estimated expenses, growth prospects, asset life cycles and other similar factors or economic forecasts for the industry and the markets.

Such words as "forecast", "consider", "anticipate", "intend", "plan", "will", "may", "must", "might", "estimate", "expect", "seek", "believe", "proceed from", "continue", "strive", "speculate" and other similar expressions generally indicate a forward-looking statement and are based on the plans, estimates and projects available at the time of making such statements. By their nature, forward-looking statements are subject to inherent risks and uncertainties (both general and more specific). Besides, there are certain factors which may influence future operating performance of the Company and cause results to differ materially from predictions, forecasts, projections and other forward-looking statements included in the Report. In view of the above risks,

The terms "FESCO Group", "FESCO", "Group" and "Company" shall mean FESCO and any legal entities either directly or indirectly controlled by FESCO (controlled entities).

The reporting period extends from 1 January to 31 December 2022.

uncertainties and assumptions, the Company warns that the actual results may significantly differ from the results set out, directly or indirectly, in the forward-looking statements, which were true only at the time of drafting the Report. The Company provides no assurances or guarantees that the results announced in the forward-looking statements will be achieved. The Company also bears no responsibility for any losses which may be incurred by individuals or legal entities due to their reliance on the forward-looking statements. In each case, such forward-looking statements represent only one of possible scenarios, which shall not be treated as the most probable one.

Other factors which may influence the financial and operating performance of the Company, its plans, projects, capital expenditures and other aspects of their operations may include changes in macroeconomic or market conditions, and actions taken by the government authorities in the Russian Federation and other jurisdictions within the Company's footprint. The provided list of factors is not exhaustive.

Unless otherwise directly required by the applicable laws of the Russian Federation, the Company or its representatives, employees and advisors do not intend, feel obliged or undertake to amend, change, update or review the forward-looking statements based on the new available information or any subsequent events.

The Annual Report may include links to the Company's website. Such links are provided for a reader's convenience.

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FESCO AT A GLANCE

# STRONG FOUNDATION FOR DEVELOPMENT

FESCO is one of Russia's largest private transportation and logistics companies with port, railway, and integrated logistics assets.

29

transport vessels operated by the Company

OVER 83 THOUSAND UNITS

container fleet

OVER 952 THOUSAND TEU

total annual throughput capacity of terminals



# FESCO AT A GLANCE

FESCO is one of Russia's largest private transportation and logistics companies with port, railway, and integrated logistics assets. A diversified asset portfolio enables FESCO to provide door-to-door solutions and control all links of the intermodal transportation value chain. The majority of the Group's operations are located in the Russian Far East. This gives the Company an extra advantage of tapping into rapidly growing trade flows between Russia and Asia.

**FESCO is the leading provider of container transportation services in Russia's Far East leveraging international sea routes to/from Asia, domestic sea lines and rail network. In addition, the Group is the largest port container operator of Russia's Far East.**

# DEVELOPMENT MILESTONES

FESCO history began on 25 April 1880, when a representative office of the Russian Volunteer Fleet (Dobroflot) was founded in Vladivostok. That same day, the Moscow ship heading from Odessa entered the Golden Horn Bay, thus giving a start to regular cargo and passenger voyages between the European part of Russia and its Far East.



<sup>1</sup> Twenty-foot equivalent unit.

**1880**

Dobroflot agency established in Vladivostok

**1935**

The Company renamed to Far-Eastern Shipping Company

**1971**

Container transportation launched

**1973–1990**

The country's largest transportation company

**1991**

Far-Eastern Shipping Company registered as a state enterprise

**1992**

The state enterprise transformed into a joint stock company

**2003**

Dalreftrans Co, Ltd acquired, refrigerated containers segment entered

**2006**

Firm Transgarant LLC acquired, segment of railway rolling stock entered

**2008**

Commercial Port of Vladivostok PJSC acquired

**2015**

A terminal network covering Novosibirsk, Khabarovsk, Tomsk, and Vladivostok established; handling of refrigerated containers launched in Khabarovsk

**2016**

Door-to-door project and comprehensive logistics included in the range of services

**2017**

FESCO Fast Forward project launched to reduce the average cargo transit time from Shanghai to Moscow by more than twice

**2019**

Transit services launched

**2021**

The Company's assets significantly increased and container fleet reached 63,436 units or 109 thousand TEU<sup>1</sup>

**2022**

Representative offices opened in Central Asia: FESCO Silk Road in Kazakhstan and FESCO Turan in Uzbekistan, FESCO Air and FESCO Flexi services launched, FESCO container fleet exceeded 135 thousand TEU

**2023**

Our history goes on

# FESCO ASSETS

FESCO consistently increases its core assets, which enable the Company to offer reliable logistics solutions to its customers.

Today, FESCO's own assets comprise all essential links of its multimodal chain:

<p><b>CONTAINER FLEET</b></p> <p><b>&gt;83 THOUSAND</b> units</p>	<p><b>FLEET</b></p> <p><b>&gt;470 KT</b> total deadweight</p>
<p><b>FLEET OF FITTING PLATFORMS</b></p> <p><b>10,408</b> units</p>	<p><b>TERMINALS</b></p> <p><b>952 THOUSAND TEU</b> total handling capacity</p>

## CONTAINER FLEET

FESCO's container fleet comprises general-purpose and refrigerated containers.

CONTAINER FLEET STRUCTURE, UNITS

Container type	2019	2020	2021	2022	YoY change, %
<b>General-purpose containers</b>	<b>39,193</b>	<b>47,131</b>	<b>60,510</b>	<b>78,639</b>	<b>30</b>
20-foot containers	13,263	17,387	21,324	30,667	44
40-foot containers	25,930	29,744	39,186	47,972	22
<b>Refrigerated containers</b>	<b>1,839</b>	<b>1,958</b>	<b>2,926</b>	<b>4,659</b>	<b>59</b>
20-foot containers	625	616	575	629	9
40-foot containers	1,214	1,342	2,351	4,030	71
<b>Total</b>	<b>41,032</b>	<b>49,089</b>	<b>63,436</b>	<b>83,298</b>	<b>31</b>

Source: Company data

In 2022, FESCO's fleet expanded by 31% to a record high of 83,298 units.

- We consistently increased the fleet of
- 20-foot by 44%;
  - 40-foot by 22%;
  - refrigerated containers by 59%.

# 83,298

FESCO's total fleet, a record number



## FLEET

The current capacity of FESCO's fleet totals 470 thousand tonnes, including container vessels and universal bulk carriers, as well as icebreaker transport ships which are unique in the Russian and global markets.

+7

new container vessels in 2022

### FLEET STRUCTURE, KT

Vessel type	2019		2020		2021		2022		YoY change, % 2022/2021	
	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	
Container vessels	12	223	12	223	15	290	21	385	40	33
Universal bulk carriers	7	58	5	48	6	61	6	70	0	18
Icebreaker transport ships	1	11	1	11	1	11	2	15	100	36
<b>Total</b>	<b>20</b>	<b>292</b>	<b>18</b>	<b>282</b>	<b>22</b>	<b>362</b>	<b>29</b>	<b>470</b>	<b>32</b>	<b>30</b>

Source: Company data

In 2022, FESCO added seven vessels to its transport fleet, including five vessels operated by the Company, to grow domestic, international and special transportation. This increased the total deadweight by 108 thousand tonnes.

## FITTING PLATFORM FLEET

With fitting platforms of various footage at the core of FESCO's rolling stock, we can diversify our services and transport all types of containers.

+1,989

80-foot platforms in 2022

### FITTING PLATFORM FLEET STRUCTURE, UNITS

Platform type	2019		2020		2021		2022		YoY change, % 2022/2021	
	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	Number/ deadweight	
40-foot containers	1,013	1,001	995	995	944	(5)				
60-foot containers	1,220	1,217	1,236	1,236	1,065	(14)				
80-foot containers	4,387	5,237	6,523	6,523	8,399	29				
<b>Total</b>	<b>6,620</b>	<b>7,455</b>	<b>8,754</b>	<b>8,754</b>	<b>10,408</b>	<b>19</b>				

Source: Company data

In 2022, our fleet added 1,989 80-foot fitting platforms to hit a record high of 10,408 units.

FESCO focuses on replacing more leased assets with its own.

## PORT AND TERMINALS

FESCO's expedited logistics services rely on the Company's own terminal network with specialised container and multi-purpose terminals across Russia.

>952

TEU of total annual throughput capacity of our terminals

The total annual throughput capacity of our terminals exceeds 952 thousand TEU.

### KEY METRICS OF FESCO'S PORT AND TERMINALS

Indicator	FESCO Gaydamak	Port Vladivostok	Novosibirsk	Khabarovsk	Tomsk
Total area, ha	4.5	71.6	20.4	9.6	0.6
Container storage area, ha	0	16.6	2.3	1.6	0.6
Container storage capacity <sup>1</sup> , TEU	0	30,929	2,200	2,350	600
Storage area, ha	3.2	3.3	0	0	0
Container storage capacity, kt	66.1	186.6	0	0	0

Source: Company data

In 2022, Port Vladivostok, FESCO's key terminal, retained its leadership in container handling in Russia. Port Vladivostok benefits from convenient access to the Trans-Siberian Railway and allows FESCO to capitalise on trade flows between Asia and Europe using the ice-free Golden Horn Bay.

### PORT VLADIVOSTOK'S ANNUAL HANDLING CAPACITIES

Indicator	2022
General cargoes, mt	5.3
Containers, k TEU	768
Vehicles, '000 units	100
Oil products, mt	0.4

Source: Company data

The Novosibirsk terminal and Stroyoptorg LLC in Khabarovsk are the base terminals for FESCO's logistics chains in Novosibirsk and the Khabarovsk Territory. The terminals own railway lines, locomotives, and reachstackers.

### FESCO'S INLAND TERMINALS CAPACITY, K TEU

Indicator	Novosibirsk	Khabarovsk	Tomsk
Containers	117	54	13

Source: Company data

As part of its efforts to expand the terminal network,

- FESCO plans to build a terminal with a handling capacity of 450 thousand TEU in the Trans-Baikal Territory and strengthen its logistics services via land border crossings;
- in Kazan we joined forces with the regional government to develop intermodal transportation, including the launch of routes to deliver cargo from Southeast Asia via Vladivostok in heavyweight

containers and construction of a new container terminal. The two-stage project includes reaching a handling capacity of 70 thousand TEU by 2024 and a subsequent ramp-up to 150 thousand TEU by 2027;

- in St Petersburg the Group is looking into the potential acquisition of an operating terminal to streamline cargo flows and combine shipping and rail services.

<sup>1</sup> Terminal FESCO Gaydamak is a universal reloading station (excluding heavyweight container handling).

# BUSINESS MODEL

## FESCO IS MADE UP OF FIVE OPERATING DIVISIONS:

Liner and Logistics, Port, Rail, Shipping, and Fuel.

### FESCO Group's revenue

**RUB 162,639 MLN<sup>1</sup>**

**EBITDA RUB 71,483 MLN**

FESCO operation is based on deep integration of the business divisions maintained by the management company and the shared service centre, which form part of the Extra-divisional Group. Such business architecture makes it possible to offer unique logistics solutions to our customers, including support along the entire transportation route.

Diversified assets and management functions combined in a single service for the customer provide a reliable basis under volatile market conditions as well as improve financial and operating performance every year, maintaining the leading role in the transportation industry.

### VALUE CREATED FOR STAKEHOLDERS

#### Employees

- Social programmes: **RUB 173.3 mln**
- Training expenses: **RUB 10.8 mln**
- Occupational health and safety expenses: **RUB 219 mln**
- Fatalities and severe injuries: **0**

#### Suppliers

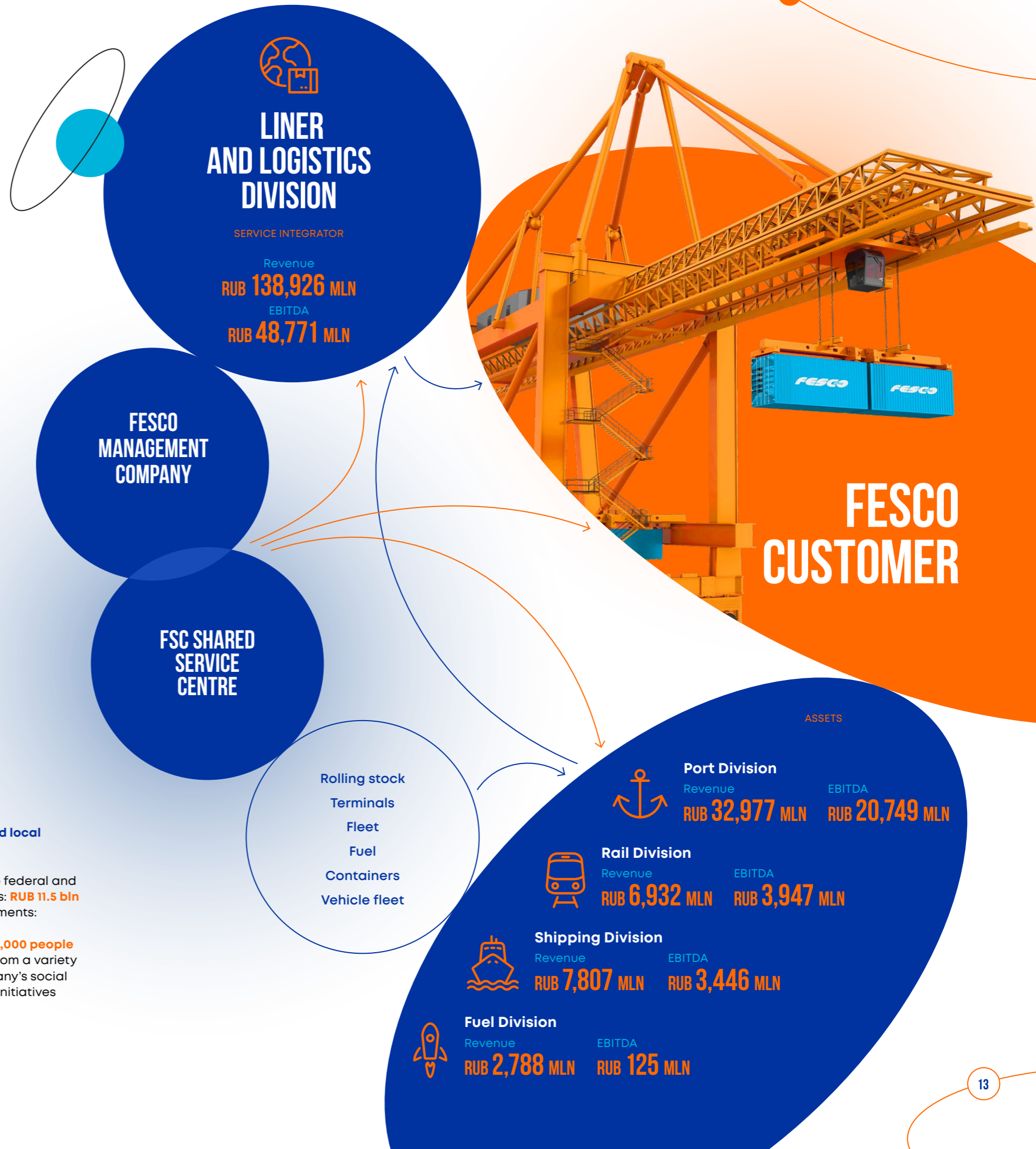
- Total procurement: **RUB 52.6 bln**
- Procurement from SMEs: **57.6%**

#### Environment

- Environmental expenses: **RUB 126 mln**
- GHG emissions down **4%**

#### Government and local communities

- Taxes paid to federal and local budgets: **RUB 11.5 bln**
- Social investments: **RUB 730 mln**
- More than **50,000 people** benefitting from a variety of the Company's social and cultural initiatives



<sup>1</sup> Excluding eliminations of RUB 26,791 million.

# KEY PERFORMANCE INDICATORS

## GROUP'S FINANCIAL RESULTS, RUB MLN

Indicator	2019	2020	2021	2022	YoY change, %
Revenue	56,673	62,168	113,709	162,639	43
EBITDA <sup>1</sup>	12,231	12,293	47,474	71,483	51
EBITDA margin, %	22	20	42	44	2 pp

Indicator	2019	2020	2021	2022	YoY change, %
<b>Liner and Logistics Division</b>					
Revenue	37,944	46,586	94,591	138,926	47
EBITDA	2,309	3,270	34,967	48,771	39
EBITDA margin, %	6	7	37	35	(2) pp
<b>Port Division</b>					
Revenue	15,409	16,326	22,746	32,977	45
EBITDA	6,787	7,416	11,792	20,749	76
EBITDA margin, %	44	45	52	63	11 pp
<b>Rail Division</b>					
Revenue	8,232	5,340	5,115	6,932	36
EBITDA	3,596	1,939	1,991	3,947	98
EBITDA margin, %	44	36	39	57	18 pp
<b>Shipping Division</b>					
Revenue	3,245	3,338	4,115	7,807	90
EBITDA	776	1,005	1,108	3,446	211
EBITDA margin, %	24	30	27	44	17 pp
<b>Fuel Division</b>					
Revenue	1,191	841	1,809	2,788	54
EBITDA	83	13	82	125	52
EBITDA margin, %	7	2	5	4	(1) pp

<sup>1</sup> EBITDA is calculated as operating profit net of amortisation, depreciation of fixed assets, and one-off expenses and includes the adjustments for IFRS 16.

## THE GROUP'S OPERATING RESULTS



Indicator	2019	2020	2021	2022	YoY change, %
<b>Liner and Logistics Division</b>					
Intermodal transportation, k TEU	344	393	465	507	9
International maritime transportation <sup>2</sup> , k TEU	251	295	288	342	19
Domestic maritime transportation, k TEU	78	80	81	84	4
<b>Port Division</b>					
Container handling, k TEU	625	672	757	768	1
General cargoes handling, kt	5,130	4,614	5,195	5,138	(1)
Oil product handling, kt	396	358	389	480	23
Vehicle handling, units	77,023	71,248	81,748	110,783	36
<b>Rail Division</b>					
Rolling stock, units	13,047	8,524	9,118	10,791	18
Rail container transportation, k TEU	388	471	539	641	19
Shipments in box cars, units	16,372	17,917	4,872	294	(94)
<b>Shipping Division</b>					
Transport fleet, units	20	18	21	27	29
Operable vessel days <sup>3</sup>	7,208	6,503	6,236	6,931	11
<b>Fuel Division</b>					
Bunkering volumes, kt	68	67	63	98	56

<sup>2</sup> Including the Black Sea transportation.  
<sup>3</sup> Total number of days when the vessel was available for operation, excluding downtime due to the vessel's overhaul, upgrade, dry docking, or specialised or intermediate maintenance.





# KEY DEVELOPMENTS

## SERVICES



In 2022, as part of our plan to grow logistics service in Asia, we opened a subsidiary in Uzbekistan. FESCO Turan offers a full range of logistics services in Uzbekistan, Tajikistan, Turkmenistan and Kyrgyzstan.



FESCO Supply Chain rolled out new services – FESCO Flexi for liquid cargo transportation in hermetically sealed flexitanks and FESCO Air for delivery of LCL<sup>1</sup> cargoes by charter and scheduled flights on domestic and international routes.



We launched new services and shipping lines between Vietnam, Turkey and Russia. The Company actively developed services connecting the Far East with Central Russia.



FESCO continued building up its supply chain management in 3PL and 4PL segments, having significantly grown its order portfolio.



In 2022, FESCO's first container train set out from Shanghai to Moscow as part of the public FESCO Asia Landborder Train service. To use the service, any customer can place an order via MY.FESCO regardless of the number of containers in the batch, which is similar to FESCO's intermodal services via the Russian Far East.

### YEAR OF RECORDS

FESCO Group became the largest logistics operator in the Russian Far East.

FESCO improved its key operating indicators, in particular, reaching an all-time high cargo handling volume of 13.4 million tonnes at Port Vladivostok, while container handling also hit a record 768 thousand TEU.

FESCO increased the number of containers it operates to a record figure of more than 135 thousand TEU.

### ASSETS

Our fleet added seven vessels, including five vessels operated by the Company, enabling us to expand our international footprint and strengthen our positions in the domestic shipping market.

We signed agreements for new container vessels to be supplied from the shipyard to expand our deep-sea services between China and St Petersburg.

We carry on with our efforts to expand the core rolling stock: in 2022, our fleet added 1,989 80-foot fitting platforms to hit a record high of 10,408 units.

### FINANCIAL STABILITY

We fulfilled our obligations in full as regards BO-01 and BO-02 bonds.

Thanks to improved operational and financial performance, NCR upgraded FESCO's long-term credit rating from BBB- to BBB+ with a stable outlook.

<sup>1</sup> Less than container load.



STRATEGY  
REPORT

# THE PATH TO LEADERSHIP

In 2022, FESCO carried on with its ambitious strategy and took consistent steps towards its goal to become the best container logistics provider for customers in Eurasia.

**13.4<sub>MT</sub>**

current handling volumes (record high)

**768<sub>THOUSAND TEU</sub>**

current container handling volume (record high)

**>2,000**

new customers

# LETTER FROM THE CHAIRMAN OF THE BOARD OF DIRECTORS

## Dear shareholders,

Starting from 2020 when our new development strategy was adopted, we have been advancing it towards our goals. With a focus on capital investments, we have been buying vessels, increasing the number of containers and fitting platforms, and enhancing our terminal and port facilities.

These efforts turned 2022 into a game changer for the Group.

Notwithstanding the external challenges, FESCO proved to be both resilient and robust in terms of its growth prospects, while also offering the best logistics solutions. All our employees demonstrated high efficiency along with flexibility and agility in meeting the increasingly formidable needs as they were emerging.

Taking advantage of the opportunities opened up in 2022, we carefully steered our customers by ramping up transportation volumes along the traditional routes and expanding our geography of operations. The Group continued to trade with Japan and the Republic of Korea in addition to higher turnover with China. In FESCO's home Far East Basin, we started operating lines to Vietnam, which are now gaining traction. We also entered the Azov-Black Sea Basin and the Baltic, establishing a footprint for the first Russian deep-sea line between the ports of China and St Petersburg launched in 2023.

In line with its strategic ambitions, FESCO expects to strengthen its position in both long-established and new markets. We are increasingly focusing our operations on Southeast Asia, including Thailand and Malaysia. In 2022, we also opened FESCO TURAN, our subsidiary in Uzbekistan offering a full range of logistics services in Central Asia.

The Group's geography and product offering are both expanding as we roll out new services such as FESCO Flexi for transportation of bulk liquids in containers using sealed flexitank liners and FESCO Air for delivery of LCL cargoes by air on domestic and international routes.

2022 proved to be rewarding for virtually all of the Group's segments. FESCO set a historical record in container handling at Port Vladivostok, as we were increasingly redirecting cargoes in the eastern direction. Importantly, the port was up to the task, and we are determined to further enhance its capacity with a target of 1 million TEU.

FESCO's financial results were also impressive. The Group reduced its debt to EBITDA ratio to almost zero and finally redeemed all of its previously defaulted rouble bonds, which confirms the effectiveness of the adopted strategy and the Company's decision-making. This translates into better credit ratings for FESCO and gives a boost to investor, customer and partner confidence.

Drawing on our long-standing track record in Russia and abroad, we continued to actively participate in industrial, national and international associations as a responsible player willing to develop the sector and the wider national economy. We believe that joint efforts will help our customers address the difficulties resulting from supply chain disruptions with the best solutions available.

FESCO continued to care about its employees by improving their living standards and creating a comfortable environment in the regions of its operation. We expanded the scope of our programmes, the Sea of Opportunities and FESCO for the Kids, with the latter promoting family reading and supporting severely ill children in the Primorye Territory in cooperation with Rusfond. In 2022, we signed a memorandum of cooperation for the State Tretyakov Gallery to open its branch in Vladivostok.

On behalf of all directors, I extend sincere gratitude to our shareholders for their understanding and support for the social initiatives and programmes we are pursuing for the benefit of FESCO's employees and local communities. We will carry on with our efforts contributing to sustainable development of local communities and helping address the needs of those on whom we depend for our success.

Over the past year, FESCO proved to be efficient and robust in the ever changing market environment. The Group is geared to be a fast-growing business in search for new business areas given the current economic and geopolitical challenges. We will continue evolving as a game changer in the Russian logistics market with a view to remaining a partner of choice for customers in Russia and abroad and delivering on our boldest ambitions.

**Andrey Severilov,**

Chairman of the Board of Directors



# LETTER FROM THE PRESIDENT

Dear colleagues, customers,  
shareholders and partners,

2022 has undoubtedly been a year of global changes. That said, for FESCO, it has also been a year of major successes and rapid growth to the benefit of all its stakeholders.

The past year once again confirmed we are on the right track with our strategy, while also highlighting the strengths of our business model and the Group's unique team.

We were able to deliver considerable financial and operational improvements across the board: leveraging market turbulence as an opportunity, we engaged in consistent efforts to expand our footprint, grow our services offering, and enhance customer experience.

Handling volumes at the Commercial Port of Vladivostok, our core asset, hit a record level of 13.4 million tonnes, with container handling also growing to an all-time high of 768 thousand TEU on the back of further development of our own intermodal transportation and engaging liner operators to replace those who left the Russian market. For the third year running, Port Vladivostok remains the leader in container handling among Russia's container terminals.

Last year, we worked hard to expand the geography of international maritime transportation, setting up FESCO Vietnam Direct Line, a service that connects the ports of Vietnam with Port Vladivostok, and FESCO Turkey Black Sea as a way to connect the ports of Istanbul and Novorossiysk. Also, late last year, the Group launched a deep sea line between the ports of China and Novorossiysk. On top of that, despite tectonic shifts in global economy, we continued to provide shipping by sea from Japan and Korea and expanded the coverage of the FESCO China Express-2 container shipping line.

All these efforts enabled FESCO to grow its international maritime transportation volumes by 19% vs 2021 to 342 thousand TEU. Intermodal transportation was also up by 9%, reaching 507 thousand TEU.

With its focus on international services, the Group also prioritised the market for rail transportation. Among other things, in 2022, FESCO launched train services between Vladivostok, Samara, Kazan, and Minsk.

We also ramped up our container fleet last year, with its capacity now standing at 135 thousand TEU, an all-time high for the Group. The number of fitting platforms was also on the rise, growing by over 10 thousand, or by 20% compared to the previous year. At the same time, the Group went ahead with its long-term fleet renewal programme, taking over the FESCO Tatarstan container vessel, which is used in domestic maritime transportation. As a result, FESCO's fleet comprised 23 vessels as at the end of 2022.

We continue investing significant efforts into improving the quality of our logistics services, and offering some of the most advanced digital solutions currently available. This way we can simplify the services for customers and cut down on costs across the entire chain of operations, which is set to solidify our competitive edge going forward. Last year, the Group launched MY.FESCO, a mobile app where customers can create applications for cargo shipments and access other functions using their smartphones or tablets. Today, over 65% of customer applications come from their personal accounts, and we will continue enhancing the functionality available.

