
	Moscow	SEgezha Group PJSC	Internal Audit Department	
	K 004-1-2021	Internal Control System Code	Edition 2	Page 1 of 10

APPROVED BY
the Board of Directors
of Segezha Group PJSC
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09.04.2021

**SEGEZHA GROUP
INTERNAL CONTROL SYSTEM CODE
K 004-1-2021**



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	Moscow	SEgezha Group PJSC	Internal Audit Department	
	K 004-1-2021	Internal Control System Code	Edition 2	Page 2 of 10

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CONTENTS

1. GENERAL PROVISIONS	ОШИБКА! ЗАКЛАДКА НЕ ОПРЕДЕЛЕНА.
2. RESPONSIBILITY FOR APPLICATION ...	ОШИБКА! ЗАКЛАДКА НЕ ОПРЕДЕЛЕНА.
3. NORMATIVE REFERENCES	ОШИБКА! ЗАКЛАДКА НЕ ОПРЕДЕЛЕНА.
4. TASKS AND OBJECTIVES OF INTERNAL CONTROL SYSTEM (ICS).....	5
5. PRINCIPLES OF ICS OPERATION	ОШИБКА! ЗАКЛАДКА НЕ ОПРЕДЕЛЕНА.
6. INTERNAL CONTROL SYSTEM STRUCTURE	О Ш И Б К А ! З А К Л А Д К А Н Е О П Р Е Д Е Л Е Н А .
7. ALLOCATION OF RESPONSIBILITIES OF THE ICS SUBJECTS	О Ш И Б К А ! З А К Л А Д К А Н Е О П Р Е Д Е Л Е Н А .
8. PROCEDURE FOR INTRODUCTION OF AMENDMENTS AND SUPPLEMENTS TO THE CODE.....	9

	Moscow	Segezha Group PJSC	Internal Audit Department	
	K 004-1-2021	Internal Control System Code	Edition 2	Page 4 of 10

1. GENERAL PROVISIONS

This Code is an internal regulation of Segezha Group PJSC (hereinafter referred to as the Company) and Segezha Group Organizations¹ (hereinafter referred to as the SGO) that regulates the internal control procedures and establishes the goals, objectives, and principles of the Company's Internal Control System operation, as well as distribution of duties and powers of its subjects.

Abbreviations and terms in this Code shall be used as specified in Section 5 of the Policy "Corruption Prevention and Combating" (hereinafter referred to as the Anti-Corruption Policy).

2. RESPONSIBILITY FOR APPLICATION

The below-specified officers of the Company and SGO shall be obliged to be aware of and use this Code in their work:

- President;
- Vice Presidents;
- Heads of divisions;
- Heads of structural divisions;
- Heads of SGO.

This Code is obligatory for application in the SGO. Control over observance of the requirements and procedures provided for by this Code in the SGO is carried out by the President of the Company.

Managers and employees of the Company and the SGO shall bear personal responsibility for observance of the requirements hereof as well as for the actions of their subordinate employees with regard to observance of the principles and requirements hereof.

Persons in breach of this Code requirements can be brought to disciplinary, administrative, civil, or criminal responsibility under the procedure and on the grounds provided for by the laws of the Russian Federation, the Company's Articles of Association, bylaws and employment contracts.


3. NORMATIVE REFERENCES

The Code was developed under the applicable laws of the Russian Federation, taking into account the international corporate governance practices and the recommendations of the following documents:

- COSO Internal Control - a methodology for building and assessing the Internal Control System developed by COSO;
- International Professional Standards of Internal Audit (The Institute of Internal Auditors inc.);
- Corporate Governance Code of the Russian Federation;
- The Federal Law dd. 6/12/2011 No. 402-FZ "On Accounting";
- Information of the Ministry of Finance of the Russian Federation No. PZ-11/2013 "Organization and Implementation by the Economic Entity of Internal Control Over Business Operation Items, Accounting and Preparation of Accounting (Financial) Statements";

¹ Legal entities whose financial statements are consolidated with the Company's IFRS financial statements, as well as legal entities in which authorized capital the Company directly or indirectly owns more than 50%.

