

KEY PROVISIONS OF THE POLICY ON REMUNERATION AND REIMBURSEMENT FOR GOVERNING BODIES

The remuneration of the sole executive body and FPC's other key managers directly depends on the achievement of relevant key performance indicators.

Key Performance Indicators of FPC's top managers have been developed in accordance with the Long-Term Development Programme of Russian Railways, its Subsidiaries and Affiliates to 2020, and RZD Holding's 2030 Development Strategy.

By Order of Russian Railways No. 1545r dated 22 June 2015, the following target performance indicators were specified for FPC: revenue, passenger traffic, traffic safety, and labour productivity growth.

The target performance indicators have served as a basis for corporate and functional key performance indicators of FPC's top managers, which underpin their motivation system.

The following tasks were completed when developing the motivation system:

- the impact of top managers' actions on the existing business processes was reviewed
- the KPIs were ranked through vertical cascading
- the weight (share) of corporate and functional key performance indicators was determined, and the same number of KPIs was determined in line with the draft Regulations on the Bonus System for Key Managers.

The key managers' corporate KPIs and their weight were approved by the Human Resources, Remuneration, and Corporate Governance Committee of FPC's Board of Directors.

CONTROL AND AUDIT

EXTERNAL AUDITOR

To audit and verify FPC's 2018 financial statements prepared under the Russian Accounting Standards (RAS) and the International Financial Reporting Standards (IFRS), the General Shareholders Meeting approved LLC Ernst&Young as the Company's Auditor following

a limited bid among pre-qualified participants. The Auditor's fee totalled RUB 17.8 million (including VAT).

AUDIT COMMISSION

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

The Audit Commission acts in the best interests of FPC's shareholders and is accountable to the General Shareholders Meeting.

The Audit Commission is independent of officers of FPC's governing bodies and administrative units.

FPC's Audit Commission is guided by applicable laws of the Russian Federation, JSC FPC's Articles of Association, the Regulations on the Audit Commission, and the Regulations on Remuneration and Reimbursement for Members of JSC FPC's Audit Commission.

The Audit Commission is composed of five members elected by the Board of Directors for a three-year term in accordance with the Articles of Association. Members of the Audit Commission are not allowed to simultaneously serve on FPC's Board of Directors or hold any posts in other governing bodies.

Company Profile

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Appendices

In June 2018, the annual General Shareholders Meeting of FPC elected members of the Audit Commission as follows:

- Oksana Vinch
- Mark Terekhov
- Virginia Kulikova
- Elena Chamortseva
- Elena Yudina.

Incentives for members of the Audit Commission are established by the Regulations on Remuneration and Reimbursement for Members of JSC FPC's Audit Commission and imply payment of remuneration for participation in every audit of the Company's financial and business activities as well as additional remuneration (determined by the Board of Directors).

The members of FPC's Audit Commission were paid RUB 184,189.50 for participation in the annual audit.

INTERNAL AUDITOR

FPC's Internal Audit Unit is responsible for internal audit. The key objective of FPC's internal audit is to provide the Board of Directors and the General Director with unbiased and independent information on the financial and business activities, and the reliability and efficiency of risk management system, internal controls, and corporate governance practice to maintain financial stability, improve the efficiency and effectiveness of business processes, boost performance, and achieve FPC's goals.

FPC's internal audit structure is aligned with the International Standards for the Professional Practice of Internal Auditing, the Bank of Russia's Corporate Governance Code, and other Russian regulations.

The Internal Audit Unit is guided by Russian laws, regulations of Russian Railways and FPC, the concepts of professional practice introduced by the Institute of Internal Auditors, and other documents.

In 2018, the resolution to pay additional remuneration to the Audit Commission members was passed by FPC's annual General Shareholders Meeting upon recommendation of the Board of Directors. Annual remuneration paid to a member of the Audit Commission may not exceed an amount equivalent to twenty times the minimum wage at Russian Railways for each completed audit.

Pursuant to a resolution of the annual General Shareholders Meeting, in 2018, members of the Audit Commission were paid additional remuneration totalling RUB 613,965. The aggregate remuneration totalled RUB 798,154.50 in 2018.

To improve the internal audit quality, in 2018, the Company started developing the Programme to Guarantee the Quality and Improve the Performance of FPC's Internal Audit Unit. The approval of these documents is planned to be completed in 2019, as well as the internal assessment of the performance of the Company's Internal Audit Unit.

In 2018, the Internal Audit Unit conducted audits, including an assessment of reliability and efficiency of the risk management and internal control system.

For more details see Section 3.7 Risk Management, Internal Control and Internal Audit.

For more information, see "Risk Management, Internal Control, and Auditing" on p. 91

INTERNAL QUALITATIVE ASSESSMENT OF CORPORATE GOVERNANCE

In 2018, FPC's Internal Audit Unit assessed the compliance of the Company's corporate governance with the recommendations of the Corporate Governance Code and the Federal Agency for State Property Management, as well as the corporate governance principles accepted in Russia. The assessment comprised the following focus areas:

- regulations guiding FPC's corporate governance
- alignment of FPC's organisational and governance structure with the recommendations of the Corporate Governance Code and other corporate governance regulations and guidelines
- distribution and regulation of powers and responsibilities of the risk management and internal control process participants
- compliance with FPC's corporate ethos and standards
- disclosure of information about FPC's operations.

Following the assessment, the Internal Audit Unit prepared recommendations to improve the corporate governance practice, and compiled a list of corporate governance principles which are currently not feasible to implement due to FPC's business specifics. The recommendations prepared by the Internal Audit Unit have been considered in JSC FPC's Action Plan to Achieve the Target State of the Corporate Governance System.