Our strong operational performance has translated into financial results as well: for 2022, FESCO's consolidated revenue increased by 43% to RUB 162.6 billion, with EBITDA surging

to RUB 71.5 billion, a 1.5-fold increase vs 2021. Thanks to robust management of operating expenses, our EBITDA margin went up to 44% (up by 2% vs 2021). As at 31 December 2022, our net debt / EBITDA ratio declined to an all-time low of 0.04x, dropping from 0.5x as at 31 December 2021.

The Company's management remains committed to optimising our corporate governance framework. We are convinced it is the dedication and professionalism of our team that is the pillar of the Group's solid positions in the long run. In line with that approach, we aim to continue improving our professional development, training, and motivation programmes.

I appreciate the contribution of all the Group employees and their day-to-day work that enables us to excel and continue evolving.

On behalf of the thousands that make up the FESCO community, I would also like to thank our customers, partners, shareholders and investors for their trust and willingness to engage in dialogue. I have every confidence that we have many years of strong and productive cooperation ahead of us to secure a successful future.

**Arkady Korostel'ov**

President, Chairman of the Executive Board



# 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**   **-1.3 PP**

India's population in 2022, surpassing China

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.

## 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

### 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)

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

# MARKET OVERVIEW

2022 saw a global shift in the global economy and geopolitics. All the events have had some effect on the economy not only in Russia but in most countries of the world.

The sanctions also affected Russia's container market, which has changed significantly the structure of its main flows in the process of its adaptation.

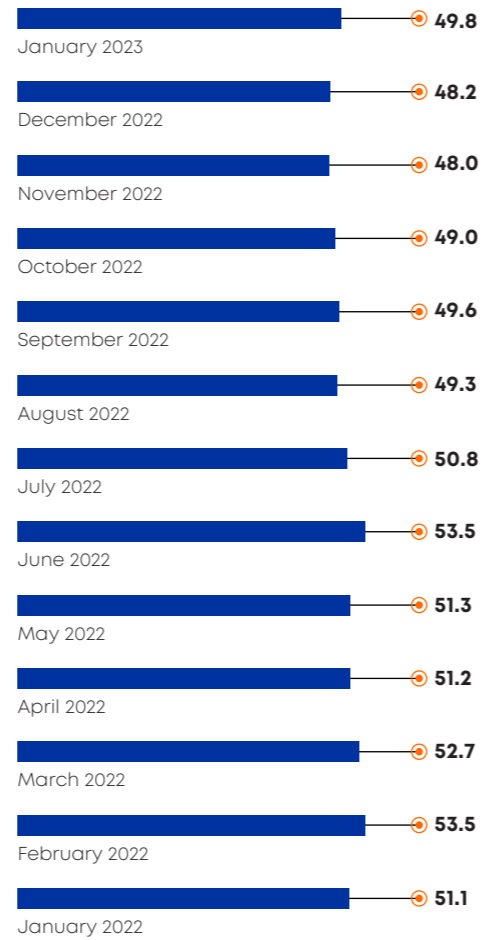
## OVERVIEW OF MACRO PARAMETERS

### PURCHASING MANAGERS' INDEX (PMI)

JP Morgan Global Composite PMI, an international business activity index, remained positive from early 2022, peaking in June on the back of China's recovery from extensive lockdowns in both industry and services. However, during the year, the values still remained below last year's 53.5 vs 56.6 points in June 2021, due to global supply chain restructuring and market uncertainty. In 2H 2022, the global index fell below the psychological mark of 50 points, due to the cumulative effect of the energy crisis and shortages of feedstock previously supplied by Russia to various sectors of the global market.

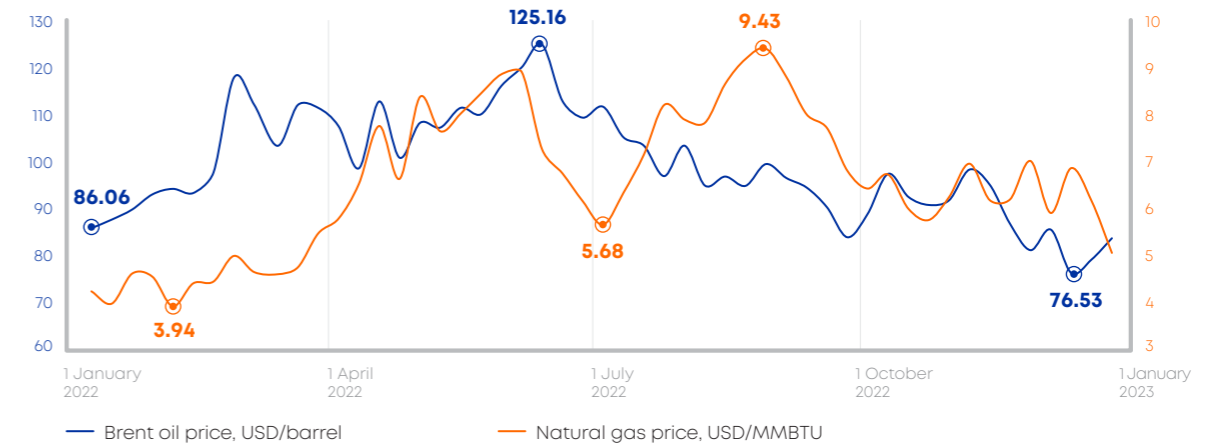
Russia Composite PMI reached the yearly maximum of 52.2 in July. The record low was in March (37.7 points) as a reaction to the special military operation. For the year as a whole, the situation was better than with the global index, as foreign sanctions contributed to the forced strengthening of the Russian industry to ensure sufficient import substitution in the country.

### JP MORGAN GLOBAL COMPOSITE PMI 2022



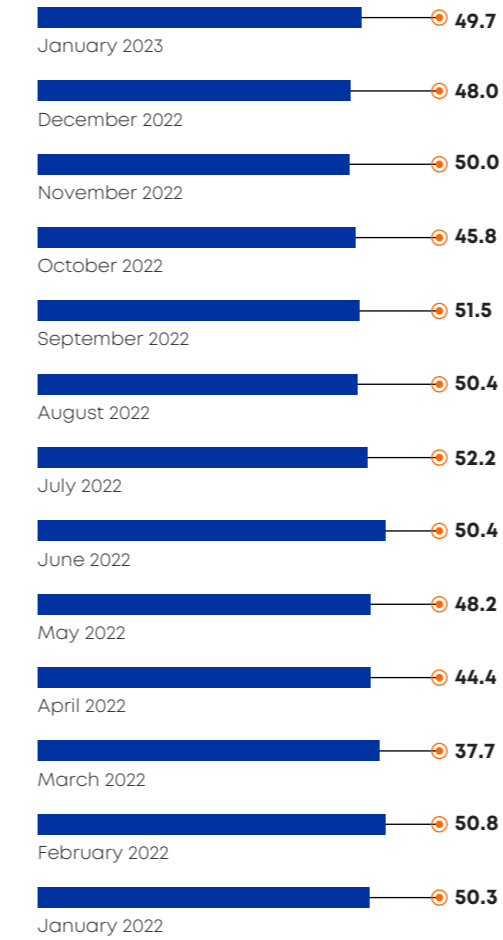
Source: PMI TM by IHS Markit

### ENERGY PRICE



Source: RBC

### JP MORGAN RUSSIA COMPOSITE PMI



Source: PMI TM by IHS Markit

### GLOBAL ENERGY CRISIS

Because of the sanctions, most EU countries refused to purchase Russian gas resources, in particular Russian gas. This caused gas and electricity prices to rise, as transition to alternative energy sources had not yet been secured. These factors directly affected the industrial sector. As electricity prices rose, so did commodity prices and, in some places, production was even halted. In Europe, for example, producers massively reduced aluminium smelting or went bankrupt because of rising energy prices. Almost 1 million facilities in Europe have already been mothballed. Europe faced a several-fold rise in firewood demand due to the energy crisis, and some countries restricted the export of pallets.

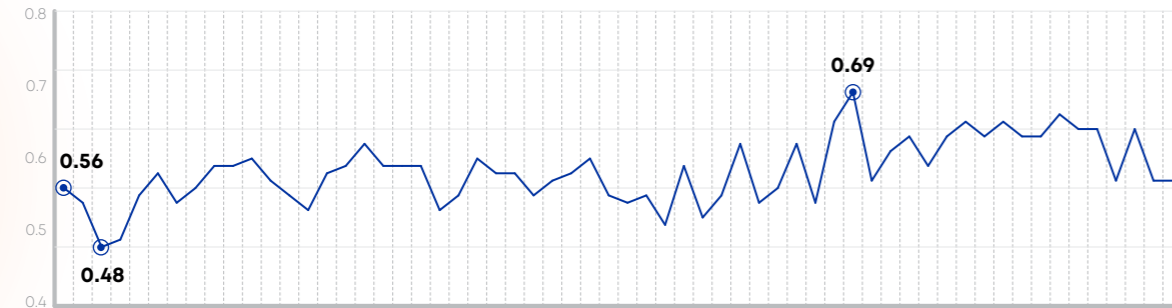


# CONTAINER TRANSPORTATION MARKET OVERVIEW

## KEY CONTAINER MARKET TRENDS IN 2022

### CONTAINER AVAILABILITY

CONTAINER AVAILABILITY INDEX (CAX) FOR 40-FOOT CONTAINERS IN SHANGHAI



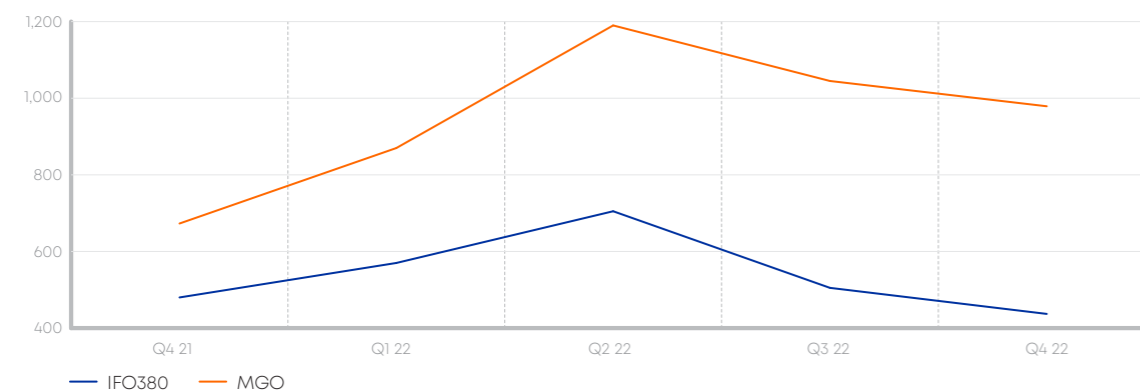
Source: Container Xchange

The highest index was recorded at the beginning of Q4 2022 (0.69). The improvement was due to a decrease in trade between the countries on the back of lower demand – some businesses were forced to limit or suspend their operations due to the energy crisis. Rising commodity prices also contributed to the decline in demand. The exodus of some logistics companies from Russia did not cause a significant shortage of container equipment in the country, as container flows declined along with it.

In 2022, bunker fuel prices continued the growth seen since late 2021 and peaked in Q2. The peak growth period came at the start of the special military operation and the sanctions on Russia that followed. Due to the factors that led to the global energy crisis, fuel prices rose significantly. In Q3 2022, fuel prices dropped to last year's levels.

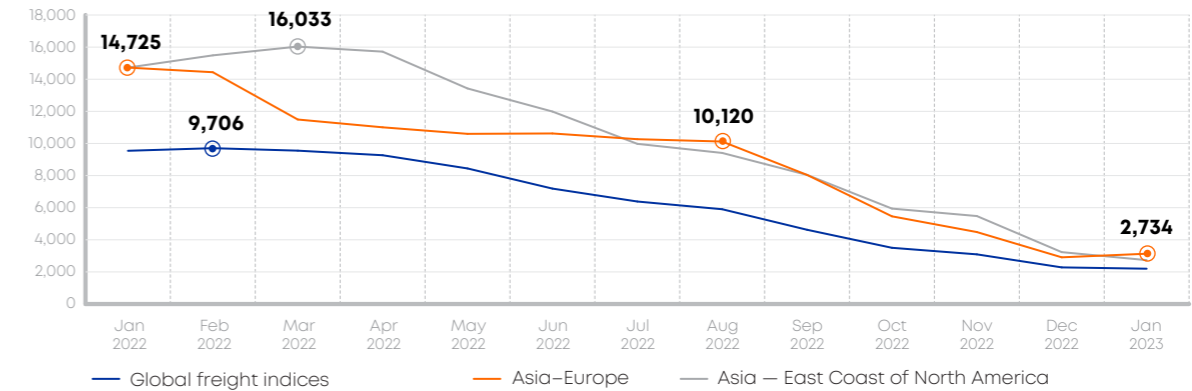
### BUNKER FUEL PRICES

BUNKER FUEL PRICES, USD/TONNE



Source: Drewry Maritime Research

GLOBAL FREIGHT INDEX IN 2022, USD



Source: Freightos

### LOWER FREIGHT INDICES

2022 marked a sharp fall in global freight indices. The record high rates which emerged at the end of 2021 persisted until Q2 2022. Then, due to the stabilisation of the container equipment situation, the freight indices fell to the early 2021 values, when the economy was yet to recover, and it caused rates to rise. Due to lower demand and a weaker industrial sector, the decline in the global freight index continued until the end of the year, reaching record lows. This effect was exacerbated by the fact that during the economic recovery from the COVID-19 pandemic, capacities were expanded by market players but eventually became surplus in the face of lower demand and repeated lockdowns in China, which in turn also contributed to lower freight indices.

### RUSSIAN CONTAINER MARKET REVIEW

Sanctions impacted most countries' economies, their trade relations, and container flows. The Russian container market was severely affected by the following factors:

- exit of major players from the logistics market;
- disruptions in the supply of key commodities needed in multiple industries;
- external bans on imports and exports of certain groups of goods;
- restrictions on Russian vessels in European ports;
- restrictions on Russian land transport in European countries;
- restriction on the provision of bulk carriers to Russian vessel owners, etc.

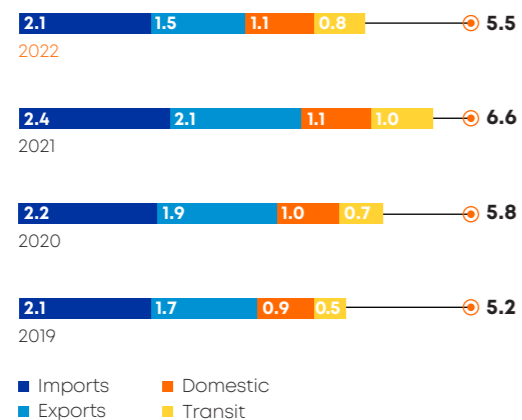
The above events not only led to a decline in Russia's container market in 2022 but also to a redirection of container flows and the emergence of new routes.

In 2022, Russia's container market decreased by 17% (1 million TEU), almost equal to the pre-lockdown levels. The container market in Russia saw a shift of foreign trade flows in addition to an overall decline in volume in 2022. Due to the EU sanctions and restrictions on Russian vessels entering European ports, flows through St Petersburg's ports decreased. Consequently, Q2 and Q3 2022 saw the reorientation of container flows partly to the ports of Novorossiysk and, to a greater extent, to the ports of the Far East. In addition, a number of countries restricted trade relations with Russia, which resulted in a significant redirection of flows towards the Asian region and countries such as Turkey, India, and Belarus. This also led to a redirection of containers from ports

in the northwest to the Russian Far East and south. In Q4, a situation emerged that hindered the growth of foreign trade across the country's far eastern border: due to a post-pandemic increase in China's demand for coal and the resulting limited access of Russian exporters to bulk carriers, the Far East railway lines were jammed, preventing containers from passing through the country's far eastern border in their previous numbers. The critical situation on this route contributed to the introduction of government subsidies for carriers across the north-west border, which caused a temporary reorientation of containers to St Petersburg ports at the end of 2022.

All these developments contributed to a redistribution of usual routes in the Russian container market.

RUSSIAN CONTAINER MARKET BY TYPE OF TRANSPORTATION, MLN TEU



Source: Russian Railways data, Morcenter-TFC

IMPORTS

At the end of 2022, the decrease in container imports (-291 thousand TEU) was mainly attributable to a drop in traffic through the ports of St Petersburg (-570 thousand TEU). Despite the overall decline, there was a redirection of containers to land border crossings in the Russian Far East (+225 thousand TEU) and, to a lesser extent, to far-eastern ports (+97 thousand TEU).

EXPORTS

Export was the main driver of Russia's container market decline – down 25% YoY or -521 thousand TEU. The strongest decline was in the exports via St Petersburg ports with some volumes shifting to the Far East (to both ports and inland terminals).

DOMESTIC SHIPMENTS

The domestic transportation was the only one to remain flat YoY. That said, during the year (starting in May) there was a dip in the market relative to 2021 due to the effect of a decrease in container equipment amid withdrawal of international players from the logistics market.

TRANSIT

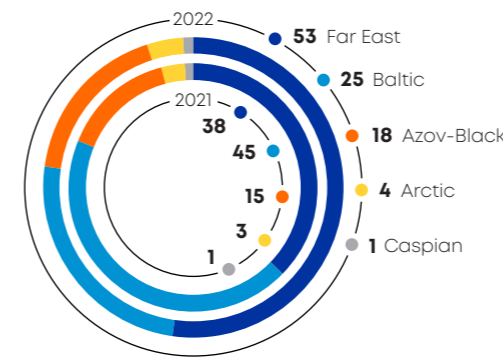
In 2022, container transit plummeted (-228 thousand TEU) mainly in the Asia-Europe direction (-256 thousand TEU), due to the desire of some countries to switch to alternative transit routes (trans-Asian route, deep sea) bypassing Russia. Container traffic from Asia to Central Asia (+22 thousand TEU) also increased compared to 2021, due to the transit of auto parts from Korea to Kazakhstan and Uzbekistan.

CONTAINER HANDLING

In the reporting year, container handling in Russian ports changed across the basins dramatically. In 2022, only the shares of the Caspian and Arctic basins remained unchanged. Compared to 2021, the share of the Baltic Basin decreased by 20 pp to 25%. By contrast, the share of the Far East Basin increased by 15 pp to 53%, thus taking the lead among Russian basins in terms of container handling. The share of the Azov-Black Sea Basin also increased though insignificantly, by 3 pp to 18%.

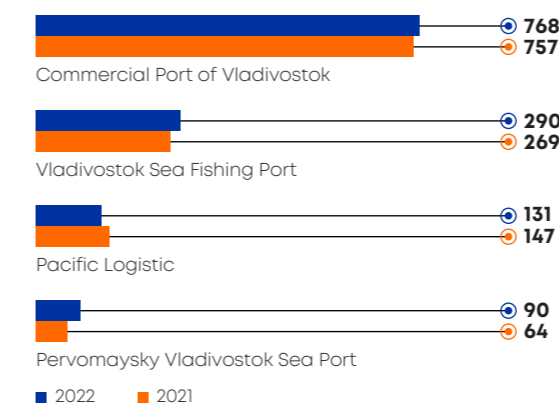
In 2022, container handling at the port of Vladivostok increased by 3.1% YoY. Vladivostok Sea Fishing Port showed the largest increase for the year, increasing cargo throughput by 7.6% YoY. Port Vladivostok showed a 1.4% growth YoY, increasing cargo turnover to 768 thousand TEU.

BASINS' SHARES IN TOTAL CONTAINER HANDLING, %



Source: Morcenter-TFC

CONTAINER HANDLING IN MAJOR RUSSIAN CONTAINER TERMINALS IN 2021-2022, K TEU



Source: Morcenter-TFC

RAIL CONTAINER TRANSPORTATION MARKET OVERVIEW

MARKET PERFORMANCE

In 2022, railway container transportation increased by 0.09% to a new record of 4,618.8 thousand TEU.

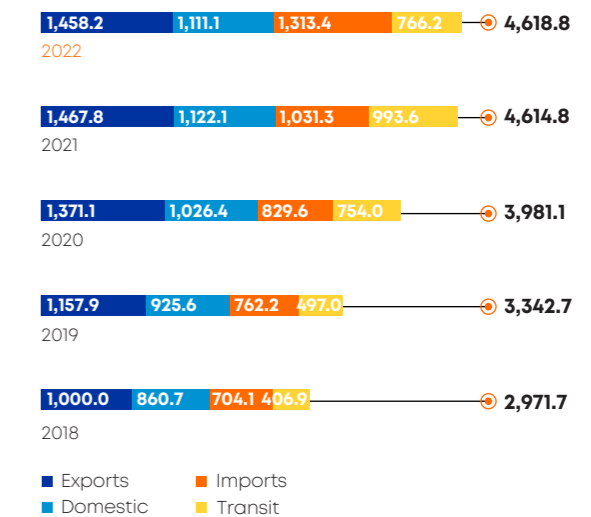
The key contributor to the decline in volumes is the sanctions pressure, the consequence of which has been a global transformation of supply chains. In Q2 2022, a gradual reorientation of container flows towards the East began due to the following factors:

- exodus of major international shipping lines from the Russian market;
- sanctions and regulatory restrictions affecting container exports to Europe and North America and container imports of certain commodity groups from the said regions.

At the same time, the new volume did not match the capacity of the eastern railway infrastructure and land border crossings, which also had a negative impact on transport costs and delivery times.

Another factor that had a negative impact on container transportation was the significant reduction in sea freight rates on the China-Europe route.

RAILWAY CONTAINER TRANSPORTATION MARKET, K TEU



Source: Russian Railways' main computer centre

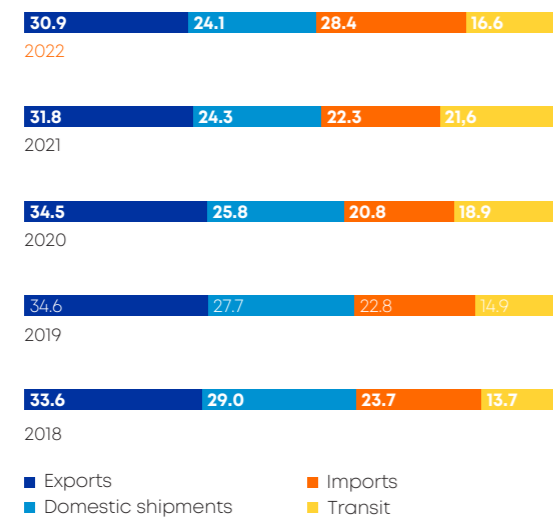
**SHIPMENT STRUCTURE**

In 2022, container transportation declined in all types of traffic except imports.

In 2022, the volume of railway export traffic decreased by 2.7% or 39.7 thousand TEU to 1,428.2 thousand TEU. Timber cargoes triggered the decline, with exports falling by 5.7% or 27.8 thousand TEU due to reduced traffic to the US, Japan, South Korea, and EU. In addition, metalware exports plummeted by 68.9% or 18.5 thousand TEU, and ferrous metal exports fell by 8.7% or 8.7 thousand TEU. However, food products showed a positive trend with their export increasing by 63.7% or 13.6 thousand TEU; grain – by 62.0% or 13 thousand TEU; and oilcake – 4.5 times or 6.7 thousand TEU. The share of exports in total traffic decreased by 0.9 pp to 30.9%.

In 2022, the volume of domestic traffic was 1,111.1 thousand TEU, down 1.0% or 11 thousand TEU compared to 2020. The transport of chemicals and soda decreased markedly by 8.5% or 21.7 thousand TEU, and of machinery, machine tools and engines by 28.2% or 18.1 thousand TEU. In addition, food traffic grew by 15.1% or 20.5 thousand TEU and that of construction materials – by 21.5% or 26 thousand TEU. The share of domestic shipments in total traffic decreased by 0.2 pp to 24.1%.

**CONTAINER TRANSPORTATION BY TYPE OF TRAFFIC, %**



Source: Russian Railways' main computer centre

The volume of railway import traffic stood at 1,313.4 thousand TEU, up 27.4% or 282.1 thousand TEU. The growth was driven by chemicals and soda, whose traffic increased by 53.2% or 78 thousand TEU; metal products by 24.0% or 41.2 thousand TEU; machinery, machine tools and engines by 23.7% or 39.9 thousand TEU; paper 2.8 times or by 34.9 thousand TEU. China kept its key position in container import with an increase of 48.1% or 355.6 thousand TEU. The share of imports in total shipments went up by 6.1 pp to 28.4%.

In 2022, the volume of transit container traffic decreased by 22.9% or 227.4 thousand TEU to 766.2 thousand TEU. The consumer goods traffic decreased by 44.0% or 102.5 thousand TEU; metal products by 45.0% or 79.1 thousand TEU; machinery, machine tools and engines by 31.4% or 43.2 thousand TEU; chemicals and soda by 21% or 22.2 thousand TEU. At the same time, potash fertiliser shipments from Belarus to China began in 2022, resulting in a sharp 42.5-fold increase in the volume of mineral fertilisers in transit or by 81.6 thousand TEU. The share of transit in total traffic markedly decreased by 5.0 pp to 16.6%.

**OUTLOOK FOR 2023**

In 2023, due to the search for new markets in South and Southeast Asia and building new import supply chains, container flows will continue to be redirected to ports and border crossings in the Far East. At the same time, the main factor constraining the growth of container transportation despite ongoing development will remain the insufficient throughput capacity of the eastern main railway lines, railway approaches to ports and land border crossings, terminal and logistics infrastructure at border crossings.

Another negative factor affecting rail container traffic will be the continued decline in freight rates amid an increased likelihood of a global recession.

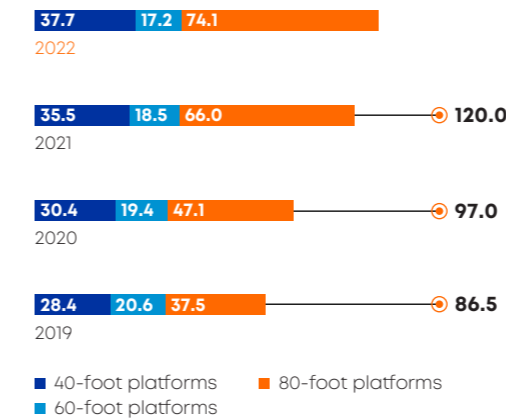
**OVERVIEW OF THE FITTING PLATFORM OPERATION MARKET**

In 2022, the total fitting platform fleet used for transportation across the Russian Railways network grew by 7.5% or 8.9 thousand railcars to 128.9 thousand railcars. The number of 40-foot platforms increased by 6.1%, or 2.2 thousand railcars, the number of 60-foot platforms decreased by 7.4% or 1.4 thousand railcars, and the number of 80-foot platforms increased by 12.3%, or 8.1 thousand railcars.

The fitting platform fleet is still mainly composed of 80-foot platforms, the share of which increased by 2.5 pp to 55.0% in 2022. The share of 60-foot platforms in the total fleet structure continues to decline due to the gradual retirement of the fleet, with a 2.1 pp reduction at the end of 2022. The share of 40-foot platforms has not changed much, with a reduction of 0.4 pp.