- Order of the Federal Tax Service of the Russian Federation dd. 16/6/2017 No. MMV-7-15/509@ "On Approval of the Requirements to Internal Control System";
- Foreign Corrupt Practices Act (FCPA) - Act on Combating Fraud and Corruption in Foreign Economic Activities of 1977;
- Segezha Group Code of Ethics;

	Moscow	Segezha Group PJSC	Internal Audit Department	
	K 004-1-2021	Internal Control System Code	Edition 2	Page 5 of 10

- Corruption Prevention and Combating Policy;
- Regulations on the Audit Committee;
- Regulations on the "Single Hotline" Deficiency Alert Program;
- Regulation "Organization of Electronic Document Management and Archiving System";
- Other bylaws of the Company.

4. TASKS AND OBJECTIVES OF INTERNAL CONTROL SYSTEM (ICS)

4.1 The Internal Control System (hereinafter referred to as the ICS) is a set of internal control processes carried out by the ICS subjects based on the existing organizational structure, internal policies and regulations, procedures and methods of internal control and risk management applied in the Company at all management levels and within all functional areas.

4.2 The ICS creation and effective functioning is aimed at providing reasonable confidence in achieving the Company's goals. Efficient ICS functioning enables proper control over the financial and economic activities of the Company and the SGO.

4.3 The objectives of the Internal Control System are the following:

- providing reasonable assurance in the Company's goals achievement;
- identifying risks and managing such risks;
- creating control mechanisms to ensure the functioning of business processes and the implementation of the Company's and SGO's investment projects;
- ensuring the safeguard of the Company's and SGO's assets, as well as the efficiency of financial and economic activities and the cost-effective use of resources;
- protecting the interests of the Company's shareholders and preventing and eliminating conflicts of interest;
- creating conditions for the timely preparation and submission of complete and reliable reports, statistical, management and other reports, as well as other information subject to disclosure under the applicable laws;
- ensuring that the Company and the SGO comply with the applicable laws and regulatory requirements, as well as the Company's internal policies, regulations, and procedures.

4.4 The President of the Company shall be responsible for the formation, effective functioning and control over compliance with the ICS requirements and procedures. The Company's Vice Presidents shall be responsible for the establishment and control over the compliance with the ICS procedures within their structural subdivisions. The Internal Audit Department of the Company (hereinafter referred to as the IAD) shall carry out an independent periodic assessment of the ICS efficiency and reliability, both of separate business processes and as a whole.


5. PRINCIPLES OF THE ICS OPERATION

5.1 The ICS is based on the following principles:

Responsibility Principle. All ICS subjects shall bear responsibility for the identification, assessment, analysis of risks in the course of their activity, as well as the development and implementation of the required actions for risk management and creation (development) of control procedures, their application within their competence.

The Principle of Reasonable Approach to Formalization of Control Procedures. The Company seeks to formalize the main control procedures so that the formalization volumes were necessary and sufficient for effective ICS functioning and could be kept up-to-date by the Company and the SGO.

Methodological Unity Principle. Internal control (development, implementation and monitoring of the efficiency of control procedures) and risk management (identification, analysis, assessment and monitoring of risks, development and monitoring of the efficiency of risk

	Moscow	Segezha Group PJSC	Internal Audit Department	
	K 004-1-2021	Internal Control System Code	Edition 2	Page 6 of 10

management measures) are based on approaches and standards common for the entire Company and the SGO.

Principle of Separation of Duties. Duties and powers shall be distributed between the ICS subjects to eliminate or reduce the risk of error and/or fraud by avoiding assigning the functions of development, approval, monitoring, and evaluation to one subject.

Optimality Principle, according to which the volume and complexity ("cost") of internal control procedures and risk management measures should not exceed the "control effect".

Reasonable Assurance Principle. The control procedures carried out are considered effective, if they allow reducing the risk to an acceptable level.

5.2 Ensuring the effectiveness of the Company's ICS shall be carried out at three levels:

Level 1: Vice Presidents, Line Directors, Heads of Structural Subdivisions, employees of the Company and SGO shall be responsible for the risk assessment and management, as well as building an effective ICS;


Level 2: Audit Committee, Security Department, structural subdivisions responsible for financial control, procurement control, and compliance control shall be responsible for monitoring the implementation of effective risk management and internal control practices, as well as for ensuring regulatory compliance;

Level 3: IAD conducts an independent assessment of the ICS effectiveness, as well as risk management procedures and corporate governance system.

