

Based on the aforementioned KPIs, functional KPIs for key executives of JSC FPC were established and form the basis of their incentive system.

The following was done during the development of the incentive system:

- Regulations on the System of Key Performance Indicators for the Purposes of Bonus Payment to Managers of JSC FPC were approved by the Board of Directors of JSC FPC, and the Regulations on the Remuneration System for Managers of JSC FPC were amended
- KPIs were ranked through vertical cascading method
- Weight (share) of corporate and functional key performance indicators was determined
- All functional performance indicators for managers were reviewed, focusing on results instead of describing the process

CONTROL AND AUDIT

External Auditor

The external auditor of JSC FPC is engaged through an open tendering procedure. The criteria for assessing the open tendering participants are approved by the Parent Company. No additional procedures are used to ensure the auditor’s independence and objectivity during the open tendering procedure.

The Board of Directors of JSC FPC has approved the winner of the open tender as the Company’s auditor to review and confirm the Company’s RAS and IFRS financial statements for 2022. The Auditor’s remuneration amounts to RUB 20.4 million (including VAT). Contract No. FPK-22-190 dated 12 July 2022. No non-audit services were provided.

The Audit and Risk Committee of JSC FPC did not assess the efficiency of the external audit process in 2022.

Auditing Commission

The Auditing Commission is JSC FPC’s permanent internal control body responsible for regular control over financial and business activities of the Company, its branches and representative offices, officers of JSC FPC’s governance bodies and administrative units to ensure compliance with the laws of the Russian Federation, JSC FPC’s Articles of Association and internal documents.

The Auditing Commission acts in the best interests of JSC FPC’s shareholders and is accountable to the General Meeting of Shareholders.

The Auditing Commission is independent of officers of JSC FPC’s governance bodies and administrative units.

The Auditing Commission is guided by applicable laws of the Russian Federation, JSC FPC’s Articles of Association, the Regulations on the Auditing Commission, and the Regulations on Remuneration and Compensation for the Members of JSC FPC’s Auditing Commission.

The Auditing Commission is composed of five members elected by the Board of Directors for a three-year term under JSC FPC’s Articles of Association.

The Auditing Commission, which was functioning at the end of the reporting period, was elected by the resolution of JSC FPC’s Board of Directors in December 2021 (Minutes No. 10 dated 27 December 2021).

Report on work with the Auditing Commission in 2022

Pursuant to clause 3 of Article 85 of Federal Law No. 208-FZ dated 26 December 1995 On Joint Stock Companies, the Auditing Commission of JSC FPC carried out two audits in JSC FPC during 2022:

- Financial and economic activities of JSC FPC and its branches in 2021
- Monitoring that individual measures to address the concerns arising from the audit of the financial and economic activities of JSC FPC are implemented

Incentives for the members of the Auditing Commission are established by the Regulations on Remuneration and Compensation for the Members of JSC FPC’s Auditing

Commission and imply the payment of remuneration for participation in every audit of the financial and business activities of the Company as well as additional remuneration.

The members of JSC FPC’s Auditing Commission were paid RUB 585,463.50 for participation in the 2022 audits.

The resolution to pay additional remuneration to members of the Auditing Commission is passed by JSC FPC’s Board of Directors in line with paragraph 15.1, subparagraph 24 of JSC FPC’s Articles of Association.

By decision of the Board of Directors of JSC FPC (Minutes No. 23 dated 30 June 2022), it was decided not to pay additional remuneration to the members of the Auditing Commission for the audit of the financial and business operations of JSC FPC in 2021.



Internal Audit

The main purpose of internal audit at JSC FPC is to assist the Board of Directors and executive management bodies in improving the efficiency of the Company's management, improving its financial and business operations through a systematic and consistent approach to the analysis and assessment of the risk management and internal control system and corporate governance practices as tools for providing reasonable assurance of achieving the Company's goals.

JSC FPC's Internal Audit Department is responsible for the internal audit. The Internal Audit Department operates in accordance with the requirements of the laws and regulations of the Russian Federation, regulations of the Parent Company and JSC FPC, the conceptual framework of professional practice of the Institute of Internal Auditors and other documents.

The internal audit function at JSC FPC is in line with the recommendations of the Federal Agency for State Property Management.

Internal audit activities in JSC FPC are regulated by the following key documents:

- Regulations on the Internal Audit in JSC FPC approved by the decision of the Board of Directors of JSC FPC
- Regulations on the Internal Audit Department of JSC FPC approved by the decision of the Board of Directors of JSC FPC
- Internal Corporate Audit Standards approved by the Parent Company's Order No. 2327r dated 16 November 2016 and adopted by the Board of Directors of JSC FPC

- Code of Ethics for Internal Auditors of JSC FPC approved by the decision of the Board of Directors of JSC FPC
- Internal Audit Quality Assurance and Improvement Programme approved by the Board of Directors of JSC FPC

During the reporting year, the Internal Audit Department conducted internal audits of individual business processes, assessed corporate governance, reliability and efficiency of the risk management and internal control processes. The Internal Audit Department also monitors the implementation of measures to eliminate irregularities and shortcomings in JSC FPC's activities identified during internal audits.

The Department engages in regular, continuous communication with stakeholders.

Each year, the Department's staff members attend conferences, seminars, and other events to advance their knowledge in order to maintain the level of quality for internal audits.

For 2022, the internal audit function was found to be compliant with established requirements and stakeholder expectations based on an internal quality assessment of internal audit activities conducted by employees and the head of department, Company management and members of the Audit and Risk Committee of JSC FPC's Board of Directors.

Evaluation of the Effectiveness of the Internal Control and Audit System

The Company has an annual procedure for evaluating the effectiveness of the Internal Control and Audit System.

Approaches to assessing the effectiveness, efficiency and compliance of the internal audit function with the established requirements (hereinafter referred to as quality assessment) are defined in the Internal Audit Assurance and Quality Improvement Programme approved by the Board of Directors of JSC FPC. The internal quality assessment of internal audit covers all aspects of internal audit activities and is carried out through a questionnaire survey of employees and the Head of Internal Audit, Company management and members of the Audit and Risk Committee of the Board of Directors of JSC FPC. The assessment identifies internal audit's strengths and development areas, and generates recommendations from stakeholders. The results of the assessment are presented to the Audit and Risk Committee of the Board of Directors of JSC FPC and to the Board of Directors of JSC FPC.

Based on the results of the internal assessment of the internal audit performance in 2022, the internal audit function was found to be compliant with the established requirements and stakeholder expectations.

In order to further improve the performance level, areas of improvement of the internal audit function were elaborated (The Internal Audit Quality Assurance and Improvement Plan for 2023 was approved).

The self-assessment of the Risk Management and Internal Control System (RM&ICS) at JSC FPC is carried out in accordance with the Risk Management and Internal Control Policy approved by the Company's Board of Directors and the local regulations adopted in its development.

The heads of the Company's divisions conduct a self-assessment of the RM&ICS through a questionnaire survey, which determines the effectiveness and consistency of the methods and tools used in the risk management process, the quality of the interaction between RM&ICS participants, and the RM&ICS shortcomings.

The results of the assessment are presented to the Audit and Risk Committee of the Board of Directors of JSC FPC and to the Board of Directors of JSC FPC.

The level of RM&ICS development in the Company may be classified as above average according to the results of the self-assessment of the RM&ICS in 2022. The Company implements all regulatory procedures as part of the risk management process, although some elements need to be improved.

The management of the Company took into advisement all comments and data gathered during the self-assessment, which will be considered during the development of the RM&ICS Development Plan in the future.