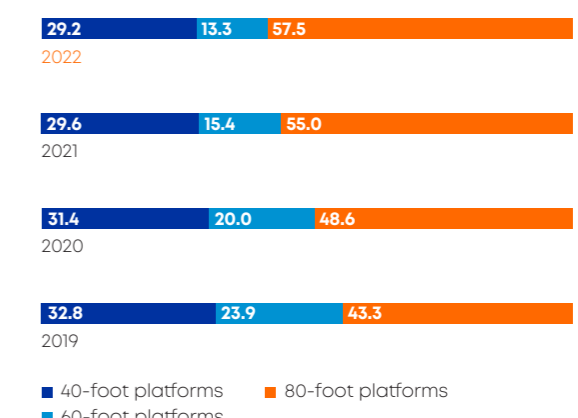
The number of 80-foot platforms purchased by operators is expected to continue to decline in 2023 due to market saturation. The fleet of 60-foot platforms will also continue to shrink, setting the stage for replacing the retiring fleet with 40-foot and 80-foot platforms.

**FITTING PLATFORM FLEET PERFORMANCE<sup>1</sup>**



Source: Russian Railways' main computer centre

**FITTING PLATFORM FLEET STRUCTURE, %**



Source: Russian Railways' main computer centre

<sup>1</sup> As at the end of the year, excluding all-purpose platforms with folding fittings, timber wagon platforms with folding fittings, etc.

# OPERATIONAL OVERVIEW

## MARITIME CONTAINER TRANSPORTATION

FESCO provides domestic, export, import, and transit container transportation services and is the leader in shipping containers from China, Japan and South Korea to Russia via the Far East. The Group operates 19 international and domestic sea routes, with its transportation geography spanning over 100 ports globally.

Despite geopolitical events and sanctions imposed by other countries, FESCO actively rolls out new services and continues to invest in upgrading and expanding its own fleet. Starting from March 2022, FESCO renders all shipping services in the absence of CMA and HMM partners as foreign carriers left the Far East container market.

On international routes, FESCO:

- launched a regular FVDL service from Vietnam's main ports (Haiphong, Ho Chi Minh) to Russia's Far East with calls to China. In 2022, the Company's international route share stood at 52%;
- increased capacity on the Far East lines by putting in additional fleet;
- provided its own fleet to launch a regular FTBS sea service from Turkey to Russia (Novorossiysk, Istanbul and Gebze ports);

- due to withdrawal of carriers from the Russian market coupled with European sanctions, temporarily suspended its FBOL service. By the end of the year, it was relaunched with an updated geography of shipments from China to Northwestern Russia without entering Europe.

On domestic routes, FESCO:

- amid an acute shortage of logistics assets, ensured uninterrupted delivery of cargo to Russia's remote regions, including northern ones;
- increased market share and frequency of logistics services through additional fleet (both own and borrowed).

The measures taken helped the Company to:

- ramp up international shipping by 19% YoY to 342 thousand TEU;
- increase domestic maritime transportation by 4% YoY to 84 thousand TEU.

### KEY OPERATING RESULTS OF MARITIME CONTAINER SHIPMENTS, K TEU

Indicator	2019	2020	2021	2022	YoY change, %
International routes	251	295	288	342	19
Domestic routes	78	80	81	84	4

Source: Company data

<sup>1</sup> Including the Black Sea transportation volumes.

## INTERMODAL SERVICES

FESCO provides domestic and international (export, import, and transit) intermodal container services.

In 2022, FESCO continued to develop its key services and tapped into new markets.

- The Group launched new services from Vladivostok to Samara, Kazan, Minsk and Kaliningrad, offering its customers the widest railway coverage via the ports of the Far East.
- The West-East corridor saw new Rostov-on-Don-Vladivostok, St Petersburg-Irkutsk and Irkutsk-Vladivostok services. In addition to serving customers, these new routes help effectively balance container flows and secure integrated traffic efficiency.
- FESCO introduced a complex transportation project from the Chinese factory to the Kaliningrad Region.

- Direct contracts were signed with Central Asian car manufacturers. In 2022, over 9.1 thousand TEU were transported to the region under direct contracts with car manufacturers.
- The Company entered into direct contracts with the largest timber companies in Northwestern Russia.
- Subsidiaries, branches, subdivisions and sales offices opened in Tashkent, Krasnodar, Kazan, Irkutsk to ramp up business in these new regions.

These measures enabled FESCO to attract over 1.8 thousand new customers and 54.5 thousand TEU in 2022.

### KEY OPERATING RESULTS OF INTERMODAL SHIPMENTS, K TEU

Indicator	2019	2020	2021	2022	YoY change, %
Volumes	344	393	465	507	9

Source: Company data

## TERMINAL OPERATIONS

FESCO provides stevedoring, surveyor, and freight forwarding services, including loading and discharging of vessels, railcars, and trucks, using its own terminal network, which comprises:

- the largest universal port in the Russian Far East, Port Vladivostok, handling

a broad variety of cargo types, including containerised, LCL, bulk, and general cargoes, machinery, and heavy-duty vehicles;

- FEMSTA terminal focusing on handling general cargoes, construction materials, timber, vehicles for export/import shipments, as well as domestic transportation.

### KEY OPERATING RESULTS OF PORT VLADIVOSTOK AND FEMSTA TERMINAL

Indicator	2019	2020	2021	2022	YoY change, %
<b>Total handling, kt</b>	<b>11,518</b>	<b>11,436</b>	<b>13,318</b>	<b>13,884</b>	<b>4</b>
Container handling, k TEU	625	672	757	768	1
General cargoes handling, kt	5,130	4,614	5,195	5,138	(1)
Vehicle handling, units	77,023	71,248	81,748	110,783	36
Oil product handling, kt	396	358	389	480	23

Source: Company data

## HEAVYWEIGHT CONTAINERS

**768**  
THOUSAND TEU

container handling volume

increase in own assets (containers, fleet, fitting platforms), as well as the implementation of Port Vladivostok's integrated territory development programme.

Despite the withdrawal of international maritime operators (Maersk, MSC, etc.), container handling went up by 11 thousand TEU YoY to 768 thousand TEU. The growth in container cargo turnover was due to a timely

## GENERAL AND BULK CARGOES

General cargo volumes remained flat YoY at 5.1 million tonnes, with metal and coal making up the bulk of the general cargoes.

## VEHICLES

Handling of vehicles and machinery increased by 36% to 110.8 thousand units vs 81.8 thousand units in 2021. The growth of handling volumes was underpinned by new lines, as well as additional customer vessel calls with Chery and FAW cars.

### KEY OPERATING INDICATORS OF PORT VLADIVOSTOK AND FEMSTA TERMINAL

Indicator	2019	2020	2021	2022	YoY change, %
Vessel handling (unloading/loading), units	2,618	2,377	1,670	2,242	34
Vessel calls, units	2,009	1,790	1,128	1,613	43
Average daily fleet handling, kt	31.56	31.25	35.42	36.72	4
Rolling stock handling, '000 units	200.5	210.5	222.0	224.4	1
Average daily railcar handling, units	549	575	608	615	1

Source: Company data

In 2022, FESCO terminals handled a total of 1,613 vessels vs 1,128 vessels in 2021. Average daily fleet handling grew to 37 thousand tonnes vs 35 thousand tonnes in 2021. The Company

also handled 224 thousand units of rolling stock (+1%) vs 222 thousand units in 2021. Daily railcar handling reached 615 units vs 608 units in 2021.

## INLAND TERMINALS

### CONTAINER HANDLING, K TEU

Terminal	2019	2020	2021	2022	YoY change, %
Novosibirsk	73	90	101	117	16
Khabarovsk	36	52	52	52	0
Tomsk	9	10	7	8	14
<b>Total</b>	<b>118</b>	<b>152</b>	<b>160</b>	<b>177</b>	<b>11</b>

Source: Company data

In 2022, inland terminal handling volumes grew by 11% YoY to 177 thousand TEU.

The Group's Novosibirsk terminal showed the strongest growth of 16 thousand TEU, or 16%. The main growth drivers were:

- the development of own logistics routes through Novosibirsk (domestic/import/export shipments);

- the increase in forwarding of third-party containers and technological upgrade of the terminal's mechanical equipment.

In 2022, we also acquired an additional land plot of over 46 thousand sq m to expand the terminal's design capacity starting from Q4 2024.

## REFRIGERATED TRANSPORTATION

FESCO dominates the refrigerated transportation market and is the only Russian operator relying entirely on its own assets.

In 2022, the Group continued to work on innovations for cargo shipments under continuous temperature maintenance and control.

Thanks to a 59% YoY increase in the container fleet, FESCO managed not only to replace the volumes previously handled by international operators that pulled out of the Russian market, but also to expand the transportation geography between Southeast Asia and Vladivostok, as well as to tap into the Kaliningrad and Minsk markets.

In 2022, refrigerated transportation volumes added 50% YoY and reached 17 thousand tonnes.

### OPERATING INDICATORS OF REFRIGERATED TRANSPORTATION, TEU

Indicator	2019	2020	2021	2022	YoY change, %
Volumes	8,419	9,952	11,362	17,004	50

Source: Company data

## TRAMP SHIPPING

FESCO implements a range of logistics solutions for its fleet aimed at project and special shipments. In 2022, the operable vessel days totalled 6,931, up 11% YoY.

### KEY OPERATING INDICATORS OF THE TRANSPORT FLEET

Indicator	2019	2020	2021	2022	YoY change, %
Operable vessel days	7,208	6,503	6,236	6,931	11

Source: Company data

In 2022, FESCO:

- worked on multi-purpose vessel transportation between Pevek, Nakhodka, South Korea, and China. A total of over 79 thousand tonnes of general cargo and 2.5 thousand TEU were transported;
- performed six trips as part of a project to foster shipping along the Northern Sea Route;

- continued cooperation with the National Centre for Polar and Ocean Research under the Ministry of Earth Science of India: diesel-electric ship Vasily Golovnin successfully completed its first trip under a new five-year contract by delivering cargo to Bharati and Maitri Indian research stations.

## 3PL

FESCO continued developing 3PL as an inherent part of its logistics business, offering the following services:

- transportation management;
- warehousing and cargo handling;
- delivery to end customers;
- maintenance of special equipment;
- assembly of loaders and excavators;
- customs clearance services;
- customs transit services;
- delivery by air.

- The Company chartered six vessels for import and export of bulk cargoes.
- We rolled out a new service called FESCO Flexi for liquid cargo transportation in flexitanks. As part of this service, two train loads of 1.5 tonnes of liquid cargo (140 TEU) each were transported from Russia to China. In 2023, the Company plans to expand the project factoring in the experience gained.
- LCL shipments tripled; we successfully tested a cross-docking project at a warehouse in the Moscow Region.
- The Group introduced a FESCO Air service for delivery of LCL cargoes by charter and scheduled flights on domestic and international routes.
- Customs clearance of vehicles is now reduced to two hours.
- The Group launched a customs clearance project at the permanent customs control zone of the transit terminal in Vladivostok.
- The number of new customers went up by 20%, the range of products and integrated solutions for key customers was expanded.

### KEY DEVELOPMENTS IN 2022

- FESCO introduced a new service for handling oversize/heavyweight cargo at the Domodedovo warehouse.
- We successfully implemented a project for shipping cargoes in shipper owned containers along the following routes: India, Bangladesh, Thailand, Malaysia, Philippines, Canada, Argentina, and Europe using international sea services via the ports of Vladivostok, Vostochny, Novorossiysk, and St Petersburg.

## PROJECT LOGISTICS

FESCO offers turnkey project transportation of bulky and heavyweight cargoes: from receipt at the manufacturing plant to installation at the destination point. Transportation is fully compliant with the regulatory requirements for transit of cargo along the route, including border crossings.

FESCO's business priorities include expanding the portfolio of contracts signed with large customers and increasing the share of the market for transportation of heavyweight and oversize cargoes.

In 2022, FESCO transported over 39,325 tonnes of project cargoes and:

- organised transportation of 182 units of heavyweight and oversize cargo with a total weight of 15,526 tonnes

- and volume of 55,844 cu m, including cargo units of up to 400 tonnes for the Far Eastern gas chemical complex in Svobodny;
- transported equipment with a total weight of 3,911 tonnes for Bystrinskoye Mining Company as part of a construction project by an exploration company on the Kamchatka Peninsula;
- transported two oversized and extra heavy units of equipment (337-tonne three-phase generator and 324-tonne gas turbine generator) from Novolisino to Tebinbulak (Uzbekistan);
- transported four sulphur condensers with a total weight of about 130 tonnes from Shanghai to the construction site of the Boysun gas processing plant in Uzbekistan.

## BUNKERING

FESCO provides a full range of oil product services: from fuel purchase and its handling at the Company's petroleum tank farm to transfer to the tanks of transport vessels at the ports of the Primorye Territory (in particular Vladivostok, Nakhodka, and Vostochny). As a fuel agent, FESCO arranges the supply of oil products to its fleet at foreign ports and renders centralised oil product logistics support to its own companies across Russia. Oil products are purchased from Russian producers and delivered to the destination as well as from regional suppliers and distribution companies and delivered to vessels or land facilities.

In 2022, the Company rendered bunkering services primarily to its own companies. The growth of oil cargo handling was driven by a spike in demand for handling of diesel grades of oil products and totalled 23% YoY.

By the end of 2022, bunkering volumes grew by 56% YoY to 98 thousand tonnes due to a fleet increase and expanded geography of FESCO vessels' operation.

### KEY OPERATING INDICATORS OF THE BUNKERING COMPLEX, KT

Indicator	2019	2020	2021	2022	YoY change, %
Bunkering volumes	68	67	63	98	56

Source: Company data

# DIGITALISATION

In 2022, FESCO delivered a high level of customer service and secured business processes' automation through a set of digitalisation initiatives.

## BUSINESS DIGITALISATION PROJECTS

### CUSTOMER'S PERSONAL ACCOUNT

MY.FESCO customer's personal account is a self-service portal for our customers.

Improvement of this service is the key priority of FESCO digitalisation. The main objective of the project is to provide a fully digital transportation service. Our efforts on portal improvement made it possible to implement one of the best and most functional solutions in the market.

Priority areas of personal account improvement in 2022:

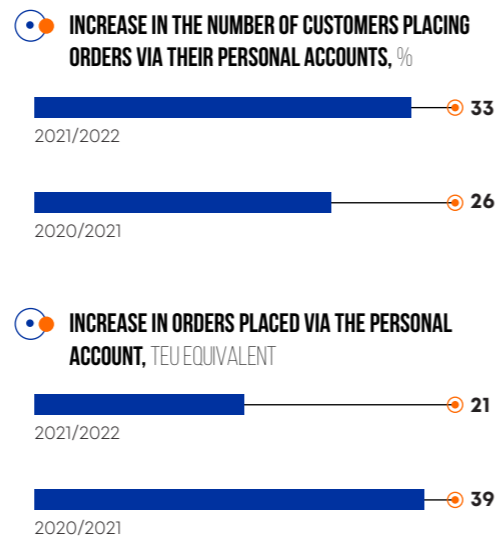
- redesign of the personal account;
- improvement of cargo tracking during transportation;
- transport event notifications;
- digitisation of door-to-door delivery calculations using a map location;
- introduction of a process for approving the possibility of transporting dangerous goods;
- mobile app;
- development of customer feedback collection services.

The personal account was piloted in 2017 and back then only supported requests for intermodal imports from Southeast Asia to Vladivostok and Moscow. Today, the service can be used to request any of FESCO's key transportation services.

In 2022, the growth of orders placed via the personal account continued:

- the number of customers placing orders via their personal accounts increased by 33% vs 26% in 2021;
- TEU equivalent of orders via personal accounts stood at 21% vs 39% in 2021.

In addition, 2022 saw us implement an import substitution programme, which is one of the strategic focus areas of the Company's IT unit.



Source: Company data

Currently, a record 7.5+ thousand users visit [MY.FESCO.com](https://my.fesco.com) every day.

The MY.FESCO services are mainly used to:

- submit and repeat requests for container transportation;
- track the shipping and customs status;
- download scans of accounting and transportation documents without contacting managers or requesting the documents by mail or phone;
- check whether dangerous goods can be transported along import/transit routes;
- conclude contracts;
- file for customs transit clearance.

FESCO also works to develop the following additional services for customers:

- reconcile overpayments;
- request and approve reconciliation reports;
- control user access for their company;
- provide feedback on service quality.

Particular attention is paid to customer integration and communication tools. In 2022, FESCO developed and deployed a set of solutions and digital tools:

- the Company implemented and released API<sup>1</sup> mechanisms to enable FESCO customers to integrate their accounting systems with personal account services;
- we created automation tools and mechanisms for our customers to benefit from the increased transparency of services carried out by foreign countries' agents (booking services, communicating with shippers, working with lines);
- FESCO developed and released new iOS and Android versions of the mobile app (24% of customers used the mobile app in the reporting year);
- the Group introduced centralised communication mechanisms and information alerts on customer shipments via email, Telegram, personal account, and push notifications in the mobile app.

### PRODUCTION SYSTEMS

In 2022, FESCO focused on the development of production systems.

#### FESCO INTEGRATED TRANSPORT

In mid-2022, work was initiated to draft and put in place a new corporate production system, FESCO Management Systems (FMS), to automate the Company's operations. Having considered the current sanctions policy, the Company opted for a domestic development platform 1C:Enterprise 8. During the project's early stages in 2022, work was carried out to describe the Company's business processes, optimise them and design the optimal logic of the information system.

2022 saw the creation and deployment of individual functional modules of the system:

- container fleet repair management;
- management and control of dangerous goods transportation;
- management and accounting for sea line activities;
- management and supervision of expenses for services provided by suppliers.

A pipeline of projects to create and introduce the new production system was approved until 2024. It provides for the system's gradual modular implementation and development with the possibility of step-by-step automation of all business areas of FESCO Integrated Transport (FIT).

The FMS strategy rests upon individual modules and a microservice architecture, which allows to balance the load between subsystems and implement individual functional blocks in stages factoring into business requirements and current priorities.

#### DALREFTRANS

In 2022, special attention was paid to one of FESCO's key assets, Dalreftrans, its development and digitalisation of its operations. During the year, digitalisation solutions for the company's business processes were substantially redesigned:

- the customer's personal account added an e-commerce feature for refrigerated transportation;
- rate-setting feature was simplified and scaled up;
- tracking of containers by rail and sea was introduced;
- control mechanisms were put in place to reduce the human factor potentially affecting data accuracy and timeliness.

Dalreftrans became an integral part of FESCO's digital ecosystem, and the customers can now use the information service according to the common standards of the Company.

The development of Dalreftrans' production system coincided with strong operating results, which in turn contributed to the company's growth and an increase in customer demand.

<sup>1</sup> Application Programming Interface.

**PORT VLADIVOSTOK**

**PRIVATE LTE/5G**

A dedicated (private) LTE/5G network was built and commissioned jointly with MegaFon. Private LTE/5G covers the entire infrastructure of the largest universal port in the Russian Far East of over 395 hectares. Thanks to its own digital loop, the port boasts a reliable communication quality, allowing it to automate technological processes and increase the efficiency of cargo handling.

New base stations in the 900, 1,800 and 2,600 MHz frequency bands ensure 100% seamless coverage. The use of all available bands increased network capacity in the areas with the highest concentrations of employees and machinery, and ensured the best signal penetration, highest-speed and stable data transmission.

**PORT VLADIVOSTOK ECOSYSTEM**

FESCO's IT unit drafted and introduced a radiation control solution (Yantar portable system) at the Port Vladivostok site. The following measures were adopted as part of the project:

- integrating and configuring data acquisition through the graphic representation of sensor triggering and taking photographs of the cargo;
- alerting customers of radiation alarms going off because of their cargoes.

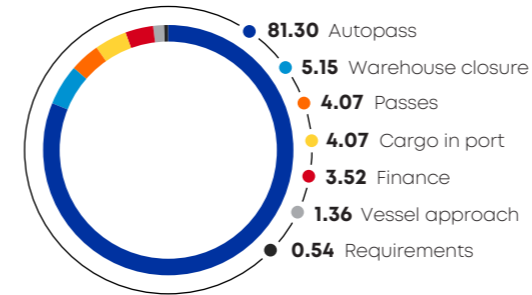
This optimised handling at the terminal and also reduced the time of radiation control inspections to one day instead of three or four days.

Port Vladivostok launched Russia's first electronic export instruction service. Freight forwarders were given an opportunity to issue export instructions using their personal account at the Port Vladivostok website: they can now sign documents with an electronic signature, send them to the information system of the Federal Customs Service, and receive a loading permit. In 1H 2022, over 5,000 electronic loading permits were received from the Federal Customs Service, and in December 2022 more than 80% of export instruction were sent via the new service. It helped automate the work of the Federal Customs Service employees and Port Vladivostok customers, as well as to promptly notify the terminal of the loading permit issued by the Federal Customs Service (speeding up the confirmation receipt from 24 to two hours). This resulted in paperwork reduction by 90% and made customer visits to the Federal Customs Service unnecessary.

Launched in 2021, a new Pocket Port mobile service gained momentum and increasingly attracted both new and existing port customers. In 2022, the web app traffic went up by 2.5 times YoY, averaging 3,000 visits per month. The share of FESCO customers using the app increased to 61% vs 30% in 2021.

The Autopass and Warehouse Closure services remain popular. The plan for 2023 is to expand the existing services and develop new ones to attract new customers.

**THE POCKET PORT TRAFFIC IN Q4 2022, %**



Source: Company data

Port Vladivostok is actively developing API services for integration with its customers through the automated management system. The number of such services doubled in 2022, with the main ones being:

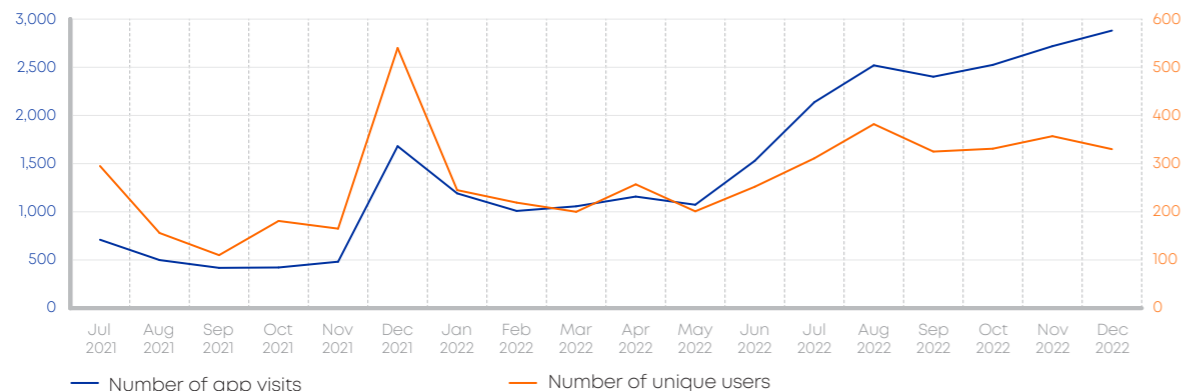
- creation of a pre-application for weighing;
- creation of a shipping order (booking);
- creation of a request to receive dangerous goods at the port.

In 2022, 17 key customers were connected to these services, an increase of 3% YoY.

**INDUSTRY 4.0**

FESCO launched the Smart and Safe Port project. A comprehensive individual video analytics system is being developed and integrated into the port's business processes, including transport monitoring and health and safety monitoring with a single biometric database provided by NtechLab. The project will support the Company in achieving the strategic goals of the port's safety, transparency, and performance improvement, as well as reduce commercial rejects, accidents, vehicle handling time and improve operational safety and handling. The project is slated for completion by the end of 2024.

**THE POCKET PORT TRAFFIC FROM 1 JULY 2021 TO 31 DECEMBER 2022**



Source: Company data

**The Smart and Safe Port project's expected effect**

**Increased efficiency and control of business processes**

- control of container handling and storage processes
- control over access and movement of employees, visitors, and third-party workers
- control over movement of vehicles
- control over security of the territory (outsiders, line crossing)

**Company protection**

- protection of the critical information infrastructure, ensuring data security and confidential information security
- protection of company assets (from potential theft, loss, depreciation)
- prevention of unacceptable losses and operational disasters

**Company image**

- increase in the issuer's rating
- rise in the market value of the Company
- improved credit rating
- lower cost of debt financing as a result of evaluating the effectiveness of the risk management system and the role of using high-tech and artificial intelligence in the port ecosystem

**Workplace safety**

- industrial and occupational safety
- efficiency of occupational health and safety measures

**Managerial efficiency**

- fair evaluation of the business units' performance with due regard to the risk associated with them at more mature stages, including quantitative risk assessment
- creation of a comprehensive risk-based management and incentive system



**IOT<sup>1</sup>**

A telemetry project for online monitoring of machinery and cranes was launched at Port Vladivostok. The project's deliverables are:

- reduced downtime of machinery and cranes thanks to shortened diagnostic and repair times;
- more accurate maintenance planning based on the actual operating hours of each crane and machinery unit;
- ability to assess the qualifications of the personnel operating the machinery and cranes;
- ability to predict and simulate routine and emergency situations.

**KHABAROVSK TERMINAL**

FESCO's Khabarovsk terminal launched a project to upgrade the terminal infrastructure. In the course of the project:

- all main communication lines at the production site and in the administration building were replaced;
- guaranteed operation of redundant Internet links was secured;
- a complete upgrade of video surveillance systems was carried out;

**INTERNAL DIGITALISATION****DEVELOPMENT AND ROLL-OUT OF UNIFIED ACCOUNTING SYSTEM**

In 2022, a unified accounting system was successfully rolled out at all major Group companies.

**DIGITAL SERVICES FOR FESCO EMPLOYEES**

One of the priority areas of FESCO's IT unit is the quality of digital services provided to employees. In 2022, work continued to create a digital corporate ecosystem, which is particularly important given a consistent increase in the Group's workforce.

- 99.9% availability of FESCO's corporate resources and information systems at the site was secured;
- corporate IT services of FESCO were provided to the business customer;
- video surveillance system was consolidated, the archive depth was increased.

**ROLL-OUT OF SOLUTIONS FOR MANUFACTURING COMPANIES**

The Company's growth and launch of new businesses revealed the need to automate activities of the new companies in a quick and efficient manner. FESCO opted for proprietary IT solutions already implemented in the Group. This helped to bring down automation time and offer solutions factoring into the specifics and requirements of the companies. In 2022, these solutions served as the basis for the following companies:

- FESCO Dostyk Limited;
- FESCO Turan;
- FESCO Central Asia.

A special focus was made on the development of self-service functionality, including a mobile app and a chatbot in Telegram.

At the end of 2022, a project was initiated to introduce HR document management, an ambitious project to streamline employee relations and minimise the cost of administering the HR function.

**DIGITAL INFRASTRUCTURE**

- Anti-sanctions measures

In 2022, due to the international context, FESCO focused on projects seeking to counteract sanctions. In particular, the Company was looking for solutions based on the Russian data centre and software; we were also considering the possibility of abandoning Microsoft cloud services, as well as user and network equipment of companies that introduced sanctions against Russia. As a result:

- a dedicated strategy was worked out; the migration of all FESCO email to a Russian cloud service is nearing completion;
- a concept was developed to stop using Office 365 cloud services (video conferencing, cloud portal, data library), the concept implementation is nearing completion;
- market analysis was performed, a solution was worked out, and pilot testing of Russian-made network and user equipment is currently underway.

These measures enabled the Company to minimise risks and secure stable operations.

- Development of FESCO's branches and offices

Despite global turbulence, FESCO is actively opening new offices in Russia and abroad and expanding existing offices.

- The Moscow office was expanded, new offices are being opened in Kazakhstan, Uzbekistan and the Russian cities of Kazan, Krasnodar, Khabarovsk.
- A structured cable system of Dalreftrans, FIT office in Vladivostok and Stroyopttorg in Khabarovsk was upgraded.
- The project for IT consolidation and modernisation of foreign offices (Korea, China) and the introduction of unified standards for network and user equipment and software were completed.
- Data centre equipment in Hong Kong was replaced resulting in improved performance and resilience of the shipping management systems.

<sup>1</sup> Internet of Things.

## CYBERSECURITY

According to reputable IT experts, cyber security risks for large businesses increased manifold in 2022. This is also confirmed by FESCO's Security Operations Centre (SOC) aimed at information security monitoring. In the reporting year, the SOC identified 136 security incidents, which is almost twice as many as in 2021. With the threats of the global digital space increasing, FESCO is systematically improving the security of its information infrastructure.

In 2022, FESCO added a number of effective cutting-edge solutions to its cyber security suite. The Company introduced a system for recording the actions of privileged users of the Company's corporate network (system administrators, developers, etc.), as well as the system for controlling the actions of employees when working with corporate data. The mechanism of remote user access to information resources got a two-factor authentication function. The internal segment of the corporate network is now equipped with hardware and software for detecting hacker tools. These measures significantly enhance the protection of information infrastructure from malicious attacks, reducing the risks of destructive effect on FESCO's digital services.

New 2022 challenges drove the need for import substitution as regards certain cyber security systems operated by the Group. In the reporting year, the Company successfully substituted imports of both hardware and software responsible for the firewall function.

## CUSTOMER EXPERIENCE MANAGEMENT

The Company's communication with customers is underpinned by the following principles:

- FESCO is the leader in the container transportation market in terms of quality. We develop internal regulations for our processes and seek to standardise and automate them in line with a continuous improvement approach;
- FESCO is quick to launch new projects. Our system easily adjusts to changes as we constantly develop and test hypotheses on potential opportunities and rely on quick project launch practices;
- FESCO appreciates the loyalty of its key customers. We build seamless communication channels by focusing on consistent interaction and personalised approach to key customers. We foster loyalty in response to our consistent delivery against the commitments we have taken on.

### OUR CUSTOMERS

FESCO's customer base:

**>17,000**

customers in 2022

**>2,000**

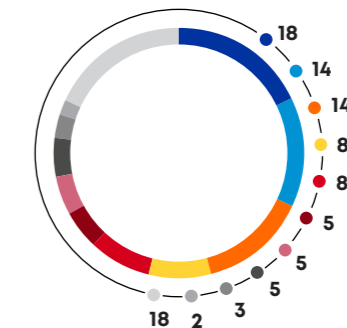
new customers acquired in 2022

**>45**

client offices, including in Southeast Asia, Central Asia, and Europe

FESCO provides its services in the most essential industries.

FESCO TRANSPORTATION IN 2022 BY CARGO TYPE, %



- Chemicals
- Timber
- Machinery and equipment
- Food
- Paper, including wood pulp
- Motor vehicles
- Metal products
- Construction materials
- Non-ferrous metals
- Fabrics
- Other

Source: Company data

## MECHANISMS OF CUSTOMER COMMUNICATION

### SINGLE CUSTOMER SUPPORT SERVICE

In 2022, FESCO launched unified customer support service. With this initiative, customers of all branches and units across FESCO Group can raise their concerns and get advice on all of the Company's services using a unified call centre and chat at [fesco.com](https://fesco.com).

In February 2022, to rapidly respond to customer questions amid disruptions in supply chains, we put in place a 24/7 support hotline for FESCO customers. While in service, the hotline handled over 1 thousand calls.



### UNIFIED CALL CENTRE

>110,000

calls received

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>95%

average service level (SL) value (percentage of calls answered within 20 seconds) at more than 95% for the year

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2 MIN 30 SEC

average call duration



### CHAT AND CHATBOT

Launched in Q4 2022

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5,000

queries handled

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Most popular queries:

- container tracking
- using the personal account
- help with rate calculations

### 24/7 SUPPORT SERVICE

FESCO prioritises customer services and support it offers in this regard.

To deliver superior customer experience, in November 2022, we put in place 24/7 support service for our customers:

- MY.FESCO customer's personal account;
- Personal accounts for agents, forwarders and carriers;
- AutoPass information system.

Support function employees are available 24/7 to advise customers on using the companies' information systems and address any concerns they may have.

The key goal here is to quickly provide quality professional help our customers need.

Customers can use the 8-800 single phone number and also the ServiceDesk (SD) solution. In 2H 2022, the number of queries from external customers handled via SD grew by some 100%.

### FESCO.COM WEBSITE

Following customer focus groups held in 2022, we implemented a comprehensive upgrade of website navigation, simplified working with rates using our calculator, and launched a new digital service: now customers can create an interactive route across all of the Company's areas of operations.

+39%

Number of visits to [fesco.ru](https://fesco.ru) was up by 39% vs 2021 (from 1.35 million to 1.88 million visits)

+77%

In 2022, the bulk of the traffic originated from search engines, with transitions going up by 77% YoY (from 672 thousand to 1.19 million)



[fesco.com](https://fesco.com)

## CUSTOMER FEEDBACK

To identify weaknesses in our offering, FESCO regularly holds customer surveys based on completed shipments, along with focus groups and in-depth interviews.

Once a shipment is completed, customers are asked to describe how satisfied they are using the CSAT<sup>1</sup> metric, either in their personal account or by email. In 2022, CSAT stood at 80% based on 2,247 questionnaires.

NPS<sup>2</sup> is one of the key customer loyalty metrics, showing how likely it is that the customer will recommend the Company's services. In 2022, NPS was 52%, improving by 11 pp vs the 2021 average. The number of respondents grew by 30% to 2,033 customers.

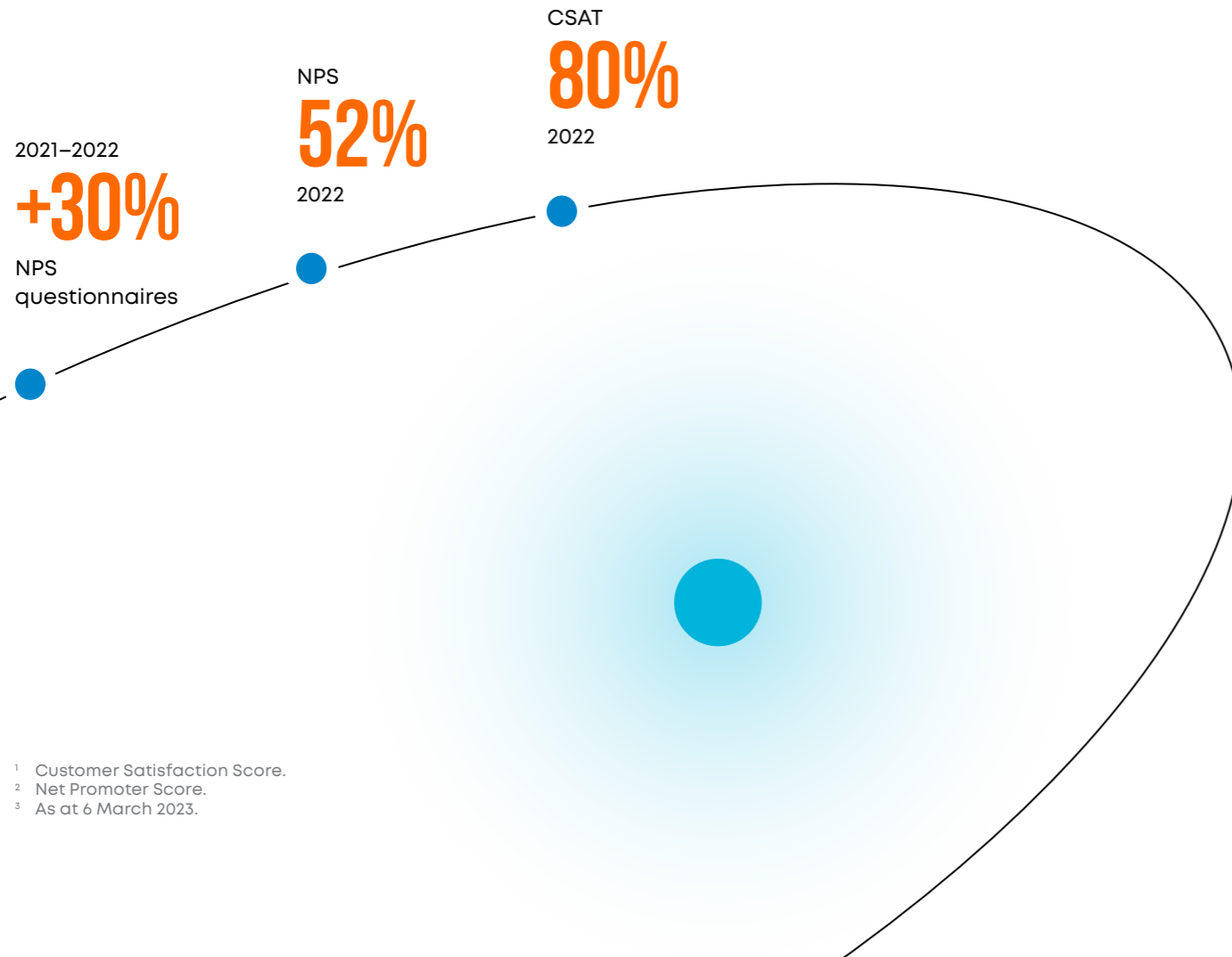
In their questionnaires, customers noted the following trends in service improvement:

- employees' speed of action;
- better document flow;
- convenient personal account and some of its new functions.

## INFORMATION ON NEW SERVICES

In 2022, FESCO regularly updated customers about new services on offer, sending out a total of 40 newsletters on new project launches, tweaks to existing services, and novel functionality added to the MY.FESCO account.

In early March 2022, our Telegram channel @tg\_fesco ("FESCO Transportation Group") went live. Today, it has more than 170 posts on the Group's services, participation in transport and logistics exhibitions, customer events, and corporate news. Over the past year, the number of subscribers has grown to 3,652<sup>3</sup>. FESCO's Telegram channel is a platform to connect with potential customers, partners and employees, with our team always there to answer questions about FESCO's routes, services, and internship and employment opportunities



<sup>1</sup> Customer Satisfaction Score.  
<sup>2</sup> Net Promoter Score.  
<sup>3</sup> As at 6 March 2023.

# FINANCIAL REVIEW

## FINANCIAL OVERVIEW

### FINANCIAL RESULTS

Indicator	2021	2022	YoY change, %
Revenue, RUB mln	113,709	162,639	43
EBITDA, RUB mln	47,474	71,483	51
EBITDA margin, %	42	44	2
CAPEX	23,928	36,733	54

### REVENUE, RUB MLN

Indicator	2021	2022	YoY change, %
Port Division	22,746	32,977	45
Rail Division	5,115	6,932	36
Liner and Logistics Division	94,591	138,926	47
Shipping Division	4,115	7,807	90
Fuel Division	1,809	2,788	54
Eliminations	(14,667)	(26,791)	83
FESCO Group	113,709	162,639	43

In 2022, the Group's consolidated revenue increased by 43% to RUB 162,639 million vs RUB 113,709 million in 2021. All business segments showed YoY growth of revenue.

The Port Division's revenue in 2022 went up by 45%, or RUB 10,231 million, to RUB 32,977 million. The main growth drivers included higher cargo transportation profits coming from rising handling volumes, and augmentation of storage profits coming on the back

of increased average time for container terminal transit and additional container cargo management services. A 36% hike in the vehicle handling volumes and changes in the cargo structure by general cargo also had a positive impact on the Port Division's revenue.

The Rail Division's revenue in 2022 rose by 36%, or RUB 1,817 million. Fitting platforms, our core asset, accounted for most of this revenue growth.

The Liner and Logistics Division's revenue went up by 47% YoY, or RUB 44,335 million. The revenue growth was driven by:

- 19% rise in volumes carried by international routes;
- launch of FESCO Vietnam Direct Line (FVDL), a regular sea line connecting the ports of Vietnam with Port Vladivostok;
- launch of an intermodal service from Turkey to Russia;
- high market rates on international routes;
- higher liner tariffs for domestic container shipping lines;
- growing intermodal exports through the Commercial Port of Vladivostok;
- expanding geography of regular intermodal services to Samara, Kazan, Krasnodar, Minsk, and Kaliningrad.

In 2022, the Shipping Division's revenue added 90%, or RUB 3,692 million, mostly driven by higher vessel revenue rates and the operation of the fleet purchased as part of a long-term fleet renewal programme.

Revenue of the Fuel Division in 2022 increased by 54%, or RUB 979 million, as a result of higher fuel prices and oil product sales. The low-sulphur fuel oil prices for Russian consumers in the ports of Vladivostok, Nakhodka and Vostochny went up by 30% in 2022. By the end of the year, the situation went back to normal, and starting from Q4 2022 the prices began to decrease mainly due to reduced demand from international buyers amid increasing sanction pressure.

## OPERATING EXPENSES, RUB MLN

Indicator	2021	2022	YoY change, %
Port Division	8,938	9,517	6
Rail Division	2,234	1,773	(21)
Liner and Logistics Division	54,047	82,033	52
Shipping Division	2,414	3,521	46
Fuel Division	1,665	2,588	55
Eliminations	(14,635)	(26,717)	83
FESCO Group	54,663	72,715	33

In 2022, the Liner and Logistics Division's operating expenses increased by 6%, or RUB 579 million, driven by improved cargo turnover, including expenses on fuel, energy resources and cargo securing materials.

The Rail Division's operating expenses shrank by 21%, or RUB 461 million. This was due to the disposal of leased fitting platforms.

Operating expenses of the Liner and Logistics Division grew by 52%, or RUB 27,986 million, due to higher transportation volumes, which triggered a rise in expenses associated with railway tariffs, terminal services, and containers, but also an increase in time-charter rates.

The Shipping Division's operating expenses were up by 46%, or RUB 1,107 million. The growth was primarily driven by a surge in expenses associated with fleet acquisitions and the full year operation of newly acquired vessels.

In the Fuel Division, 2022 operating expenses increased by 55%, or RUB 923 million, as a result of higher prices and oil product sales.

## GROSS PROFIT

In 2021, FESCO's gross profit stood at RUB 89,924 million vs RUB 59,046 million in 2021.

## ADMINISTRATIVE EXPENSES, RUB MLN

Indicator	2021	2022	YoY change, %
Salary and other staff related costs	9,525	15,559	63
Professional fees	973	1,520	44
Office rent	179	237	32
Other administrative expenses	1,793	2,323	17
<b>Total</b>	<b>12,470</b>	<b>19,639</b>	<b>57</b>

The Group's administrative expenses increased by 57% to RUB 19,639 million vs RUB 12,470 million in 2021.

Salary and other staff-related costs rose as vacancies were filled, new FTEs added to run projects on new routes and serve FESCO's growing volumes, and incentive compensations paid to commercial

personnel and management for their full-year performance.

Increase in other administrative expenses was primarily driven by higher legal, consultancy, conference, publicity, marketing and business trip expenses incurred to unlock business growth opportunities.

## EBITDA, RUB MLN

Indicator	2021	2022	YoY change, %
Port Division	11,792	20,749	76
Rail Division	1,991	3,947	98
Liner and Logistics Division	34,967	48,771	39
Shipping Division	1,108	3,446	211
Fuel Division	82	125	52
Extra-divisional Group	(2,466)	(5,555)	(125)
FESCO Group	47,474	71,483	51

## EBITDA MARGIN, %

Indicator	2021	2022	YoY change, %
Port Division	52	63	11
Rail Division	39	57	18
Liner and Logistics Division	37	35	(2)
Shipping Division	27	44	17
Fuel Division	5	4	(1)
FESCO Group	42	44	2

The Port Division's EBITDA increased by 76%, or RUB 8,957 million, driven primarily by stronger turnover of container cargoes, vehicles and coal, higher storage profits and additional services to manage imported container cargoes.

In 2022, the Rail Division's EBITDA rose by 98%, or RUB 1,956 million, due to the expansion of the core fleet of fitting platforms.

The Liner and Logistics Division's EBITDA in 2022 increased by 39%, or RUB 13,804 million. Despite international instability, 2022 offered favourable market conditions for development (pivot of transportation volumes from the ports of the Baltic and Black seas towards the Far East, higher freight rates). Throughout the year, FESCO positioned itself in the higher end segment as a premium transportation

company offering services of superior quality. The opening of new routes and rapid growth of sales to direct customers also contributed to our strong financial performance.

In 2022, the Shipping Division's EBITDA went up by 211% YoY, or RUB 2,338 million, mainly as a result of higher revenue rates and operation of new vessels.

In the Fuel Division, 2022 EBITDA increased by 52%, or RUB 43 million, due to stronger oil product sales and handling volumes.

### DEPRECIATION AND AMORTISATION, RUB MLN

Indicator	2021	2022	YoY change, %
Port Division	868	941	8
Rail Division	1,270	1,901	50
Liner and Logistics Division	704	1,713	143
Shipping Division	3,868	1,709	(56)
Fuel Division	5	3	(26)
Extra-divisional Group	194	381	97
FESCO Group	6,909	6,648	(4)

In 2022, the Group's depreciation and amortisation charges went down 4% to RUB 6,648 million vs RUB 6,909 million in 2021. The decline in charges in 2022 was caused by a drop in the value of the vessel fleet following annual revaluation.

### PROFIT FROM OPERATING ACTIVITY

In 2022, FESCO's profit from operating activity stood at RUB 50,899 million vs RUB 43,420 million in 2021.

### OTHER FINANCIAL EXPENSES, NET

FESCO's other financial income and expenses (net) came in at RUB (5,771) million vs RUB (3,124) million in 2021.

### NET PROFIT

Net profit stood at RUB 39,388 million vs RUB 37,850 million in 2021.

### DEBT OBLIGATIONS, RUB MLN

Indicator	31 December 2021	EBITDA	31 December 2022	EBITDA
Cash and cash equivalents	(11,068)	(0.2x)	(30,677)	(0.4x)
Debt obligations and lease liabilities <sup>1</sup>	34,010	0.7x	33,308	0.5x
• Short-term	3,639		4,133	
• Long-term	30,371		29,175	
<b>Net debt</b>	<b>22,942</b>	<b>0.5x</b>	<b>2,631</b>	<b>0.04x</b>

FESCO's liabilities as at 31 December 2022:

- RUB 30,610 million – loans and borrowings;
- RUB 2,698 million – lease liabilities.

Net debt shrank from RUB 22,942 million to RUB 2,631 million as at 31 December 2022.

Net debt / EBITDA ratio as at 31 December 2022 decreased to 0.04x (excluding IFRS 16 impact).

### CAPITAL EXPENDITURES

In 2022, the Group's CAPEX totalled RUB 36,733 million, up 54% YoY.

Fleet purchase CAPEX in 2022 came in at RUB 13,156 million. FESCO acquired new container vessels to be operated on the Group's domestic and international routes, including for providing services on the FESCO Turkey Black Sea Service (FTBS) line between the ports of Turkey and Novorossiysk.

In 2022, FESCO continued expanding its rolling stock and invested RUB 7,646 million in it. Most investments went to the core fleet of 80-foot fitting platforms, with 1,989 fitting platforms added to the rolling stock to accommodate stronger demand amid the quick development of railway services.

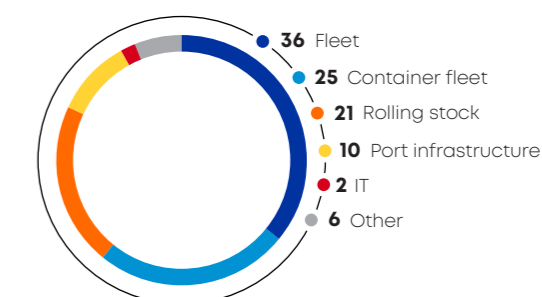
Investments in the Port Division's capacities totalled RUB 3,510 million during the year. The Company continues its port development programme to ramp up its throughput capacity. Most investments in 2022 went to the acquisition of cranes and machinery, and expansion/upgrade of capacities. The port's throughput capacity as at the end of 2022 reached 768 thousand TEU.

In 2022, the container fleet operated by the Company expanded to 135 thousand TEU. CAPEX required to purchase heavyweight containers in 2022 came in at RUB 9,137 million. The fleet of dry containers grew by 30% to reach 78,639 units, while the fleet of refrigerated containers expanded by 59% to 4,659 units.

In 2022, FESCO invested RUB 579 million in IT, allocating funds for the development and maintenance of operating and accounting systems.

Other capital expenses were associated with acquiring and repairing wheel sets, dry docking, and inland terminals, along with other maintenance CAPEX.

CAPEX FOR 2022, %



Source: Company data

<sup>1</sup> Lease liabilities do not include obligations under contracts of lease which was recognised as operating until IFRS 16 came into force on 1 January 2019. So, to calculate ratios, adjusted EBITDA excluding the impact of the IFRS 16 adoption is also used.

SUSTAINABLE  
DEVELOPMENT

# OUR COMMON FUTURE

Focus on sustainable development and environmental and social responsibility is the Company's priority.

~ RUB **730** MLN  
social investment in 2022

**×2**

increase in environmental safety expenses in 2022

**17.2%**

average YoY growth in the income of the Company's employees



FESCO's approach to the sustainable development strategy fits into the classical definition set out in Our Common Future, report of the World Commission on environment and development (1987):

“ Meeting the needs of the present generation without compromising the ability of future generations to meet their own needs”.

# STAKEHOLDER ENGAGEMENT

FESCO seeks to identify the full range of stakeholder interests in a timely manner and integrate them into its operations. Our relations with stakeholders are constantly

evolving and improving. The Company's goal is to ensure effective communication and open dialogue with all stakeholders.

Stakeholder group	Stakeholder engagement tool/channel
Shareholders and investors	<ul style="list-style-type: none"> <li>• General Shareholders Meeting;</li> <li>• annual report, information brochures and booklets;</li> <li>• financial statements;</li> <li>• press releases, mandatory disclosure publications;</li> <li>• meetings with the Company's management;</li> <li>• press conferences, presentations, forums;</li> <li>• corporate website, including the Shareholders and Investors section;</li> <li>• shareholder surveys;</li> <li>• query responses, provision of requested documents and information;</li> <li>• inclusion of independent directors in the Board of Directors to protect shareholders;</li> <li>• hotline and email.</li> </ul>
Suppliers and contractors	<ul style="list-style-type: none"> <li>• Invitations to tender for the supply of goods, performance of works, and provision of services;</li> <li>• supplier and contractor reliability checks;</li> <li>• one-on-one and online negotiations;</li> <li>• formalisation of partnership (cooperation contracts and agreements);</li> <li>• electronic trading and procurement platform.</li> </ul>
Customers	<ul style="list-style-type: none"> <li>• Information on services, rates, and schedules available on the Company's website and via email;</li> <li>• MY.FESCO, customer's personal account;</li> <li>• single customer support service (call centre);</li> <li>• NPS, CSAT, in-depth interviews with key customers, focus groups;</li> <li>• launch of a Telegram channel;</li> <li>• negotiations, offline customer events;</li> <li>• development of personalised transportation and logistics solutions for key customers;</li> <li>• participation in industry-specific conferences and exhibitions;</li> <li>• formalisation of contractual relations;</li> <li>• on-site customer support.</li> </ul>

Stakeholder group	Stakeholder engagement tool/channel
Business partners	<ul style="list-style-type: none"> <li>• Negotiations, meetings, presentations;</li> <li>• participation in conferences, forums and exhibitions;</li> <li>• membership in industrial unions and associations;</li> <li>• annual report, financial statements, press releases.</li> </ul>
Employees	<ul style="list-style-type: none"> <li>• Corporate means of communications, including FESCO's news portal, Telegram channel, and educational webinars;</li> <li>• mass cultural and sports events;</li> <li>• personnel engagement surveys;</li> <li>• regular management meetings;</li> <li>• target (KPI) management;</li> <li>• by-laws: remuneration, benefits and compensations, internal staff rules, personal data, training and development, staff recruitment;</li> <li>• collective bargaining agreement;</li> <li>• veteran council;</li> <li>• trade unions.</li> </ul>
Local communities	<ul style="list-style-type: none"> <li>• Long-term or one-off social, environmental and cultural programmes in the regions of operation;</li> <li>• partnership projects and programmes in the regions of operation;</li> <li>• volunteer programmes, projects and campaigns;</li> <li>• organisation of sociological and other studies, surveys, and focus groups, participation in them;</li> <li>• PR activities, including dedicated events, workshops, forums and competitions;</li> <li>• management meetings with representatives of local communities, including managers and employees of non-profit organisations, volunteer movements, social and cultural institutions, representatives of university students and teachers in the regions of operation, school students, teachers and administrative staff, veteran organisations, etc.;</li> <li>• meetings with officials from government agencies and local authorities in the regions of operation;</li> <li>• participation in industry-specific, public and other exhibitions, conferences, forums, etc.;</li> <li>• the Group's corporate websites and social media pages, the websites and social media pages of individual programmes and projects pursued by the Group.</li> </ul>
Members of professional industrial communities	<ul style="list-style-type: none"> <li>• Membership in industrial unions and associations:                             <ul style="list-style-type: none"> <li>– Eurasian Union of Rail Freight Transport Participants;</li> <li>– Organisation for Cooperation of Railways;</li> <li>– Union of Railway Operators Market;</li> <li>– Association of Commercial Sea Ports;</li> <li>– Russian Chamber of Shipping;</li> <li>– International Coordinating Council on Trans-Eurasian Transportation;</li> <li>– Russian Union of Industrialists and Entrepreneurs (RSPP);</li> <li>– Russian Association of Freight Forwarding and Logistic Organisations;</li> <li>– Public Council of the Northern Sea Route;</li> <li>– Russian-Chinese Business Council;</li> <li>– Association of Exporters and Importers;</li> <li>– Chamber of Commerce and Industry of the Primorye Territory;</li> <li>– Association of Operators of the Refrigerator Rolling Stock;</li> <li>– Association of Partners on Coordination and Usage of the Northern Sea Route;</li> </ul> </li> <li>• participation in expert councils;</li> <li>• establishment of joint coordination committees and task forces;</li> <li>• participation in conferences, forums, round tables, plenary and strategic sessions.</li> </ul>



Stakeholder group	Stakeholder engagement tool/channel
Higher education institutions	<ul style="list-style-type: none"> <li>• Internship offers;</li> <li>• work in the FEFU project management office (FSC – Workflow Management, Accounting);</li> <li>• implementation of the Accounting joint educational module;</li> <li>• organisation of competitions to select talented students (case championships, brain storms);</li> <li>• lectures and master classes from FESCO experts;</li> <li>• resolution of project-based challenges.</li> </ul>
Rating agencies	<ul style="list-style-type: none"> <li>• Regular contacts with agency officers;</li> <li>• information disclosure;</li> <li>• press releases disclosing financial results;</li> <li>• publication of financial statements and annual reports;</li> <li>• conference calls with management.</li> </ul>
Financial organisations	<ul style="list-style-type: none"> <li>• Disclosures under financial monitoring;</li> <li>• engagement with analysts and lawyers during Q&amp;A sessions held as part of disclosures;</li> <li>• monthly and quarterly management meetings with partner banks;</li> <li>• discussions with analysts and client managers as part of the efforts to manage bank product requests.</li> </ul>
Government agencies	<ul style="list-style-type: none"> <li>• Participation in the meetings of intergovernmental commissions, their working bodies, and port expert groups; participation in official delegations accompanying Russian vice prime ministers and select ministers on their working visits to the countries where FESCO operates;</li> <li>• participation in conferences and task forces sponsored by allied associations (the Organisation for Cooperation of Railways, Union of Railway Operators Market, Association of Commercial Sea Ports, Russian Chamber of Shipping, Russian-Chinese Business Council, International Coordinating Council on Trans-Eurasian Transportation, Eurasian Union of Rail Freight Transport Participants, Russian Association of Freight Forwarding and Logistic Organisations, RSPP, Public Council of the Northern Sea Route, etc.);</li> <li>• preparation of the Company's responses to requests submitted by government agencies;</li> <li>• sponsorship of regulatory initiatives on maritime shipments, stevedoring services at ports, container shipment by various means of transport;</li> <li>• participation in working groups, joint meetings, round tables, conferences, and forums;</li> <li>• submission of queries and proposals to federal and regional executive authorities;</li> <li>• interaction with relevant government agencies to obtain permits, certificates, licences, etc.;</li> <li>• implementation of initiatives for improving intermodal transportation processing procedures in partnership with relevant government authorities.</li> </ul>

# PERSONNEL

FESCO has drafted an HR management strategy until 2025. The strategy covers all aspects of employer–employee relationships. In 2022, the Company took the first steps on the way towards its implementation. Key focus areas under the strategy include:

- **staff acquisition** through a wider geographical outreach and deeper student engagement, enhanced online visibility in social media and career portals, automation of the staff recruitment process, and development of the employer brand;
- **staff development** with reliance on the Corporate University and a shared training system covering all employees across the Group and focusing on:
  - online educational opportunities (the Company is introducing a new distance learning platform),
  - development of relevant professional and leadership competencies;
- **talent engagement**, including:
  - creation of a talent pool for key business positions,
  - provision of opportunities for career growth based on intra-Group transfers,
  - development of a procedure ensuring participation in cross-functional projects;
- **improvements in the efficiency of HR management processes** achieved through:
  - description of all HR processes for their further automation,
  - development of local regulations based on unified standards (in line with both mandatory labour law requirements and additionally approved criteria to meet specific business needs),
  - automated collection and control of HR management data (metrics),
  - electronic workflow in the HR sector;
- **development of corporate culture**, including:
  - improvements in employee engagement,
  - enhancement of the employer's social responsibility,
  - creation of a single corporate culture;
- **organisational development**:
  - creation of a uniform system for building organisational structures across FESCO Group,
  - analysis of the the current structure's efficiency,
  - a single budgeting model;

- **target management**:
  - development of a KPI catalogue covering all of the Company's business units,
  - implementation of an automated system for setting and assessing KPIs,
  - development of individual development plans for employees (with reliance on the unified automated KPI system);
- **remuneration management**:
  - creation of a unified remuneration and incentivisation system for all employees of FESCO.

FESCO Group won a golden status in Forbes' rating, which includes 118 companies divided into four groups depending on their score (platinum, gold, silver and bronze).

One of the key social dimensions considered by the rating was implementation by the companies of employee support policies that go far beyond the standard social benefit package. Apart from that, Forbes experts reviewed the companies' staff retention and pay rise efforts, while also assessing their environmental policies and corporate governance quality.

In the rating of Russia's best employers compiled by RBC, FESCO came in the 16th place on the overall ranking as the only logistics company which made it to the list. RBC analysts reviewed a total of 82 companies and ranked them based on the following criteria: business reliability and efficiency, the quality of working conditions, and business reputation. The pros that the rating participants (FESCO included) have in common are their significant investments in business development, favourable working conditions for employees, including high wages and training expenses, and the superior quality of their social package.

Thanks to the implementation of strategic personnel management initiatives, FESCO Group made it to the ratings of Russia's best employers in 2022.

## STAFF COMPOSITION

In 2022, FESCO's average headcount went up 13.4% YoY to 5,883 FTEs. The increase was driven

by the development of business lines and business growth.

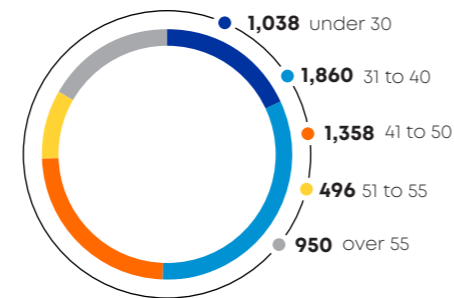
### FESCO'S AVERAGE HEADCOUNT, FTEs<sup>1</sup>

Location	2019	2020	2021	2022
Russia	4,844	4,897	5,008	5,702
Asia	152	146	146	146
Europe	49	48	33	35
<b>Total</b>	<b>5,045</b>	<b>5,091</b>	<b>5,187</b>	<b>5,883</b>

Source: Company data

FESCO's employees come from various age groups.

### PERSONNEL STRUCTURE BY AGE IN RUSSIA IN 2022, FTEs



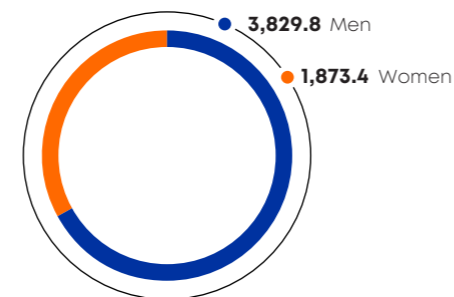
Source: Company data

### AVERAGE EMPLOYEE AGE IN RUSSIA, YEARS

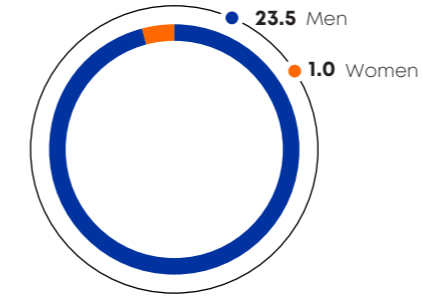
2019	2020	2021	2022
41.0	41.4	41.2	41.2

In implementing its HR policy as well as job compensation and social security policy, FESCO strictly respects the laws applicable to employees' rights and freedoms, offers equal opportunities, and guarantees employee protection against any forms of discrimination.

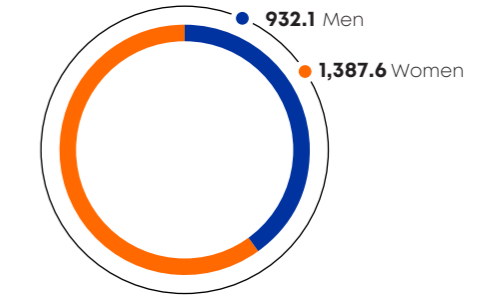
### PERSONNEL STRUCTURE BY GENDER IN RUSSIA IN 2022, FTEs



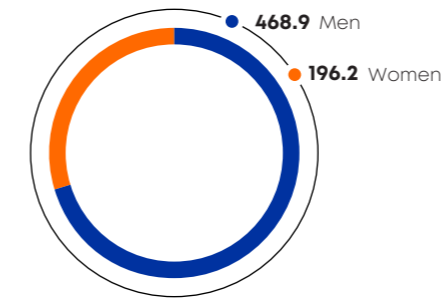
### JOB LEVEL STRUCTURE BY GENDER IN RUSSIA IN 2022 (SENIOR EXECUTIVES), FTEs



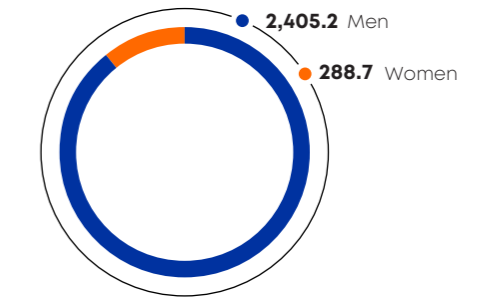
### JOB LEVEL STRUCTURE BY GENDER IN RUSSIA IN 2022 (SPECIALISTS), FTEs



### JOB LEVEL STRUCTURE BY GENDER IN RUSSIA IN 2022 (EXECUTIVES), FTEs



### JOB LEVEL STRUCTURE BY GENDER IN RUSSIA IN 2022 (BLUE-COLLAR WORKERS), FTEs



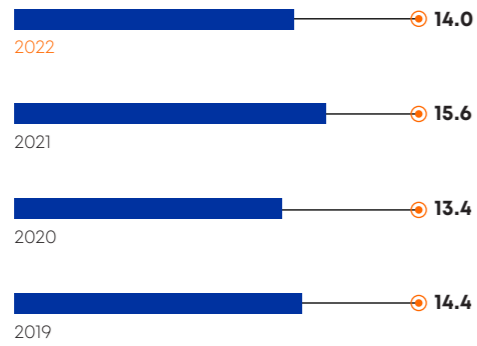
Source: Company data

<sup>1</sup> Full-time equivalent (abbreviated FTE) is the equivalent of full-time employment of company employees, which allows determining the level of employee involvement in the labour process.

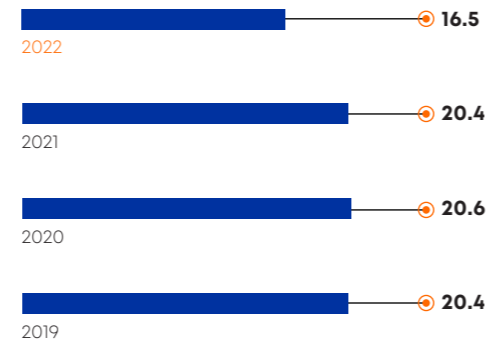
## PERSONNEL TURNOVER

FESCO has an effective HR policy in place and uses a variety of staff recruitment methods which help it maintain a stable personnel turnover rate in terms of dismissed employees. In 2022, it stood at 14.0% for voluntary resignations and 16.5% for all reasons for resignation, declining by 10.3% and 19.1% YoY, respectively.

### PERSONNEL TURNOVER RATE (VOLUNTARY TURNOVER), %



### PERSONNEL TURNOVER RATE (TOTAL TURNOVER), %



Source: Company data

## NUMBER OF HIRED AND DISMISSED EMPLOYEES BY AGE GROUP AND GENDER IN RUSSIA

### HIRED IN 2019

Under 30		31 to 40		41 to 50		51 to 55		Over 55		Total
Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	
271	234	228	105	130	53	52	14	63	16	1,166

### DISMISSED IN 2019 (WITH FESCO'S INTRA-COMPANY STAFF TRANSFERS FACTORED IN)

Under 30		31 to 40		41 to 50		51 to 55		Over 55		Total
Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	
158	143	180	146	114	55	74	29	136	44	1,079

### HIRED IN 2020

Under 30		31 to 40		41 to 50		51 to 55		Over 55		Total
Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	
213	140	179	107	157	63	56	20	73	17	1,025

### DISMISSED IN 2020 (WITH FESCO'S INTRA-COMPANY STAFF TRANSFERS FACTORED IN)

Under 30		31 to 40		41 to 50		51 to 55		Over 55		Total
Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	
187	96	176	131	142	42	75	22	131	27	1,029

### HIRED IN 2021

Under 30		31 to 40		41 to 50		51 to 55		Over 55		Total
Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	
312	261	291	173	190	107	69	16	86	18	1,523

### DISMISSED IN 2021 (WITH FESCO'S INTRA-COMPANY STAFF TRANSFERS FACTORED IN)

Under 30		31 to 40		41 to 50		51 to 55		Over 55		Total
Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	
206	146	202	150	133	102	61	27	139	28	1,194

### HIRED IN 2022

Under 30		31 to 40		41 to 50		51 to 55		Over 55		Total
Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	
365	303	352	241	317	126	110	25	175	39	2,053

### DISMISSED IN 2022 (WITH FESCO'S INTRA-COMPANY STAFF TRANSFERS FACTORED IN)

Under 30		31 to 40		41 to 50		51 to 55		Over 55		Total
Men	Women	Men	Women	Men	Women	Men	Women	Men	Women	
210	143	251	153	182	92	90	12	165	48	1,346

Source: Company data

### AVERAGE EMPLOYEE AGE IN RUSSIA AS AT THE EMPLOYMENT DATE, YEARS

Year	2019	2020	2021	2022
Average Age	34.9	37.1	36.9	37.9

## CODE OF CORPORATE AND BUSINESS ETHICS

FESCO vigorously supports and strictly respects employment regulations and employees' rights and freedoms, offers equal opportunities, and guarantees employee protection against any form of discrimination. FESCO's ethical conduct rules apply to employee relations through its Code of Corporate and Business Ethics, which states that the Company has no work limitations based on gender, ethnic origin, religion, or any other grounds or circumstances unrelated to employees' business qualities.

The Company follows the principles of an honest, fair, and open policy in respect of both its own staff and external counterparties:

- promoting open attitudes in business communication;

- ensuring workplace management conducive to effective teamwork and employees' satisfaction with their job;
- creating and maintaining a stable favourable moral environment for personnel to ensure an open exchange of opinions facilitating efficient implementation of tasks assigned and to unlock staff members' potential;
- creating conditions for staff training and skill enhancement.

The Code of Corporate and Business Ethics applies to staff relations with external counterparties.

## INCENTIVES

### FINANCIAL INCENTIVES

FESCO strives to create comfortable working conditions for its employees and provides them with competitive salaries and corporate benefits.

The remuneration system contemplated by FESCO's strategy is focused on increasing transportation volumes and profit margins, improving the quality of cargo forwarding services, and enhancing labour efficiency. The incentive scheme provides for remuneration payment depending on employees' operating and financial performance and personal contribution.

In 2022, the income of the Company's employees grew by an average of 17.2% YoY. This increase was driven by progressive annual salary indexations (in the companies covered by a collective bargaining agreement) and payroll reviews in other companies conducted to bring remuneration levels in line with the market average.

### SOCIAL PROTECTION

FESCO provides its employees with social protection and benefits over and above those provided for by the Russian labour laws, which helps increase labour efficiency and performance. All FESCO employees hold voluntary health insurance (VHI) policies and can receive free medical care at the country's best healthcare facilities specified in the insurance contract. The VHI programme also covers outpatient care, hospital services, preventive vaccination, dental care, treatment procedures, round-the-clock trauma services, diagnostic testing, healthcare at home, and emergency medical services. Starting from 2022, VHI policies are made available to all of the Company's employees in the first month of their employment. In 2022, VHI costs amounted to RUB 102 million. VHI expenses per employee increased by an average of 24.4% YoY driven by both the expansion of the Group's headcount and improvements in the quality of healthcare services provided to employees.

FESCO offers its employees financial aid on special occasions in their life or to help them and their families overcome serious health issues. In 2022, total financial aid allocated by the Group amounted to RUB 64.2 million, with financial support per employee increasing by an average of 16.0% YoY.

FESCO has developed and put in place additional support measures for all of the Group's employees as required by Russian President's Order No. 647 On Declaring Partial Mobilisation in the Russian Federation dated 21 September 2022. These additional support measures include financial aid, and mental health and legal assistance in the form of free psychological and legal consultations for the Group's employees and members of their families more than 18 years old.

Financial aid is provided in the following cases:

- one-off payment upon the mobilisation of an employee – RUB 100,000;
- one-off assistance to pay for the mobilisation outfit and accoutrements – RUB 200,000;
- average salary payments in the first six months of mobilisation service<sup>1</sup>;
- one-off payment upon the completion of mobilisation service – RUB 300,000;
- one-off assistance to pay for health resort treatment upon the completion of mobilisation service – RUB 100,000;
- one-off payment in case of minor injuries – RUB 500,000;
- one-off payment in case of severe injuries – RUB 1 million;
- one-off payment in case of decease of the mobilised employee during military service – RUB 3 million.

## SPORTS

At FESCO, we view sports as an element of our corporate culture, as they have a positive impact on employee performance primarily through the development of teamwork skills. The Group's companies provide all the basic opportunities for employees wishing to practise sports.

Port Vladivostok has built a fully-equipped gym offering its staff group and individual training sessions run by male and female coaches. In addition to the fitness facility, the gym has a sauna and a Turkish bath. Port workers can visit a swimming pool and attend volleyball, basketball, futsal, hockey, jogging and wrestling classes for free. Furthermore, Port Vladivostok hosts friendly Russian bench press, table tennis and ice hockey competitions.

Thanks to the promotion of sporting activities, the Company has its own sports teams: Tigers (basketball), Port Worker (football), and Sharks (hockey). Employees participate (including as part of the above teams) in various sports competitions of the Primorye Territory – winter and summer business spartakiads, the Interregional Amateur Basketball League, Alternative Hockey League of the Primorye Territory, Hockey Federation

Cup of the Primorye Territory, Open Futsal Championship of Vladivostok, Open Football Championship, etc. – and win different awards. FESCO's employees also take part in sports marathons such as Vladivostok Bridges and Hero Race.

Other companies of the Group also put a lot of effort into promoting sports:

- the Moscow office has organised regular football, hockey and yoga drills for FESCO's employees;
- the St Petersburg office offers regular football drills;
- in November 2022, a combined team of FESCO's employees participated in Hero Race, an extreme cross-country marathon that took place in Novosibirsk.

In 2023, FESCO plans to implement a unified approach to sports events by integrating into it, among other things, best practices developed by the Group.

In 2022, corporate sports expenses per employee increased by an average of 31.8% YoY.

**RUB 7.1 MLN**  
Corporate sports expenses in 2022

<sup>1</sup> In March 2023, average salary payments were extended to cover the entire term of mobilisation service.

## TRADE UNIONS

FESCO's trade unions are represented by six shop-floor trade unions consolidated into regional trade union organisations of Vladivostok and the Primorye Territory and forming part of three public organisations: the Primorye Territory Public Organisation of Sea Port Workers of the Russian Dockers' Union, the Water Transport Workers Union, and the Russian Seafarers' Union which is affiliated with the International Transport Workers' Federation.

In their activities, the trade unions of dockers and seafarers represent and protect the rights and legitimate interests of the trade union members in matters associated with labour relations and coordination of the trade union organisations' efforts to protect trade union members' individual and collective social, labour, professional, and other related rights and interests.

**In 2022, 37.8% of all FESCO employees were trade union members, with management accounting for 25.7% of such members and blue-collar staff for 74.3%.**

In 2022, the trade unions provided social support to trade union members and their families in the following areas:

- financial support (in connection with illness, death, child birth, marriage registration, employees' anniversaries, retirement, as well as for families with multiple children and those raising disabled children);
- issuing letters of acknowledgement to trade union members for their professionalism and proactive attitude;
- legal and accounting support (consultations, document processing);
- compensation of costs associated with the purchase of tickets to New Year festive events for children;
- recognition of female workers' contribution in the form of gift certificates presented on the occasion of 8 March;
- social team-building events (excursions to the Dardanelles Gorge, ascent to Mount Falaza, the Race of Heroes sporting event, tennis and chess tournaments, corporate events and getaways on the occasion of New Year, Day of Sea and River Fleet Workers, and other professional festivities);

- compensation of health resort treatment packages for the trade union's seafarers.

FESCO's trade unions actively contribute to the raising of future generations by arranging social events for trade union members' children on holidays. In keeping with the well-established tradition, the trade union presented gift certificates to employees' children on the occasion of the Knowledge Day. The shop-floor trade union of FESCO's seafarers purchased New Year gifts and tickets to New Year children's shows, while also compensating the cost of recreational camp packages for children.

The trade unions maintain an ongoing and constructive dialogue with the employer – FESCO Group. In 2022, the following amendments were made to collective bargaining agreements:

- the collective bargaining agreement of Port Vladivostok:
  - the list of companies included in the Single Stevedore project was expanded to calculate the previously omitted compensations payable to employees departing due to retirement;
  - provisions on remuneration, bonuses and corporate awards were taken out from the collective bargaining agreement and added to local regulations as a way to align the collective bargaining agreement with FESCO's general approaches;
  - payments made to employees before their annual paid leaves subject to their employment record were cancelled and replaced with payments in the amount of two average daily salaries with no connection to the employment record;
  - employee payments on the occasion of the port's anniversary were cancelled.
- the collective bargaining agreement of FESCO's Vladivostok branch:
  - provisions on remuneration, bonuses and corporate awards were taken out from the collective bargaining agreement and added to local regulations as a way to align the collective bargaining agreement with FESCO's general approaches;
  - the cost of daily seafarer diet and food compensations payable to crew members on auxiliary ships were increased by 30%;
  - the insurance amount paid to beneficiaries in case of decease of the insured person or for any other reasons not specified in the collective

- bargaining agreement was increased from RUB 16,000 to ten minimum wages, with the insurance company undertaking to pay said amount under respective personal accident insurance contracts;
- as part of the efforts to align remuneration approaches across the Group's companies, FESCO introduced extra payments to bring employees' incomes in line with the actual salary in cases where average wages during business trips or training period are below the basic salary and applicable incentives;
- as part of the efforts to align remuneration approaches across the Group's companies, FESCO introduced additional

- payments for lost-time injury days (no more than five working days per calendar year);
- the maximum amount paid to compensate the cost of trips to children's stationary recreational camps and health resorts was increased from RUB 8,000 to RUB 10,000 per each child of the branch's employee (up to 14 years old inclusive);
- the employer's obligation to transfer funds to the account of the trade union committee on an annual basis as a way to remunerate the chairman of this committee who is not exempted from his professional responsibilities was abolished.

## PERSONNEL TRAINING

In 2022, FESCO continued with its efforts to transform the Personnel Training function by focusing on distance learning opportunities and promotion of internal trainers. The first internal online training sessions were tailored to the business needs. The total number of employees who completed training as part of the initiative reached 197, while the average ratio of residual knowledge came in at 80%. In late 2022, FESCO selected a new educational platform from Knomary, the leading provider of employee training services, and a supplier of online courses – Eduson Academy of online professions. These changes will help overhaul the catalogue of online courses, significantly expand the existing competency base, and make training available to the Group's employees from any personal device.

FESCO continues to rely on the 70/20/10 corporate training model where:

**70%** – remote on-the-job training for the development of soft skills and personal qualities;

**20%** – internal education conducted by FESCO's in-house trainers with a focus on staff interactions tailored to specific business needs, including post-training support and residual knowledge testing;

**10%** – external training to develop employees' key skills and knowledge in their respective professional areas (upskilling and additional training).

In October 2022, Action 360, a new help desk and educational system, was made available to the Group's HR management staff enabling them to find quick answers to their questions and take professional development courses in relevant areas. Over this period, employees signed up for 94 programmes and successfully completed more than thirty of them. The new service helps broaden professional horizons, seek prompt advice in the context of ongoing challenges, and demonstrate a consistently high level of expertise.

In 2022, in addition to in-house training capabilities, FESCO continued building a professional development programme for employees of the C.I.T. container terminal providing FESCO with container examination services for detecting defects. Since the start of the project, 88 professionals have completed training under the programme, which proves its overall popularity.

In 2022, FESCO considerably expanded the functions of its electronic corporate library enabling employees not only to read professional literature, but also to participate in webinars and corporate competitions held in partnership with Alpina Digital. The library with hard-copy books was overhauled so as to match new employee preferences, and a dedicated area was arranged for employees to bring their favourite books and take new ones thus facilitating the green exchange of books and other printed materials.

To support employees working with foreign counterparts and partners, FESCO launched a continuous English learning process within the Company. To this end, in 2022 we entered into a partnership with Skyeng, a Russian school of foreign languages. By the end of 2022, 130 employees from across the Group's companies were the school's students. Furthermore, FESCO put in place a conversation club to create a comfortable environment for improving language skills among like-minded people.

INTERNAL TRAINING IN 2021–2022

2021				2022			
Operating personnel	Middle management	Top management	Total	Operating personnel	Middle management	Top management	Total
<b>Employees who completed remote training</b>							
759	176	45	980	3,274	360	71	3,705
<b>Courses completed</b>							
2,145	513	118	2,776	9,678	901	154	10,733
<b>Employees who completed internal in-person training</b>							
				179			179

Source: Company data

EXTERNAL TRAINING IN 2022 (ALL RUSSIAN COMPANIES OF FESCO)

	2022	
	Employees who completed training	Training cost, RUB '000
<b>In-person training</b>	2,068	7,465
<b>Online training</b>	143	3,323

Source: Company data

## RECRUITMENT AND ONBOARDING

FESCO seeks to engage talented professionals who can contribute to the Company's development and achievement of strategic goals. To that end, the recruitment function develops a pool of potential candidates.

In 2022, the Group switched to an automated HR management system from Huntflow, which helped streamline the recruitment process at all stages of selection and make it transparent for recruiters and hiring managers.

In 2022, the number of received job requisitions increased by 38.7% YoY, with the number of persons recruited growing by 34.7% thus affecting the percentage of filled jobs, which totalled 77% of received requisitions. Staff recruitment efforts covered 13 Russian regions and five foreign countries.

JOB REQUISITIONS

Indicator	2019	2020	2021	2022
Job requisitions received	510	1,071	1,193	1,655
Filled jobs	446	416	946	1,274
% of requisitions fulfilled	87.4	38.8	79.3	77

Source: Company data

We identified effective staff acquisition channels for a wide variety of categories, which helped improve the speed of requisition fulfilment compared to 2021:

- commercial personnel – by 7 working days;
- blue-collar workers – by 15 working days;
- operating personnel – by 8 working days;
- top management – by 9 working days.

REQUISITION FULFILMENT BY CATEGORY

Indicator	2019	2020	2021	2022 <sup>1</sup>
Commercial personnel	64	58	49	145
Blue-collar workers	63	112	65	413
Middle management	34	50	42	622
Top management	45	27	58	28
<b>Total requisition fulfilment speed, days</b>	<b>34</b>	<b>25</b>	<b>49</b>	<b>39</b>

Source: Company data

At FESCO, we are successfully developing an onboarding system for various employee categories. Port Vladivostok took part in the HR Impact nationwide contest with its onboarding project implemented in 2022, and made it to the list of finalists. The project aims to make onboarding more efficient by reducing induction time, improving the quality of internal communications, enhancing corporate culture and mentorship quality, and boosting employee loyalty.

The project also provided tools for the timely assessment of onboarding events with reliance on the following cutting-edge induction techniques:

- chatbot offering a step-by-step introduction to the company;
- Tabletop Port, a game simulating the company's operating processes;
- a special onboarding block giving insights into the operating context of other business units.

These tools enable a new employee to delve deeply into the company's processes for building a successful career in it.

<sup>1</sup> Taking into consideration automated calculations introduced in 2022.

# OCCUPATIONAL HEALTH AND INDUSTRIAL SAFETY

In FESCO's activities, occupational health, along with environmental, industrial and fire safety are not simply priorities but the basic values underpinning the Group's perception as a strong and reliable partner, and no financial, technical or any other priorities may ever prevail over the safety of employees, local communities, and the environment.

In 2022, we updated our Occupational Health and Industrial, Environmental and Fire Safety Policy, which is the key document setting out FESCO's position on the safety of its operating processes.

## FESCO'S KEY PRINCIPLES AND COMMITMENTS IN OCCUPATIONAL HEALTH AND SAFETY:

- priority of the health and lives of employees over operational performance;
- full compliance with Russian laws, international treaties entered into by Russia, and federal rules and regulations on occupational health and safety;
- continuous improvement of the occupational health and safety management system;
- set of preventive measures to avoid occupational injuries;
- safe working conditions that meet today's requirements and expectations;
- zero occupational injuries and diseases;
- strong corporate safety culture;
- mitigation of accident risks at hazardous production facilities.

## TO DELIVER AGAINST ITS OCCUPATIONAL HEALTH AND SAFETY TARGETS, THE GROUP ENGAGED IN THE FOLLOWING ACTIVITIES IN 2022:

- carried out a special assessment of working conditions that covered 2,503 workplaces;
- assessed professional risks at 1,824 workplaces;
- engaged in on-site control over compliance with sanitary rules and regulations, hygienic requirements, and sanitary and anti-epidemiological (preventive) measures at 793 workplaces;
- arranged for mandatory medical check-ups for 3,319 employees;
- provided personal protective equipment, detergents and decontaminants to 3,129 employees.

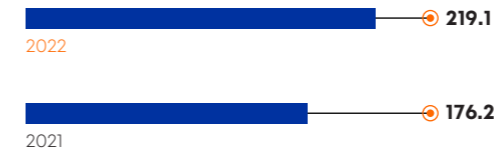
RUB **30** MLN

provided in 2022 in guarantees and compensations that employees are eligible for under the Russian Labour Code

**1,757**

headcount of employees working in harmful and/or hazardous conditions as at the end of 2022

### OCCUPATIONAL HEALTH AND SAFETY EXPENSES, RUB MLN



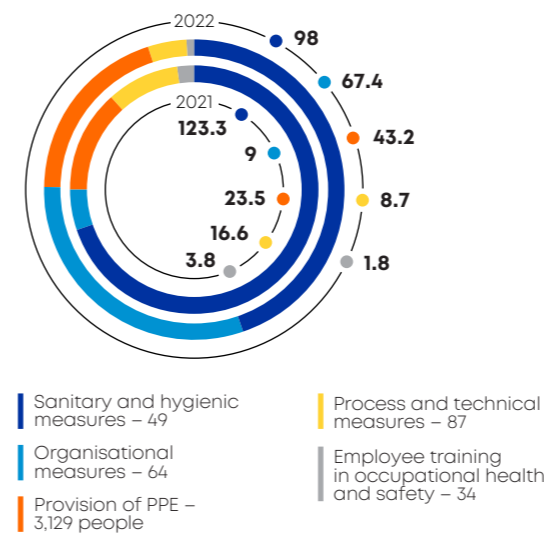
Source: Company data

### NUMBER OF PEOPLE PROVIDED WITH PROTECTIVE CLOTHING AND OTHER PPE



Source: Company data

### MEASURES TAKEN IN 2022



Source: Company data

- Organisational measures include special assessment of working conditions, on-site control, professional risk assessment, occupational health and safety activities, medical check-ups, and vaccination.
- Process and technical measures refer to equipment and power control systems and street lighting improvement.
- Sanitary and hygienic measures relate to lighting available in workplaces and places for employees to warm up and eat, provision of PPE and drinking water, as well as disinfection and disinsection.
- Employee training in occupational health and safety includes education, awareness raising, and equipment of health and safety classrooms.
- Provision of PPE means provision of protective clothing and footwear and other PPE.

## DIGITALISATION IN HSE, INDUSTRIAL AND FIRE SAFETY

To reflect industry best practices and rely on the latest achievements in R&D and technology, FESCO Group as part of its digital transformation efforts started rolling out an automated HSE, industrial and fire safety management system to standardise processes and documents, reduce the share of routine operations,

and mitigate administrative impact risks. Integration of the HSE, industrial and fire safety management processes into the Smart Port project will help track and prevent risks of accidents in operations and reduce the risk of human error when engaging in high-hazard operations.

# ENVIRONMENT AND ENERGY EFFICIENCY

In its environmental protection efforts, FESCO is committed to reducing the negative impact of its operations.

“As FESCO continues to rapidly ramp up its operations, we strive to integrate energy saving and environmental protection into all business processes across the board. To stay true to sustainable development principles, FESCO is expanding the portfolio of tools at its disposal to reduce the carbon footprint of cargo transportation and handling, with a focus on digitalisation and solutions that ensure unbiased monitoring of energy consumption and the state of the environment”.

**Boris Ivanov,**

Vice President,  
Production Development



As one of Russia's largest private transportation and logistics companies with port, railway, and integrated logistics assets, FESCO is aware of its responsibility for future generations in the regions where it operates. In line with that, we:

- implement cutting-edge environmental protection technologies (innovative fire sprinkler system and modern dust monitors);
- install and upgrade treatment facilities. This way we can guarantee that water returning into the environment is safe and meets all the applicable quality criteria;
- on an ongoing basis, monitor noise levels at control points in adjacent housing premises during the day and at night;
- engage in continuous environmental monitoring of atmospheric air at the production sites and at the borders of sanitary protection zones (data received from monitoring devices is then quickly made available on a dedicated website of the Primorye Territory Division of the Federal Service for Hydrometeorology and Environmental Monitoring);

- analyse marine biota (organisms that live in the same habitat), including examinations of the state of aquatic biological resources near FESCO's sites;
- analyse bottom sediments in the waters of the Golden Horn Bay to control potential contamination resulting from Port Vladivostok operations.

FESCO prioritises separate waste collection and sorting, aiming to maximise volumes that are recycled or reused. In 2022, we had 3,070 tonnes of waste (85% of total waste generation) sent to treatment, neutralisation and recycling, which is an increase of 382 tonnes compared to 2021. In line with existing environmental laws and regulations and sanitary and hygienic requirements, FESCO has temporary waste storage facilities in place.

FESCO engages in consistent efforts to reduce its waste generation.

**3,070**  
**TONNES**  
of waste sent for treatment, neutralisation and recycling in 2022

Waste management process	Hazard class, tonnes				
	Class 1	Class 2	Class 3	Class 4	Class 5
Waste generated during the year	0.25	0.03	188.2	856.2	2,718.9
Waste transferred to the regional operator	0.0	0.0	0	93.9	190.0
Waste transferred for neutralisation	0.02	0.03	128.4	475.1	0.9
Waste transferred for recycling	0.23	0	59.8	90.6	130.7
Waste transferred for disposal	0	0	0	196.6	212.2
Waste transferred for treatment	0	0	0	0	2,185.1

Key provisions governing the safety and quality of the environment and environmental protection are set out in FESCO's Occupational Health and Industrial, Environmental and Fire Safety Policy. It applies to all branches, standalone and structural units within FESCO Group, as well as its subsidiaries and affiliates.

To implement the Policy's priorities, the Company has in place the 087-02-09-2022 environmental management system (EMS), which covers documented procedures, plans, SOPs, internal, external and regulatory inspections, self-assessment, and management analysis exercises.



In September 2022, the Russian Maritime Register of Shipping conducted a compliance audit to certify the Company's EMS to ISO 14001.

In 2022, inspections confirmed that FESCO Group complies with the requirements of Eurasian Economic Commission certification under the following standards:

GOST R ISO 9001–2015 (ISO 9001:2015) Quality management systems. Requirements, GOST R ISO 14001–2016 Environmental management systems. Requirements with guidance for use and GOST R 54934–2012/OHSAS 18001:2007 Occupational health and safety management systems. Requirements.

**ENVIRONMENTAL TARGETS IN 2022**

Indicator	Goal	Target	Actual		Result
			2021	2022	
Minimisation of sea and cost line contamination with oil products, and minimisation of adverse impact on microorganisms and ecosystems in general	Prevention of vessel accidents related to fuel transportation and spillage	Number of vessel accidents resulting in leaks of oil products to sea	None	None	Achieved
Minimisation of sea and cost line contamination with oil products, and minimisation of toxic impact on microorganisms and ecosystems in general	Prevention of leaks of fuel and lube oil to sea	Number of leaks of fuel and lube oil to sea	None	None	Achieved
Ballast water treatment in line with international requirements. Minimisation of changes to the marine environment as a result of transfer of harmful or unwanted new aquatic organisms and pathogens	Prevention of any violations during deballasting or reballasting	Number of violations of the procedure for reballasting or deballasting	0	0	Achieved
Reduction in the volume of garbage and solid waste discharged to sea	Improvement by 2% YoY	Delivery of waste to onshore receiving facilities, cu m / vessel	42.75	53.9	Achieved. Improvement by 26%
Reduction in freshwater consumption	Reduction by 1% YoY	Freshwater consumption by onshore units, litres	4,588	4,262	Achieved. Reduction by 7.1%
Reduction in paper usage	Reduction by 3% YoY	Paper usage by the Company's offices, kg	1,488	1,300	Achieved. Reduction by 12%
Reduction in heat energy consumption by the consumer	Reduction in heat energy consumption by 1% YoY	Heat energy consumption by the Company's offices, Gcal	1,279	1,247	Achieved. Reduction by 2.5%

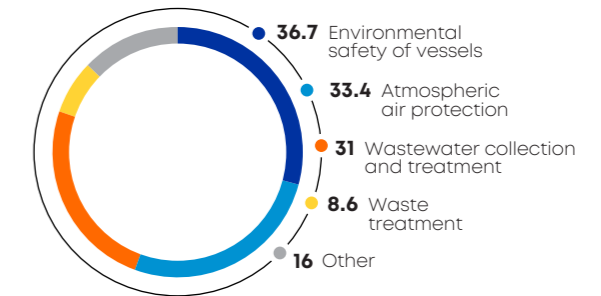
**ENVIRONMENTAL SAFETY**

In 2022, our environmental safety expenses doubled to reach RUB 126 million compared to RUB 66 million in 2021.

To reduce the environmental footprint, the following additional steps were taken in 2022:

- an innovation fire sprinkler system was put in place at the retaining wall of the bulk cargo warehouse at berth 13, in addition to four sprinkler units. The system is designed to create a fine liquid mist in the air in order to fight dust more effectively;
- an E-BAM PLUS dust monitoring gauge by Met One was installed at the border of the adjacent housing premises area to ensure ongoing automated measurements of air emissions;
- Port Vladivostok employees and the Public Spaces Department of Vladivostok planted trees and shrubs in the Geroyev-Damantsev Square at the intersection of Nizhneportovaya and Avramenko streets in Vladivostok;
- to protect the waters of the Golden Horn Bay, regular cleaning was carried out by the Company and external contractors. Lab tests were conducted quarterly for sea water and cleaned stormwater discharged to the Golden Horn Bay.

**ENVIRONMENTAL SAFETY EXPENSES, RUB MLN**



Source: Company data

In 2022, we laid the foundation for instilling a safety culture in operating processes across all levels of FESCO Group, which will help ensure that employees feel the need to build the necessary professional and psychological skills and understand their responsibility when carrying out any operations that affect safety.

In 2022, environmental watchdogs identified no violations of applicable Russian regulations by FESCO. A positive opinion of the state environmental review was obtained for the project "Environmental feasibility study of Port Vladivostok's business operations carried out in the inland sea waters of Russia with an environmental impact assessment (EIA) to be conducted".

**REDUCTION IN GREENHOUSE GAS EMISSIONS**

FESCO strives to make active use of mechanisms that aim to decrease greenhouse gas (GHG) emissions, including through reductions in fuel and energy consumption.

In 2022, FESCO developed and started applying the Greenhouse Gas Emission Calculation Methodology based on Order No. 330 of the Russian Ministry of Natural Resources and the Environment dated 29 June 2017 On Approval of Methodology Guidelines for Quantification of Energy

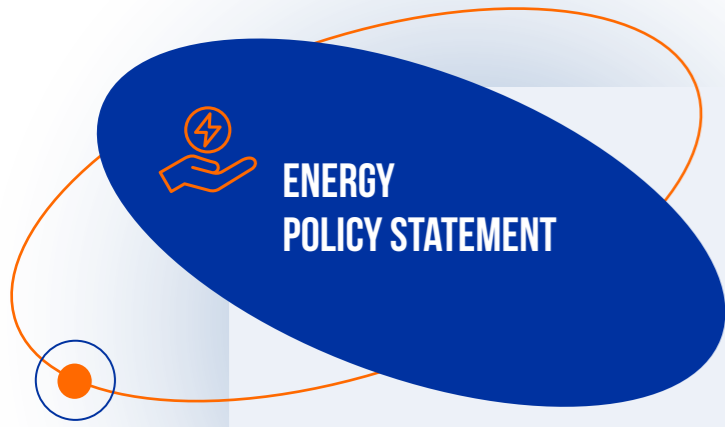
Indirect Emission of Greenhouse Gases, and based on preliminary national standard of Russia PNST 646–2022 "Green" standards. "Green" products and "green" technologies. Methodology for the estimate of reduction of a carbon footprint.

Despite FESCO's increased scope of operations in 2022, there was a relative reduction in GHG emissions of 13.7 thousand tonnes of CO<sub>2</sub>-e, or 4%.

## FESCO GROUP'S ENERGY POLICY

In 2022, FESCO developed and adopted a fundamental document governing its energy management efforts, the Energy Policy of FESCO Group.

The Policy is based on ISO 50001, which also informed FESCO Group's **Energy Policy Statement**.



### ENERGY POLICY STATEMENT

Aware of the role of FESCO Group in the Russian market for transportation and logistics services, shipments in the Far East leveraging international sea routes and rail network to/from Asia and domestic sea lines, the management of FESCO Group considers energy saving and energy efficiency improvement measures to be among the key priorities in what we do.

The Policy is the basis for FESCO Group to analyse and set its energy goals and objectives and to select prioritised energy saving and energy efficiency improvement measures.

#### The Policy's key principles:

- alignment with FESCO Group's strategy;
- availability of information and resources required to deliver against energy goals and objectives;
- unified methodology platform, relevance and expediency, reasonable degree of formalisation;
- promotion within the Group, integration and transparency;
- compliance with (and adherence to) applicable regulatory and other requirements;
- ongoing improvement of energy metrics and energy management;
- support for procurement that is efficient in terms of consumption of energy, products and services that have an impact on energy metrics;
- support for projects that take into account improvements in energy metrics;
- ongoing adaptation and development, training and motivation;
- reasonable distribution of responsibilities and powers as part of the energy management system.

FESCO Group's Energy Policy aims to create and develop an energy management system as well as conditions and opportunities that foster ongoing monitoring of, and use of potential opportunities for, energy saving and energy efficiency improvement.

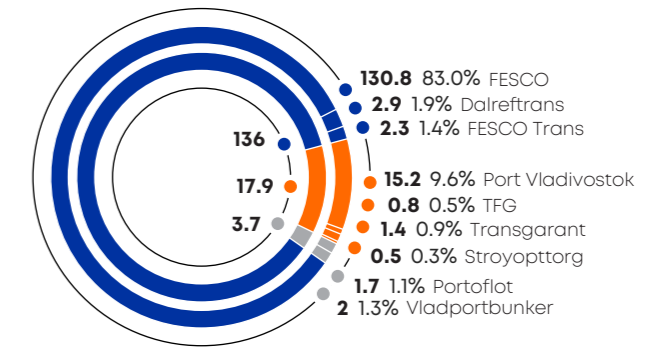
To implement the Energy Policy, FESCO set up a working group on the energy management system, with its members including the Company's leading engineers led by Vice President, Production Development.

In 2022, we developed and put in place a corporate system of reporting on fuel and energy consumption and the Energy Analysis Methodology for Operating Activities to assess consumption amounts and the efficiency of fuel and energy use.

At FESCO Group, fuel and energy resources are mainly consumed in transportation operations, with fuel used in cargo transportation by sea, road, and rail, and in terminal operations, where fuel is required for the handling of container and non-container cargoes.

In 2022, FESCO Group consumed a total of 157.6 thousand tonnes of reference fuel, of which transportation and terminal operations accounted for 86.3% and 11.3% respectively.

FUEL AND ENERGY CONSUMPTION ACROSS ALL TYPES OF OPERATIONS (BROKEN DOWN BY FESCO GROUP FACILITY, KT OF REFERENCE FUEL, %)



## ENERGY CONSUMPTION

In 2022, FESCO Group demonstrated a fairly strong reduction in specific fuel and energy consumption required for its operations.

Energy intensity of container handling at FESCO Group's terminals stood at 22.4 kg of reference fuel per HCC, which is a 6.4% reduction vs 2021,

with Port Vladivostok's energy intensity coming in at 25.0 kg of reference fuel per HCC, a 5.3% reduction YoY.

Energy intensity of non-container cargo handling at Port Vladivostok totalled 6.6 kg of reference fuel per tonne, down by 7.6% YoY.

Indicator	Fuel consumption, kt of reference fuel		Energy intensity of operations, kg of reference fuel / volume of operations		Energy intensity YoY change, %
	2021	2022	2021	2022	
<b>Terminal operations</b>					
including container cargo handling	13.42	13.11	24.0	22.4	(6.4)
non-container cargo handling	3.65	3.21	7.1	6.6	(7.6)
<b>Transportation operations</b>					
Cargo transportation by sea	102.4	126.8	69.3	66.1	(4.6)
Cargo transportation by road	1.9	2.3	47.3	44.2	(6.6)
Cargo transportation by rail	2.2	2.9	147.8	133.7	(9.5)

## ENERGY SAVING ACTIVITIES

In pursuance of its Energy Policy, FESCO Group developed the Energy Saving and Energy Efficiency Improvement Programme for 2023, which describes organisational and technical initiatives planned by the Group in this area.

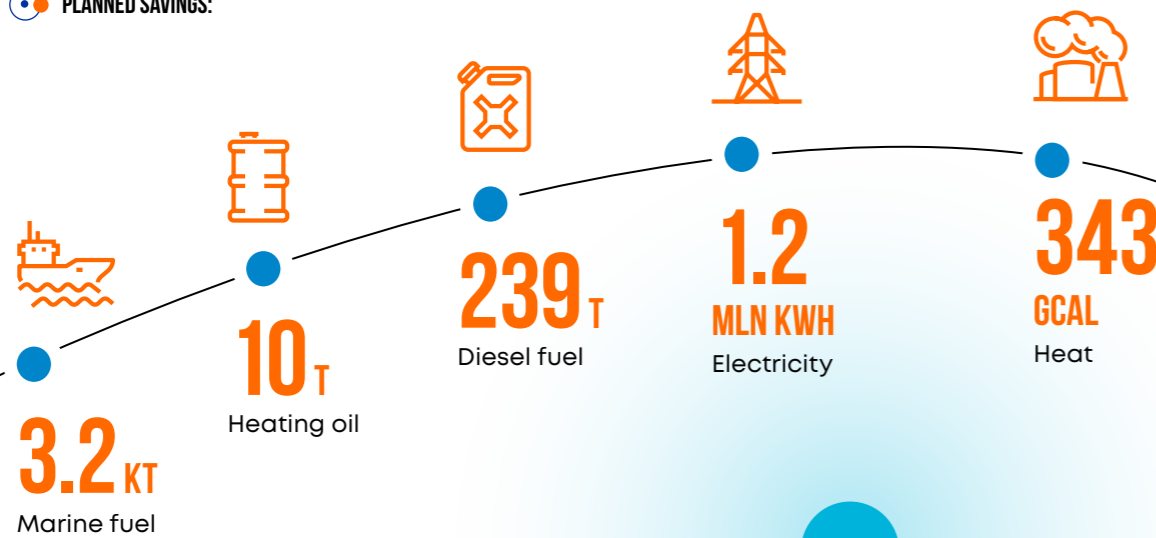
The Energy Saving Programme includes activities with the following focuses:

- improvement in the efficiency of resource use in shipping operations;
- improvement in the efficiency of resource use in heat generation facilities and other heat supply system facilities;
- improvement in the efficiency of resource use in the maintenance of buildings and structures;

- improvement in the efficiency of resource use in operations of loading and unloading, special and motor transport vehicles and equipment;
- improvement in the efficiency of resource use in railway operations;
- improvement in energy efficiency of lighting systems;
- improvement in the efficiency of resource use in operational processes.

In 2023, total fuel and energy savings are planned at 5.3 thousand tonnes of reference fuel, which is in line with the 3% savings target set by FESCO's Executive Board taking into account changes in the volume of activities.

### PLANNED SAVINGS:



FESCO vessels comply with the requirements of the International Convention for the Prevention of Pollution from Ships (MARPOL) in terms of energy efficiency of ships. Fuel consumption is monitored in accordance with the approved Ship Energy Efficiency Management Plan (SEEMP). All of the Company's vessels are certified by the Register confirming correct data collection.

The Group's vessels operated in Europe comply with the EU MRV<sup>1</sup> Regulation, which requires them to have an approved energy efficiency plan and collect and submit data on fuel consumption, greenhouse gas emissions and activities completed to date. These measures are also designed to reduce GHG emissions into the air.

<sup>1</sup> Monitoring, reporting and verification.

## SOCIAL PROJECTS

### OUR APPROACH

Implementation of initiatives contributing to sustainable development in the regions of operations is one of the key priorities of FESCO's strategy.

FESCO's definition of "corporate social responsibility" is based on ISO 26000 Guidance on social responsibility: "Responsibility of an organisation for the impacts of its decisions and activities on society and the environment through transparent and ethical behaviour that:

- contributes to sustainable development, including health and the welfare of society;
- takes into account the expectations of stakeholders;
- is in compliance with applicable law and consistent with international norms of behaviour;
- is integrated throughout the organisation and practised in its relationships".



FESCO also shares the position on corporate social responsibility set out in the Social Charter of the Russian Business. The document expands the concept of corporate social responsibility to include responsible business practices, respect for human rights, responsible labour practices, responsibility for sustainable use of natural resources and environmental protection, and responsibility to consumers and local communities.

FESCO pursues its corporate social responsibility strategy relying on the Sustainable Development Goals (SDGs) set out in the Resolution of the UN General Assembly adopted on 25 September 2015.

The Company places emphasis on the following SDGs where it can make the greatest difference as part of its daily operations:



**17 PARTNERSHIPS FOR THE GOALS**  
**Goal 17:** partnership for sustainable development – FESCO pays all due taxes in a timely manner and pursues comprehensive partnerships with government and international organisations as a way to ensure social

**3 GOOD HEALTH AND WELL-BEING**  
**Goal 3:** good health and well-being – FESCO has never ceased to take care of its employees' lives and health by improving occupational health and safety technologies;

prosperity;  
**8 DECENT WORK AND ECONOMIC GROWTH**  
**Goal 8:** decent work and economic growth;

**12 RESPONSIBLE CONSUMPTION AND PRODUCTION**  
**Goal 12:** responsible consumption and production;

**10 REDUCED INEQUALITIES**  
**Goal 10:** reduced inequalities – FESCO offers decent remuneration, honours all its social commitments, and closely cooperates with trade unions;

**16 PEACE, JUSTICE AND STRONG INSTITUTIONS**  
**Goal 16:** peace, justice and strong institutions – FESCO implements best anti-corruption practices and sticks to high business ethics standards;



**Goal 13:** climate action;

As part of its charity activities, FESCO takes on additional voluntary commitments aligned with the SDGs:



**Goal 14:** life below water;



- promoting culture and education to unlock human potential in the key region of operation (Goal 4: quality education; Goal 11: sustainable cities and communities; and Goal 17: partnership for sustainable development);



**Goal 15:** life on land – FESCO seeks to minimise its environmental impact and continuously searches for best-in-class environmental technologies and solutions;



- providing consistent and ongoing assistance to local communities in addressing the most pressing challenges (Goal 3: good health and well-being; Goal 11: sustainable cities and communities; and Goal 17: partnership for sustainable development).



**Goal 9:** industry, innovation and infrastructure – FESCO strives to apply the latest technologies across its operations.



In addition to that, FESCO takes into consideration national development goals envisaged by Russian President's Order No. 474 On National Development Goals of the Russian Federation for the Period until 2030 dated 21 July 2020:

- population preservation, people's health and well-being;

- self-fulfilment and talent development opportunities;
- comfortable and safe living environment;
- decent and effective labour, and successful entrepreneurship.

## SOCIAL RESPONSIBILITY AS A PART OF FESCO'S EVERYDAY LIFE

The social responsibility principle is embedded into FESCO's development strategy and day-to-day operations. Commitment to the principle manifests itself at all levels of the Company. The social responsibility principle also underpins the internal and external communication; the Company's employees develop competencies and motivations required to use it in the decision-making process and operations.

FESCO seeks to continuously improve its social responsibility practices, keeps monitoring its impact on social, economic and environmental systems, and analyses the effects of its social,

cultural and environmental initiatives. The Company analyses the potential social and environmental impacts of its decisions and integrates the social responsibility principle into its procurement, sales and investment practices. Implementation of initiatives contributing to sustainable development in the regions of operations is one of the key priorities of FESCO' strategy.

In 2022, the Group reaffirmed its B+ status (Best Practices) in the Leaders of Corporate Charity ranking put together by the Donors Forum (Association of Sponsoring Organisations) in partnership with National Priorities, Kommersant publishing house, and BI Group (previously Ernst & Young).

## MANAGEMENT OF CORPORATE SOCIAL RESPONSIBILITY STRATEGY

The Board of Directors and the Executive Board of FESCO are the main governing bodies in charge of corporate social responsibility. Their duties include approving the Company's strategy in this area, monitoring its progress, and assessing the performance. On an annual basis, the Board of Directors approves an Annual Report that contains exhaustive information about progress against programmes and projects run as part of the corporate social responsibility strategy.

As a body responsible for the development and implementation of the Company's

corporate social responsibility strategy, the Corporate Communications Division annually submits a programme of charity initiatives and social projects to the Executive Board for it to approve this programme and associated expenditures.

To have a better understanding of the impacts its programmes produce, the Company regularly collects stakeholder feedback through surveys (covering both employees and local communities), focus groups and interviews.



## PARTNER SELECTION PRINCIPLE

FESCO's values include a focus on the overall result, professionalism and responsibility. Committed to these values, the Company strives to maximise the efficiency of its external social and charity programmes by building long-term partnerships with the government and society.

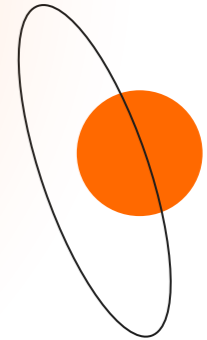
A special role is played by professionals: social entrepreneurs, community-focused non-profit organisations, and charity experts.

FESCO takes consistent efforts to improve the quality of external social and charity projects in which it participates. The efforts include engagement of internal and external experts in programmes and projects, evaluation of results, and promotion of ideas, principles and best practices of corporate social responsibility, social entrepreneurship and charity.

### CRITERIA

In addition, the mandatory selection criteria for external social and charity programmes and projects include:

- needs of stakeholders and the regions of operations;
- systematic approach to achieving specific sustainable development goals, focus on a measurable result;
- potential of long-term partnership with a minimum risk of creating dependence of the target audience on charity support;
- proportionality of costs and expected effect.



The Company supports the following forms of external social programmes:



### SPONSORSHIP

Contribution to the activities of another legal entity or individual in exchange for promoting the Company's brand



### AWARENESS RAISING



### SOCIAL PARTNERSHIP

Equal cooperation between the Company and the government and/or society on the basis of special agreements with regional authorities to address pressing social problems and contribute to the achievement of sustainable development goals across its footprint



### CHARITY

Voluntary and gratuitous transfer of funds and/or property by the Company to a legal entity or individual, or performance of work, provision of services, and other support or assistance

## EXCEPTIONAL ROLE OF THE PRIMORYE TERRITORY AND VLADIVOSTOK

Since the history of FESCO establishment and evolution is closely linked to the exploration and development of the Russian Far East, the region as a whole and Vladivostok as its capital play an exceptional role in the Company's corporate social responsibility strategy. FESCO prioritises external social and charity projects and programmes implemented in the Primorye Territory.

In running external social and charity projects and programmes in the Russian Far East, FESCO keeps in mind the region's special geopolitical position, historical development, social and economic aspects.

Since a substantial part of FESCO's assets are located in the Russian Far East, the welfare of Vladivostok and other communities of the region has always been of top importance for the Company.

The Company's corporate social responsibility efforts in the Russian Far East are focused on developing the human capital, improving the quality of life, and creating new opportunities for self-fulfilment of local people.

The youth policy is a top priority for FESCO seeking to create an inviting environment for young talents, develop infrastructure to support the potential and aspirations of young people, and encourage the younger generation to preserve and study the region's cultural and historical heritage.

## SOCIAL, CULTURAL AND SPORTS INITIATIVES BY FESCO IN 2022

In 2022, FESCO carried on with its corporate social responsibility strategy, with total social investments coming close to RUB 730 million and more than 50 thousand people benefitting from a variety of the Company's social and cultural initiatives.

### SEA OF OPPORTUNITIES, A CONTEST OF SOCIAL PROJECTS

One of the key events of 2022 under FESCO's corporate social responsibility strategy was the third edition of the Sea of Opportunities, a contest of social projects. Grant contests as a tool of interaction with local communities are used throughout Russia, however, the Primorye Territory had not seen any such initiative until 2020.

In 2020, FESCO was the first business to launch its own contest in the Primorye Territory.

The Sea of Opportunities strives to strengthen social partnership between FESCO, the public, government and local authorities of the Primorye Territory. The social partnership helps to:

- jointly introduce innovative sustainable development technologies across the Company's footprint;
- run projects seeking to improve the quality of life in the regions of operations and create new opportunities for self-actualisation;
- develop local communities, volunteering and social entrepreneurship.

Non-profit organisations and government and municipal institutions, as well as volunteers, including FESCO employees, were encouraged to participate in the Contest. Organisations could apply for a maximum grant of RUB 500,000, and volunteer groups for a maximum grant of RUB 50,000.

Major innovations of 2022 included doubling of the maximum grant amount and introduction of in-person defence procedures for projects seeking grants in excess of RUB 250,000. Furthermore, a special nomination was established on the occasion of Port Vladivostok anniversary. This allowed us to increase the overall grant fund and number of implemented projects.

The Company continues to place a heavy emphasis on networking, horizontal links between participants and other stakeholders, and training for applicants and winners to enable them to be successful in other grant contests going forward. The contest operator was still Razvitiye Autonomous Nonprofit Organisation, a provider of advanced professional training and consulting services, acting as a resource centre for non-profit organisations in the Primorye Territory.

In 2022, contest grants were awarded to 34 social projects, including eight projects implemented by volunteer groups involving FESCO's employees and 26 projects run by non-profit organisations and government institutions of the Primorye Territory. The total number of applications filed came in at 85, or 21 applications more than in 2021.

The winning projects aimed to address social issues in Vladivostok, the capital of the Primorye Territory, as well as in other coastal towns (Nakhodka, Partizansk, Artem) and villages (Krasnorechensky, Chuguevka, Krasny Yar).

### Key areas of social projects under the Sea of Opportunities contest



Support to vulnerable social groups



Offer career guidance to the students of special needs schools



Foster cultural development



Promote science and healthy lifestyles



Protect historical heritage and environment



Improve financial literacy among low-income households of the Primorye Territory

### KEY ELEMENTS OF THE SEA OF OPPORTUNITIES GRANT CONTEST



In 2022, the contest's grant fund increased from RUB 5 million to RUB 8.5 million. As the Sea of Opportunities winners managed to raise additional RUB 4.8 million on their own, the total social impact of the contest exceeded RUB 12 million. The projects covered more than 5,600 beneficiaries, with 540 people registering as volunteers to help implement the social initiatives.

**RUB 8.5 MLN**  
the contest's grant fund

## PARTNERSHIP WITH STATE TRETYAKOV GALLERY

In 2022, FESCO continued to develop its strategic partnership with the State Tretyakov Gallery launched one year earlier. In the reporting period, the Company entered into a landmark agreement with the cultural institution, committing to provide financing and premises for the State Tretyakov Gallery to open its branch in Vladivostok.

A memorandum to that end was signed on the sidelines of the Eastern Economic Forum by Andrey Severilov, the Chairman of FESCO's Board of Directors, and Zelfira Tregulova, Head of the Tretyakov Gallery.



“We believe that by creating ties like that and providing a platform for communication, we help unlock huge human potential in both the Primorye Territory and Russia in general”.

**Andrey Severilov**

A temporary representative office of the Tretyakov Gallery is slated to open in the historical building of Far-Eastern Shipping Company located at 15 Aleutskaya Street. The new civic space will host exhibitions, workshops, lectures, film screenings, and other public events. Apart from that, visitors will be able to work and study here, as the Gallery's representative office will feature a small library with books on painting and fine arts, several fully equipped workplaces, and a lounge area.

The cultural centre will work while we are building a large museum and theatre facility on the Eagle's Nest hill where the Vladivostok branch of the Tretyakov Gallery will move once it is completed.

Also, the master's programme in museum studies launched in 2021 at the Far Eastern Federal University with FESCO's support continued operating in 2022. As part of it, students develop skills for working in museums, while the State Tretyakov Gallery employees and the Far Eastern Federal University professors participate in classes on fundraising, exhibitions, hands-on course on writing about arts, digital environment and museum PR.

## FESCO FOR THE KIDS PROGRAMME

In 2022, the Company continued implementing its FESCO for the Kids programme launched in 2021. Its ambition is to create a children's support system in the Primorye Territory to make sure each and every kid in the region is able to fully unlock his or her potential. FESCO for the Kids includes a number of initiatives.

### PROGRAMME TO SUPPORT CHILDREN'S AND FAMILY READING

Run since autumn 2021, the programme helps solidify children's natural love of learning, strengthen family ties and create new forms of leisure that are good for the kids. As part of the programme, FESCO provides financing to publish high-quality children's books (new editions of pre-Revolutionary and Soviet books for kids, and new books written specifically for the programme), and to hold a variety of events nurturing love for reading in children. In 2022, dozens of children's facilities in Vladivostok received more than 250 thousand copies of nine books, and hundreds of training sessions with kids were held.

### PARTNERSHIP WITH THE TEACHER FOR RUSSIA PROGRAMME

The programme has been run by the New Teacher Foundation since 2015. The programme is designed to fight inequalities in educational opportunities for kids by developing school education in Russian regions. With this programme, professionals from different areas and sectors spend two years working as teachers in ordinary schools across Russia. This will help to create a community of talented professionals capable of giving an impetus to the Russian system of school education for it to upgrade and evolve.

With financial and administrative support from FESCO, it was launched in the Primorye Territory in 2021. In September 2022, 14 teachers commenced their work in seven schools of Vladivostok. In less than four full months of work, the teachers initiated important changes in respective schools. School No.

32 launched a mediation service teaching children how to settle conflicts and disputes through a dialogue. The same school formed a KVN team, which has played its first game in the city's school league, while the school's cinema club has held its first meetings. The Vector educational centre opened a club of tabletop games and organised several school events. School No. 68 created a theatre studio for fifth and sixth-graders, with the first theatrical performance staged at the end of December as part of the school's New Year festivities. In 2022, two participants of the programme qualified for the final round of the Young Professional of the Year contest sponsored by Vladivostok's Education Department.

### SUPPORT FOR SEVERELY ILL CHILDREN OF PRIMORYE

The programme is run for the third consecutive year together with Rusfond, Russia's largest charity foundation. The goal is to create a system of swift and effective targeted assistance to severely ill children that for various reasons are unable to get treatment for their conditions under mandatory health insurance. In 2022, high-tech medical care under the programme was provided to 16 children.

## PROCUREMENT

FESCO Group's procurement function has its own specifics, as the operations of the Port Division companies are governed by Federal Law No. 223-FZ On Procurement of Goods, Works and Services by Certain Types of Legal

## SUPPORT FOR SPORTS AND OTHER INITIATIVES

In 2022, FESCO continued its support for a number of Primorye-based sports organisations, most notably the Hockey Club Admiral. Also, targeted support was made available to dozens of social care facilities in FESCO's regions of operation, with priority help provided to the most vulnerable children's facilities and healthcare providers in Primorye. On top of that, Port Vladivostok completed several urban improvement projects, including the construction of playgrounds for children.

### GOLDEN TURTLE WILDLIFE FESTIVAL

In 2022, FESCO became a title partner of the Golden Turtle wildlife festival. Thanks to the Company's sponsorship this year, the festival spanned two venues at once. In September, the residents of Vladivostok had a chance to see the best works of the festival's history, while from October to November the 16th edition of the festival took place in Moscow, with attendance rates exceeding 33 thousand people.

Entities dated 18 July 2011, while procurement operations of the other companies are governed by the Group's internal documents.

## FESCO GROUP'S DOCUMENTS RELATED TO PROCUREMENT:

- Regulations on the Procurement of Goods, Works and Services for the Needs of PJSC Commercial Port of Vladivostok and its Subsidiaries<sup>1</sup> available on the official website of the Unified Information System in Public Procurement (<https://zakupki.gov.ru/>);
- Uniform Procurement Standard for FESCO and Controlled Entities of FESCO;
- internal regulations that set out the procedure for interaction when carrying out procurement and contractual work.

<sup>1</sup> Applicable to the Port Division companies only.

**BASIC PRINCIPLES IN ORGANISING AND CONDUCTING PROCUREMENT:**



**PROCUREMENT MANAGEMENT AND CONTROL**

Key procurement management and control bodies:

- Central Procurement Commission;
- procurement commissions of FESCO Group companies;
- FESCO's Procurement Directorate.

Decisions on the selection of suppliers, contractors and service providers are taken by the relevant procurement commissions.

FESCO establishes procurement commissions by line of business rather than by company:

- information technologies;
- liner logistics;
- technical operation of marine vessels.

In 2022, to improve the efficiency of the procurement process, FESCO Service Centre served as the basis for a new vertical procurement and supply management structure of FESCO Group, which includes:

- Procurement Division;
- Supply Division;
- Far East Region Procurement Division;
- Far East Region Supply Division;
- Procurement and Supply Process Analysis and Development Team.

To ensure the transparency of FESCO Group's procurement, promote competition and empower procurement participants, FESCO's procurement showcases were created on the RTS-Tender e-commerce platform in 2022:

- commercial procurement (<https://fesco.rts-tender.ru/>);
- procurement under Federal Law No. 223-FZ dated 18 July 2011 (<https://fesco223.rts-tender.ru/>).

**DIGITAL SUPPLY SYSTEM PROJECT**

As part of the procurement process digitalisation, a uniform comprehensive information solution was created on the basis of 1C: Holding Management software for the automation of procurement

management functions of FESCO Group companies. In 2022, all Group companies resident in the Russian Federation were connected to the system.

**PROCUREMENT FROM SMALL AND MEDIUM BUSINESSES**

FESCO Group companies whose procurement activities are governed by Federal Law No. 223-FZ dated 18 July 2011 comply with the requirements for procurement from **small and medium-sized enterprises** (SMEs) established by the Russian Government's Resolution No. 1352 dated 11 December 2014 On the Specifics of Small and Medium-Sized

Enterprises' Participation in Procurement of Goods, Works and Services by Certain Types of Legal Entities.

In 2022, procurement from SMEs calculated in accordance with the above resolution (in terms of payments) totalled RUB 1.861 billion, or 57.6%, with a quota of at least 25%.

**2022 RESULTS**

The Company carried out 10,513 procurement procedures totalling RUB 52.6 billion (net of VAT).

**PROCUREMENT IN 2021 AND 2022 (RESULTS)**

Activity	Procurement procedures in 2021	Procurement procedures in 2022	Amount of procurement record in 2021, RUB, net of VAT	Amount of procurement record in 2022, RUB, net of VAT
Investing activities	308	532	32,979,221,607.61	24,775,866,710.78
Day-to-day operations	5,823	9,978	27,323,245,910.07	27,719,301,136.71
Financial operations	3	3	166,888,383.75	96,957,019.26
<b>Total</b>	<b>6,134</b>	<b>10,513</b>	<b>60,469,355,901.43</b>	<b>52,592,124,866.75</b>





**CORPORATE  
GOVERNANCE**

# FOUNDATION FOR BEST DECISIONS

**+15%**

increase in the number of the Corporate Governance Code principles that the Company fully complies with

**+22.6%** RUB 33.59

increase in the FESCO share price on the Moscow Exchange

**BBB+**

(stable outlook) the Company's credit rating from the National Credit Ratings agency

FESCO is guided by the best corporate governance standards and principles. We put a special emphasis on consistent improvements in our corporate governance framework.

# CORPORATE GOVERNANCE FRAMEWORK

FESCO is guided by the best corporate governance standards and principles. The Company's corporate governance framework is aligned with the applicable laws of the Russian Federation and the Listing Rules of the Moscow Exchange. In 2022, this helped us upgrade the listing of FESCO shares by moving them from Level 3 to Level 2 of the List of Securities Admitted to Trading at the Moscow Exchange.

In assessing the quality of corporate governance, FESCO also relies on the Bank of Russia's Corporate Governance Code<sup>1</sup>, which defines relevant principles. The Report on Compliance with the Principles and Recommendations of the Corporate Governance Code pre-approved by the Company's Board of Directors as part of the annual report details the extent of the compliance.

In 2022, the Company sought to implement the announced plans on enhancing the internal regulations that form the legal backbone of the corporate governance system and ensure the efficiency of decisions taken by the governance bodies with a view to maintaining the balance of interests pursued by the Company and its stakeholders, and facilitating the achievement of FESCO's business goals.

In 2022, new versions of the following documents were approved:

- Regulations on the Board of Directors<sup>2</sup>;
- Internal Audit Policy<sup>3</sup>;
- Regulations on the Audit Committee of the Board of Directors;
- Regulations on the Human Resources and Remuneration Committee of the Board of Directors;
- Regulations on the Strategy, Investment, and General Affairs Committee of the Board of Directors<sup>4</sup>.

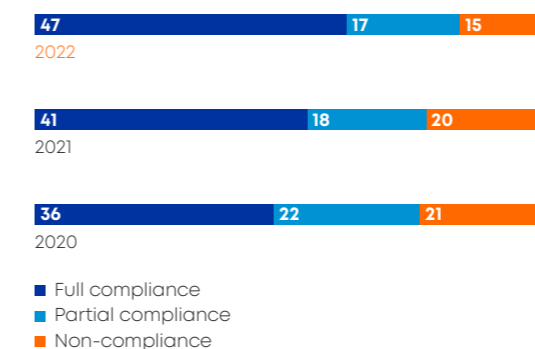
Thanks to the Company's sustained efforts and adoption of the above regulations, we saw an increase in the number of principles of the Corporate Governance Code that the Group complies with.

<sup>1</sup> Letter of the Bank of Russia No. 06-52/2463 dated 10 April 2014 On the Corporate Governance Code.  
<sup>2</sup> The Regulations were expanded to include provisions on compliance with the recommendations of the Corporate Governance Code and the rules of the procedure to be followed by the Board of Directors in case of a conflict of interest or disqualification as an independent director. Furthermore, the Regulations formalise the status of a senior independent director and the right of the Board of Directors to self-assessment.  
<sup>3</sup> The Policy provides more clarity on the definition of internal audit and its goals, while also formalising the independent status of the Internal Audit Department.  
<sup>4</sup> New regulations on the committees provide more clarity on the competencies and objectives of committees of the Board of Directors as per the requirements of the Bank of Russia and the business practices of FESCO Group, while also formalising a voting procedure for committee members based on an automated information system.

## COMPLIANCE WITH THE BANK OF RUSSIA'S CORPORATE GOVERNANCE CODE IN 2022<sup>5</sup>

Section	Total	Principles								
		Full compliance			Partial compliance			Non-compliance		
		2020	2021	2022	2020	2021	2022	2020	2021	2022
Shareholder rights and equitable treatment of shareholders	13	9	8	9	3	4	4	1	1	0
Board of directors, committees, competencies and independence	36	12	14	15	9	8	8	15	14	13
Corporate secretary	2	1	2	2	1	0	0	0	0	0
Remuneration of directors, members of executive bodies and other key officers	10	6	8	10	1	0	0	3	2	0
Risk management and internal controls	6	4	5	5	2	1	1	0	0	0
Disclosures and the Company's information policy	7	4	2	3	3	5	4	0	0	0
Material corporate actions	5	0	2	3	3	0	0	2	3	2
<b>Total</b>	<b>79</b>	<b>36</b>	<b>41</b>	<b>47</b>	<b>22</b>	<b>18</b>	<b>17</b>	<b>21</b>	<b>20</b>	<b>15</b>

## CORPORATE GOVERNANCE CODE PRINCIPLES



Certain compliance gaps were primarily due to the objective infeasibility of setting up fully independent Audit Committee and Human Resources and Remuneration Committee, lack of a long-term share-based incentive scheme for executive bodies and other key managers, and incomplete character of self-assessment procedures put in place for the Board of Directors.

Nevertheless, the Company remains committed to ensuring full or partial compliance with more principles and improving its corporate governance both Company and Group-wide.

<sup>5</sup> Statistics is provided based on the 2022 Report on Compliance with the Principles and Recommendations of the Corporate Governance Code recommended by the Bank of Russia, Letter of the Bank of Russia No. IN-06-28/102 dated 27 December 2011 On Disclosure of Compliance with the Principles and Recommendations of the Corporate Governance Code in the Annual Report of a Public Joint Stock Company.

# GENERAL SHAREHOLDERS MEETING

The General Shareholders Meeting is the supreme governing body through which shareholders exercise their right to participate in the Company's governance. The procedure for shareholders to participate in corporate governance, and the scope of authority, timing and procedure of the General Shareholders Meeting<sup>1</sup> are defined in FESCO's Articles of Association and Regulations on the General Shareholders Meeting as required by the applicable laws.

In line with the Corporate Governance Code and best practices, the Company seeks to create equal, fair and best possible conditions for shareholders to exercise their rights by engaging with the Company. With this in mind, the Company fosters the most favourable environment for the participation of its shareholders in the share capital:

- they can propose items for the General Shareholders Meeting agenda and candidates to the Board of Directors within 60 days after the end of the financial year;
- a notice of the General Shareholders Meeting is published on the Company's website at [www.fesco.ru](http://www.fesco.ru) at least 30 days prior to the date of the respective General Shareholders Meeting;

- in the course of a General Shareholders Meeting held as a physical meeting, shareholders may ask the chairman and key managers questions on FESCO operations;
- the Company's team advises minority shareholders on exercising their rights (participation in shareholders meetings, inheritance, and sale and purchase of shares);
- additionally, shareholders can communicate with the Company via the [ir@fesco.com](mailto:ir@fesco.com), or the Company's contact centre<sup>2</sup>;
- information on General Shareholders Meetings is available on the corporate website at [www.fesco.ru](http://www.fesco.ru) in the Messages for Shareholders section.

In the reporting year, the General Shareholders Meeting took place on 6 May 2022, with quorum across the agenda items coming in at 57.9484% of the votes. The shareholders elected new members of the Board of Directors, approved the Company's auditor for 2022, reviewed the 2021 Annual Report and annual financial statements, approved a new version of the Regulations on the Board of Directors of FESCO, and resolved on FESCO's membership in the Organisation for Cooperation of Railways.

## SHAREHOLDER REGISTER

FESCO's shareholder register is maintained by JSC Novy Registrator (perpetual registrar licence No. 045-13951-000001 issued by the Federal Financial Markets Service on 30 March 2006).

The registrar is located at: 30 Buzheninova St., Bld. 1, floor/office/room 2/VI/32, Moscow, 107996.

The Far-Eastern Branch of Novy Registrator is responsible for servicing FESCO shareholders in Vladivostok. Address: 28 Aleutskaya St., office 404, Vladivostok, 690000.

Information on shareholder support in other Russian cities is available at [www.newreg.ru](http://www.newreg.ru).

<sup>1</sup> Approved by the adjourned Annual General Shareholders Meeting on 16 November 2020, Minutes No. 53 dated 20 November 2020.

<sup>2</sup> Contact centre phone: +7 495 780 6001.

# BOARD OF DIRECTORS

The Board of Directors as a strategic and professional governing body plays a key role in the development of the Company's corporate governance framework, ensures the protection and exercise of shareholder rights, and identifies the key directions for the development of the Company. The Board of Directors is accountable to the meeting of shareholders of the Company.

The remit of the Board of Directors and the procedure for exercising its functions and working with the other governing bodies of the Company are governed by the Federal Law On Joint Stock Companies, the Articles of Association of the Company, and the Regulations on the Board of Directors<sup>3</sup>.

## MEMBERSHIP OF THE BOARD OF DIRECTORS

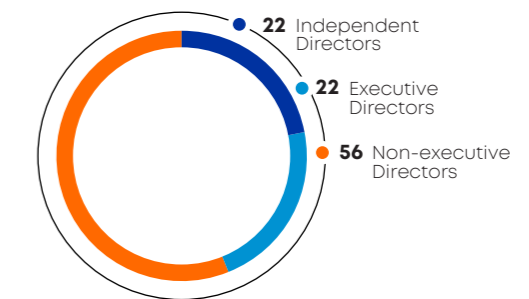
According to the Articles of Association, FESCO's Board of Directors comprises nine members. The number of members of the Board of Directors is in line with the law and makes it best positioned to operate to the scale and ambition of the Company and serve shareholders in an optimal way. The members of the Board of Directors are elected by the General Shareholders Meeting on an annual basis for the period until the next Annual General Shareholders Meeting.

As at 31 December 2022, FESCO's Board of Directors was comprised of two independent directors, two executive directors and five non-executive directors.

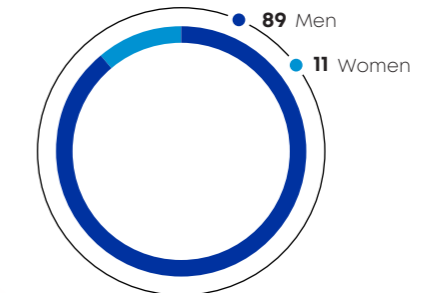
All members of (nominees for) the Board of Directors are assessed for independence at the time they are included in the list of nominees from which members of the new Board of Directors are elected, as well as throughout their tenure on the Board of Directors on a quarterly basis in accordance with the procedure for maintaining the Company's securities in Level 2 Quotation List of the Moscow Exchange.

### MAIN CHARACTERISTICS OF THE MEMBERS OF THE BOARD OF DIRECTORS

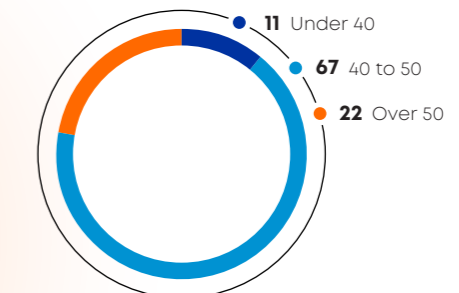
● CATEGORIES OF THE BOARD MEMBERS, %



● GENDER PROFILE OF THE BOARD OF DIRECTORS, %



● AGE OF THE BOARD MEMBERS, %



<sup>3</sup> Approved by the Annual General Shareholders Meeting on 6 May 2022, Minutes No. 57 dated 12 May 2022.

● KEY COMPETENCES OF THE BOARD MEMBERS, %



## BOARD OF DIRECTOR'S REPORT

The Board of Directors held **24 meetings** and considered **194 items** in 2022.

**100%** of the members of the Board of Directors participated in the work of the Board.

The Board of Directors' high engagement is due to the planning of activities of the Board of Directors on a half-year basis, preparation for and conduct of meetings via an automated information system, detailed consideration of key items by the Board's dedicated committees, and professionalism of the management and the Corporate Secretary.

In the reporting year, the Board of Directors focused on:

- identifying new directions for the Group;
- approving development strategies for FESCO's controlled entities until 2030;
- approving FESCO's 2023 budget and overseeing the implementation of FESCO's 2022 budget;
- approving the Company's by-laws;
- improving the corporate governance framework and control over the fulfilment of the instructions given by the Board of Directors;

## INDUCTION PROGRAMME FOR NEW MEMBERS OF THE BOARD OF DIRECTORS

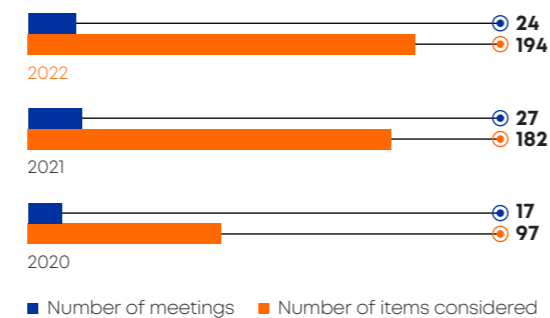
The Company has an Induction Programme for new members of the Board of Directors, which helps the newly elected members become acquainted with the practices of the Board of Directors and its Committees and integrate quickly. The programme includes the following activities:

- learning about the Group's business, including its key facilities;
- familiarising with the key resolutions that the Board of Directors adopted in the corporate year;
- learning about the Company's development strategy, geography of operations and key performance data;
- getting acquainted with the work plans of the Board of Directors and the Board committees;
- learning about ways in which communication is ensured between the Board of Directors, the Executive Board and the management of the Group.

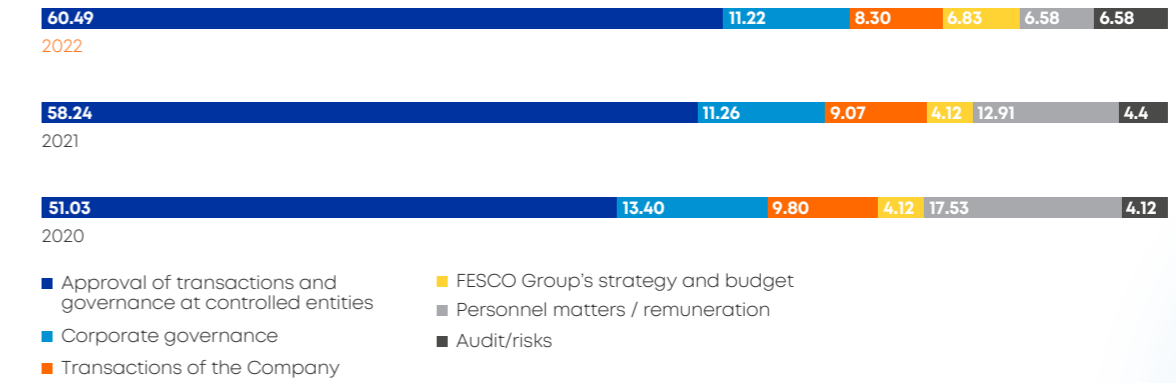
- appointing and assessing the performance of the Group management;
- considering the work plan and progress reports of the Internal Audit Department;
- assessing and monitoring FESCO's risk management processes and approval of the material risk map.

Information on the meetings of the Board of Directors held and the resolutions made is disclosed by the Company on the [website](#) of an authorised agency.

● NUMBER OF THE BOARD OF DIRECTORS' MEETINGS



● STRUCTURE OF AGENDA ITEMS CONSIDERED BY THE BOARD OF DIRECTORS, %



## COMMITTEES OF THE BOARD OF DIRECTORS

The committees of the Board of Directors are advisory and consultative bodies responsible for ensuring the efficiency and quality of work of the Board of Directors.

The Board of Directors has three committees:

- Strategy, Investment and General Affairs Committee;
- Human Resources and Remuneration Committee;
- Audit Committee.

The committees' rules of procedure, goals, objectives and remit are set out in the Company's relevant regulations approved by the Board of Directors<sup>1</sup>.

In the reporting year, the regulations on the committees were updated to align the remit and objectives of the committees with the Bank of Russia's requirements and FESCO Group's business practice.

## MEMBERS OF COMMITTEES OF THE BOARD OF DIRECTORS

The committee members are elected at the first meeting of the Board of Directors following the Annual General Meeting of Shareholders and continue in office until the new Board of Directors is elected.

Presently, the committees are made up of members of the Board of Directors, and each member of the Board of Directors is a member of one or two committees.

A majority of the Audit Committee consists of independent directors, a composition maintained since 2021.

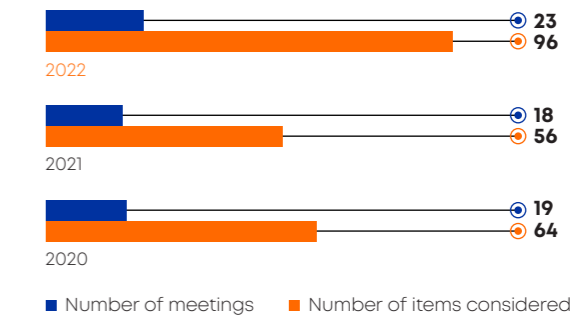
## COMMITTEES REPORT

To organise the work of its relevant committees in a way that ensures their efficiency, the Company relies on the following principles:

- the committees review the most important matters related to FESCO's business;
- the committees engage in an in-depth consideration of matters and provide recommendations to the Board of Directors to inform its decisions;
- the committees are involved in monitoring and overseeing the implementation of resolutions and instructions of committees and the Board of Directors;
- a majority of the Audit Committee consists of independent directors;
- there is effective communication between different committees of the Board of Directors;
- the committees may engage FESCO Group's officers and employees, as well as third-party advisors and experts.

Participation of the members of the Board of Directors in the Board committees in 2022 was reported at **100%**.

● MEETINGS OF THE BOARD COMMITTEES



<sup>1</sup> Approved by resolution of the Board of Directors on 28 November 2022, Minutes No. 22/22 dated 29 November 2022.

Number of meetings and items considered	Objectives	Key items considered in 2022
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### STRATEGY, INVESTMENT AND GENERAL AFFAIRS COMMITTEE

In 2022, the Committee held seven in-person meetings to consider 48 items	Putting together recommendations to the Board of Directors for strategic management, implementation of investment projects and long-term development programmes, budgeting, and operating performance evaluation for the Group's companies	<ul style="list-style-type: none"> <li>Key matters related to the development of the Group, including development strategies for controlled entities, concepts for FESCO's expansion into new areas, performance evaluation of new projects;</li> <li>progress on the roadmap to improve FESCO's ESG profile;</li> <li>FESCO's 2022 budget implementation forecast;</li> <li>approval of FESCO's 2023 budget;</li> <li>the President's reports on the fulfilment of the Strategy Committee's assignments, investment and general affairs.</li> </ul>
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### HUMAN RESOURCES AND REMUNERATION COMMITTEE

In 2022, the Committee held seven in-person meetings to consider 19 items	Putting together recommendations to the Board of Directors for the Company's personnel policy, motivation and remuneration system, and corporate culture development	<ul style="list-style-type: none"> <li>Matters related to FESCO Group's human resources development until 2025;</li> <li>harmonisation of the remuneration and incentivisation system across FESCO Group's companies;</li> <li>operating efficiency evaluation of the Company's executive bodies, key personnel, and the Corporate Secretary;</li> <li>training and development opportunities for FESCO Group's managers and employees;</li> <li>reports on the fulfilment of the instructions given by the Human Resources and Remuneration Committee.</li> </ul>
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### AUDIT COMMITTEE

In 2022, the Committee held nine in-person meetings to consider 29 items	Putting together recommendations to the Board of Directors for exercising control over the Company's financial and business operations related to risk management, internal control and corporate governance, conducting internal and external audits, and accounting	<ul style="list-style-type: none"> <li>Alignment of the Company's corporate governance framework with the Corporate Governance Code and an action plan to improve it;</li> <li>FESCO Group's 2022 quarterly material risk maps;</li> <li>a plan to improve the risk management system at FESCO Group;</li> <li>draft by-laws;</li> <li>consideration of potential auditors of FESCO and its controlled entities for the audit of the 2022 financial statements under RAS and IFRS and determining the auditors' remuneration;</li> <li>reports on the fulfilment of the instructions given by the Audit Committee;</li> <li>quarterly progress reports of the Internal Audit Department.</li> </ul>
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# EXECUTIVE BODIES

The responsibility to implement the approved strategy and development programmes, procure the effective delivery of resolutions of the Board of Directors and General Shareholders Meeting and manage FESCO's operational activities falls within the remit of the Company's executive bodies, which include:

- President and CEO acting as the sole executive bodies;
- Executive Board acting as the collegial executive body.

Its activities are governed by FESCO's Articles of Association and the Regulations on the Executive Board<sup>2</sup>.

The members of the Executive Board are appointed by the Board of Directors from nominees proposed by the Company's President. The number of the Executive Board members is also set by the Company's Board of Directors and shall be optimal for practical discussion of matters and making timely and effective decisions.

As at 31 December 2022, the Executive Board was composed of seven persons.

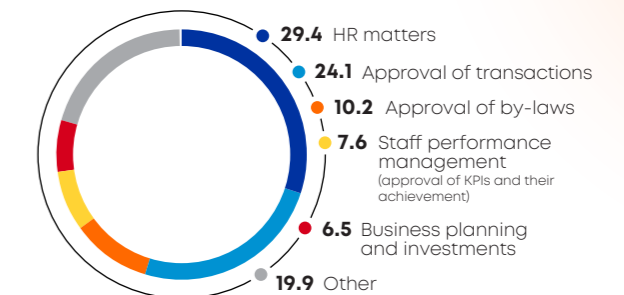
In 2022, the Executive Board held **45 meetings** and considered **216 items**, most of which (211 items) were concerned with performance of the Group's companies.

## PRESIDENT AND CEO

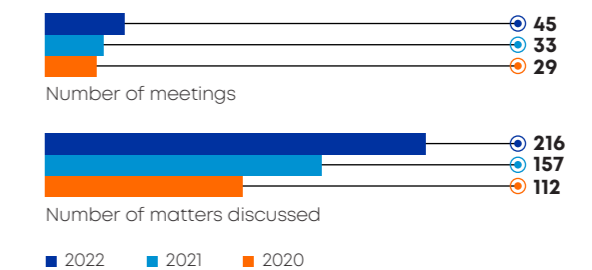
The President and the CEO, as the Company's sole executive bodies that manage the Company's day-to-day operations, act independently of each other within the respective scope of authority established by FESCO's Articles of Association and the Regulations on the Sole Executive Bodies<sup>1</sup>.

- The scope of authority of the President includes the Company's day-to-day operations. The President is also the Chairman of the Executive Board. The President's activities aim to ensure profitability and competitiveness of the Company, its economic and financial sustainability, respect for shareholder rights and social protection of the Company's employees.
- The CEO's scope of authority includes the Company's operations related to the use of information constituting a state secret.

ITEMS RELATED TO PERFORMANCE OF CONTROLLED AND DEPENDENT ENTITIES CONSIDERED BY THE EXECUTIVE BOARD, %



STATISTICS OF MEETINGS AND ITEMS CONSIDERED BY THE EXECUTIVE BOARD



## EXECUTIVE BOARD

The Executive Board as the collegial executive body manages the Company's day-to-day operations within the respective scope of authority established by FESCO's Articles of Association.

<sup>1</sup> Approved by the Annual General Shareholders Meeting on 20 June 2019, Minutes No. 51 dated 20 June 2019.  
<sup>2</sup> See footnote 1.

# REMUNERATION AND INCENTIVES

Remuneration of members of the Board of Directors, executive bodies and other key employees is paid in accordance with the Company's remuneration policy, which is outlined in the documents listed below.

Role	Regulations
Board of Directors	<ul style="list-style-type: none"> <li>Regulations on Remuneration and Compensation for Members of FESCO's Board of Directors<sup>1</sup></li> </ul>
Executive bodies (President, CEO, and Executive Board)	<ul style="list-style-type: none"> <li>Regulations on Bonus Payment to FESCO's Top Management<sup>2</sup></li> <li>Short-Term Employee Incentive Programme (covering all employees of FESCO Group)<sup>3</sup></li> </ul>

The Company seeks to establish the level of remuneration of its governing bodies and the relevant payment procedure in line with the principles and recommendations of the Corporate Governance Code.

provides sufficient motivation to grow their performance and attract and retain highly qualified employees.

In 2022, the Company did not revise the by-laws establishing the level of remuneration of members of the Board of Directors and executive bodies.

The current level of remuneration of members of the Board of Directors and executive bodies

## REMUNERATION OF THE BOARD MEMBERS

Members of the Board of Directors are paid a fixed annual remuneration (which includes base pay and additional pay).

### ADDITIONAL REMUNERATION FOR THE CORPORATE YEAR

Remuneration type	Remuneration, % <sup>4</sup>
Chairman of the Board of Directors	50
Committee Chairman	50
Committee member	25

The level of annual remuneration of members of the Board of Directors is established in accordance with the Regulations on Remuneration and Compensation for Members of FESCO's Board of Directors.

Each member of the Board of Directors is paid a base remuneration of RUB 12 million for the corporate year<sup>5</sup>.

<sup>1</sup> Approved by the Extraordinary General Shareholders Meeting on 2 December 2021, Minutes No. 56 dated 3 December 2021.

<sup>2</sup> Approved by resolution of the Board of Directors on 3 December 2021, Minutes No. 25/21 dated 6 December 2021.

<sup>3</sup> The calculation period for payment of remuneration and compensation is established from the election date of the Board of Directors at an annual General Shareholders Meeting of the Company to the date of the next annual General Shareholders Meeting of the Company at which new members of the Board of Directors will be elected.

<sup>4</sup> Additional remuneration is calculated as a percentage of the base remuneration for the corporate year.

Annual remuneration is paid in equal instalments on a quarterly basis within 30 calendar days of the end of the respective reporting quarter, provided that the member of the Board of Directors attended at least 75% of meetings of the Company's Board of Directors and meetings of the Company's committees on which he sits in the reporting period.

Fixed pay is the only form of monetary remuneration for the members of the Board of Directors. The Company has no other forms of motivation or financial incentives.

The Company compensates to members of the Board of Directors for expenses related to their work on the Company's Board of Directors. Compensation is payable only for actually incurred, documented and reasonable expenses.

Total remuneration paid to the members of the Board of Directors in 2022 was RUB 180.94 million. Total compensation paid amounted to RUB 335,890.

No loans were granted by the Company to the members of the Board of Directors in the reporting year.

## REMUNERATION OF MEMBERS OF THE EXECUTIVE BODIES

The remuneration of the sole executive bodies and the Executive Board members as the Company's top executives consists of an official salary paid on a monthly basis and a bonus paid after summing up the results of achieving the key performance indicators (KPIs) for six months.

The Board of Directors may resolve to pay an additional remuneration to the top management for their special contribution to the achievement of the Company's financial results and implementation of particularly important and prominent projects for the Group.

The Company's remuneration policy for members of executive bodies is established by the Board of Directors based on recommendations of the Human Resources and Remuneration Committee.

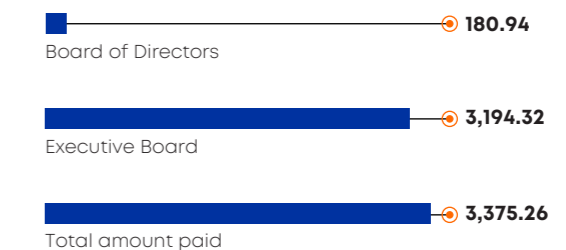
The remuneration paid to the members of the Executive Board and the sole executive bodies in 2022 totalled RUB 3,194.32 million.

The Human Resources and Remuneration Committee assesses the effectiveness of the remuneration policy twice a year and provides recommendations on how to improve it and draws final conclusions on whether the Company's management has achieved the KPIs.

Neither reimbursement for expenses was paid, nor loans were granted to the members of the Executive Board in the reporting period.

The KPIs are set individually for each top executive, include operational, financial, and strategic criteria, and are approved by a meeting of the Board of Directors for each six-month period.

### REMUNERATION OF THE GOVERNING BODIES, RUB MLN



# INFORMATION POLICY

FESCO's information policy is mainly aimed at protecting the shareholder and investor right to access information about the Group's performance that may influence their investment and management decisions, as well as protecting the information about the Company, the disclosure of which could result in damage to the interests of the Company, its shareholders and other stakeholders.

Disclosures are a key form of engagement with all of the Company's stakeholders.

When making disclosures, the Company is guided by applicable laws, recommendations of the Corporate Governance Code and its by-laws.

The Company applies the Regulations on Information Disclosure<sup>1</sup>, which outlines the key principles for disclosing information:

- regular, consistent, and timely manner of disclosure;
- accessibility of the disclosed information;
- reliable and complete information;
- maintaining the right balance between the Company's openness and business interests.

In the reporting year, the Company sought to provide information about its performance in a timely manner and to the extent necessary and sufficient for stakeholders to make informed decisions on participation in, or engagement with, the Group's companies. In the reporting year, the Company made disclosures in accordance with the applicable anti-crisis disclosure relaxations.

<sup>1</sup> Approved by the Board of Directors on 14 October 2016, Minutes No. 34 dated 17 October 2016.

# CORPORATE SECRETARY

Corporate Secretary is governed by the Company's Regulations on the Corporate Secretary<sup>1</sup>.

The Office of the Corporate Secretary performs its functions under the Corporate Secretary's supervision.

The Corporate Secretary is responsible for ensuring that the Company's governing bodies and officers comply with the Russian laws and the by-laws setting out the procedure for protecting the rights of shareholders; preparing and holding General Shareholders Meetings and meetings of the Board of Directors, its committees and the Executive Board, disclosing information about FESCO as required by the laws on the securities market, and dealing with insider information. One of the Corporate Secretary's key tasks is to maintain a strong corporate culture and improve corporate governance practices at the Company and at the Group.

The Corporate Secretary serves as Secretary of the Board of Directors and is functionally subordinate to it, and administratively

to the President of the Company.

The approval of nominees for the position of the Corporate Secretary, their remuneration and the Regulations on the Corporate Secretary falls within the scope of the Board of Directors, which ensures independent and efficient performance of the Corporate Secretary's functions.

To ensure compliance with the Corporate Governance Code and oversee the Company's corporate governance system, the Board of Directors reviews the Corporate Secretary's reports for the reporting year<sup>2</sup>.

In the reporting year, the Corporate Secretary focused on maintaining sustainable corporate governance procedures in the period of changes, balancing the interests of the Company and its shareholders, and improving control over the progress against the governing bodies' decisions.

Since April 2016, the position of FESCO's Corporate Secretary and Secretary of the Board of Directors has been occupied by lawyer **Anzhela Korzhevskaya**, who holds a Master of Laws degree.

<sup>1</sup> Approved by resolution of the Board of Directors on 6 February 2019, Minutes No. 1/19 dated 7 February 2019.

<sup>2</sup> Corporate Secretary's Report for 2022 was approved at the meeting of the Company's Board of Directors on 7 February 2023. The Board of Directors gave a positive assessment of the 2022 performance of the Corporate Secretary and the Office of the Corporate Secretary.

# CONTROLLED ENTITIES

FESCO operates more than 100 Russian and foreign legal entities that support its business.

The governance at its controlled entities is based on a legal framework put in place to ensure the interests and rights of FESCO as the major shareholder/member of the Group. Below are the key principles underpinning it:

- all transactions and actions of the controlled entities require approval by the Board of Directors and/or the Executive Board of FESCO as set out in the Company's Articles of Association;
- the Board of Directors and the Executive Board of FESCO approve the voting position of the Company's representatives in the governing bodies of the controlled entities on key issues;
- the governing bodies of the Group's companies (boards of directors (supervisory boards), executive bodies) are made up of FESCO's representatives;
- FESCO or its controlled entities are authorised to exercise the powers of the sole executive body at certain companies of the Group;
- the constituent and internal documents and the remits of the governing bodies of the Group's companies are harmonised at the Group's level.

The framework for governance at FESCO's controlled entities is implemented by FESCO Service Centre (FSC), an integrated centre servicing most of the Group's companies. 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 controlled entities.

In 2022, the Board of Directors and the Executive Board of FESCO passed about 335 resolutions related to governance at controlled entities. Pursuant to these resolutions, the governing bodies of FESCO's controlled entities made over 400 decisions.

# 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 2022. 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 Company's strategic planning and operational management and designed to achieve its strategic and operational objectives.

The RMS relies on the following international and national standards:

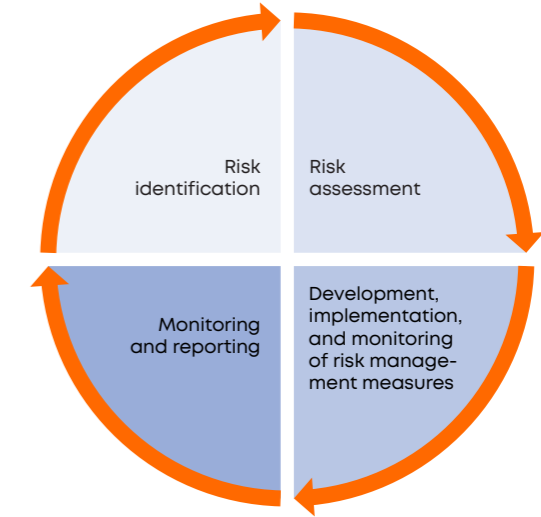
- **COSO ERM 2017** Conceptual Framework for Enterprise Risk Management: Integrating with Strategy and Performance;
- **ISO 31000:2018** Risk Management;
- **GOST R ISO 31000-2019** Risk Management.

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.

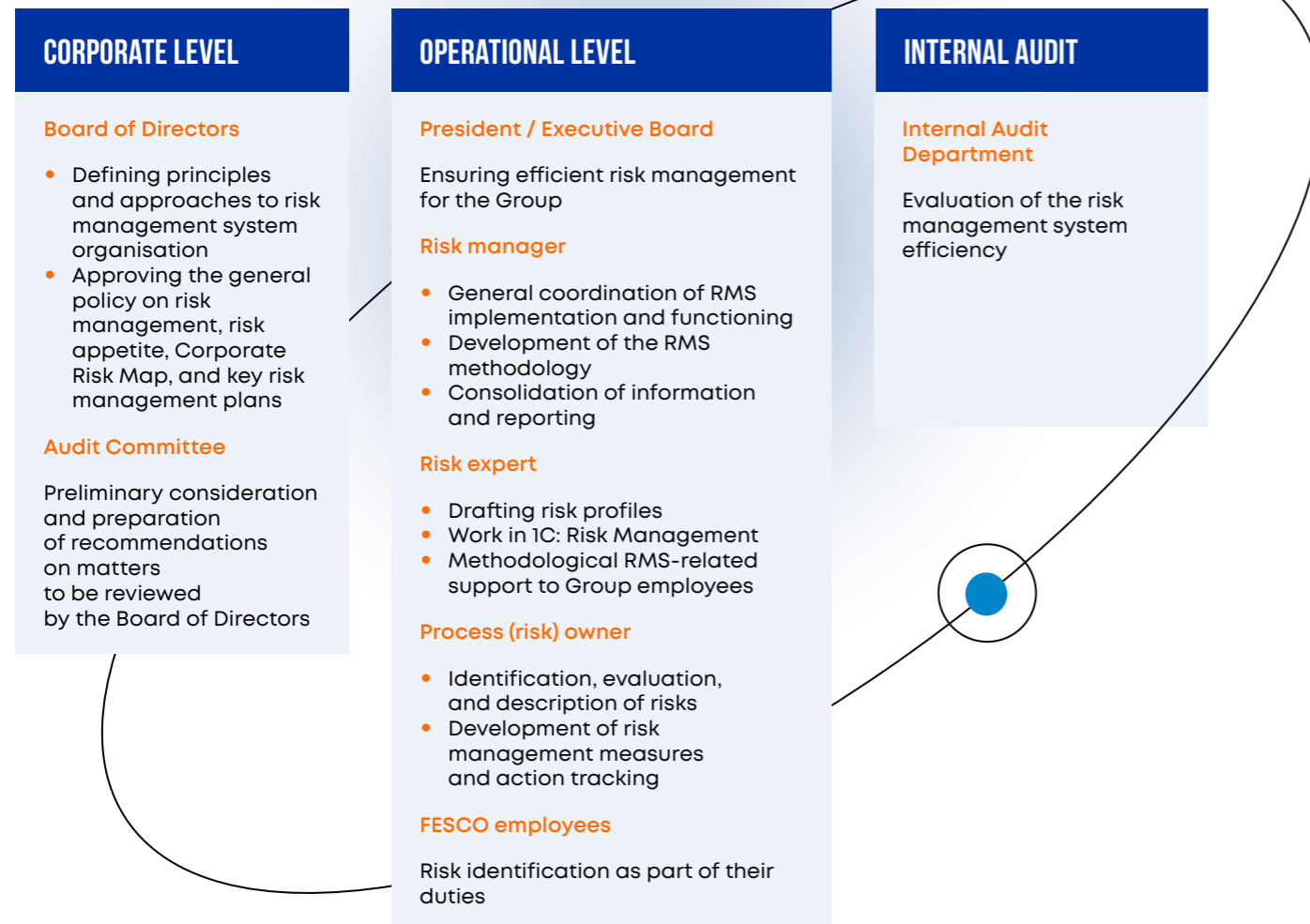
Key RMS functioning principles:

- alignment with targets;
- continuity;
- integration and transparency;
- RMS participants' awareness;
- reasonable degree of formalisation and documenting;
- continuous adaptation and development;
- reasonable distribution of responsibilities and powers;
- relevance and expediency;
- training and incentives;
- common methodological procedures.

### KEY STAGES OF THE RISK MANAGEMENT SYSTEM



### ORGANISATIONAL STRUCTURE FOR RISK MANAGEMENT



## DEVELOPMENT OF RISK MANAGEMENT SYSTEM

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

The RMS is developing in line with an approved plan to 2023.

The following steps were taken in 2022 to improve the efficiency of risk management and introduce a comprehensive risk-based approach to decision-making:

- we developed new risk reporting formats, including a risk register, risk profiles, risk matrix, etc.
- we updated local regulations on risk management;
- we selected and trained risk experts from among our employees;
- we defined risk appetite for 2023;

- we continued to identify and assess new risks and maintained a company-wide risk database relying on 1C: Risk Management.

Priority areas for the strengthening of risk management include:

- integrating risk management into key processes, such as investment planning, budgeting, and risk management in operating and financial activities;
- improving risk data quality by unifying, standardising and automating risk management processes;
- making information exchange more effective.

## CORPORATE MAP OF MATERIAL RISKS

Detailed description	Impact assessment / probability	Comment	Risk management
<b>Commercial risks</b>			
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 2022, the impact of risk materialisation was assessed as insignificant. The risk remains in 2023	FESCO 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 in order to respond efficiently to market changes
<b>Geopolitical risks</b>			
Geopolitical risks stem from the US, EU and other countries building up their sanctions pressure, including potential sanctions against the Company, its customers and the industries where they operate, as well as the Company's customers and suppliers exiting the market	Medium/low	In 2022, the impact of risk materialisation was assessed as insignificant. In 2023, the risk consequences and probability are estimated to increase	FESCO operates in strict compliance with the Russian and international laws and constantly keeps track of all regulatory changes affecting its operations. FESCO is capable of promptly adjusting its operations
<b>Operational risks</b>			
Given FESCO'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 2022, the impact of risk materialisation was assessed as insignificant. The risk remains in 2023	As part of its risk mitigation initiatives, FESCO repairs and upgrades its assets, invests in new equipment, streamlines shipment structure and refines its control over the quality of asset management and protection

## INFORMATION FOR SHAREHOLDERS

### SHARE CAPITAL

As at 31 December 2022, 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.

### 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 2022, no dividends were accrued or paid.

### 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.

### CREDIT RATINGS

As at the end of 2022, the Company maintained a BBB+ rating with a stable outlook from the Russian agency National Credit Ratings.

### SHARES

FESCO shares are traded on the Moscow Exchange and included in the Level 2 quotation list (ticker: FESH). In 2022, FESCO share price surged by 22.6% from RUB 27.4 as at 30 December 2021 to RUB 33.59 as at 30 December 2022.

FESCO's market capitalisation increased from RUB 80.86 billion as at the end of 2021 to RUB 99.1 billion as at the end of 2022.

# FESCO

APPENDICES



# APPENDICES

## APPENDIX 1.

Report on the Company's Compliance with the Principles and Recommendations of the Corporate Governance Code.