6. INTERNAL CONTROL SYSTEM STRUCTURE

The Company's Internal Control System is a set of interrelated components, the structure of which corresponds to the generally accepted COSO methodology². The ICS consists of the following interrelated components:

² The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a voluntary private organization engaged in providing guidance to corporate management on critical aspects of organizational governance, business ethics, financial reporting, internal controls, risk management and fraud management. COSO has developed a general internal control model against which the companies and organizations can evaluate their own management systems.

	Moscow	Segezha Group PJSC	Internal Audit Department	
	K 004-1-2021	Internal Control System Code	Edition 2	Page 7 of 10

6.1 The control environment is the basis for effective ICS; it determines the ICS understanding and importance among employees and managers of the Company and the SGO:

- The Company and the SGO demonstrate a commitment to integrity, moral values and business ethics;
- The Board of Directors of the Company demonstrates independence from the Company's management and supervises the internal control development and implementation;
- The President and the Heads of the Company's business units, under the supervision of the Board of Directors, shall determine the line of command, appropriate authorities and areas of responsibility in the course of achieving the ICS objectives.

6.2 Risk assessment - the process of identifying and analyzing the risks, including their consequences, to ensure further risk management:

- the management of the Company and the SGO sets goals and objectives, taking into account the assessment of the risks associated with their achievement;
- the management of the Company and the SGO on an ongoing basis identifies, analyzes and evaluates risks, and develops measures to mitigate them;
- the Company identifies and evaluates changes that may significantly affect the ICS.

6.3 Control procedures – the activities aimed at reducing risks to an acceptable level and ensuring that the Company and the SGO achieve their goals:

- the management of the Company and the SGO selects and develops the means of control that help reduce risks to an acceptable level;
- the Company and the SGO seek to use available modern technologies and automation tools to create and implement the control procedures;
- managers and employees of the Company and the SGO compare the cost of control procedure implementation with the potential effect of their implementation and minimization of risks to an acceptable level.

6.4 Information and communications create the conditions necessary for the implementation of management functions, making timely and justified decisions, the performance of job duties by employees of the Company and the SGO:

- the Company and SGO receive and use reliable and verified information, which contributes to the ICS reliability;
- the management of the Company and the SGO communicates with third-party organizations on the issues affecting the internal control.

6.5 Monitoring is aimed at regular assessment of the ICS effectiveness to identify significant deficiencies, its ability to ensure the achievement of its goals and objectives:


- employees and management of the Company and the SGO assess and promptly inform the persons responsible for taking corrective measures, including the President of the Company and members of the Board of Directors of the Company, about deficiencies in the ICS.

7. ALLOCATION OF RESPONSIBILITIES OF THE ICS SUBJECTS

7.1 The Company's Board of Directors shall determine the internal control policy, as well as regularly evaluates the ICS functioning.

7.2 With this view, the Board of Directors of the Company:

- supervises and evaluates the activities of the executive bodies and top managers of the Company and the SGO;

	Moscow	Segezha Group PJSC	Internal Audit Department	
	K 004-1-2021	Internal Control System Code	Edition 2	Page 8 of 10

- approves financial and business plans, budgets, and investment programs for the Company's development, and periodically hears the reports from the executive body and officers of the Company and the SGO on the implementation of approved plans and decisions;
- regularly reviews and evaluates the implementation of the approved development strategies, the fulfillment of the approved annual and quarterly budgets and plan tasks, and the management performance;
- assesses managerial, financial, political and other risks affecting the Company's operations; ensures the effective Internal Control System operation;
- ensures that the Company and the SGO comply with the Russian laws and corporate governance principles, and discloses complete and accurate information;
- exercises control over the implementation of decisions made by the Board of Directors and the orders, directives and instructions issued by the Company's President.

7.3 The competence of the Audit Committee at the Board of Directors of the Company with regard to the ICS includes:


- facilitating and overseeing financial reporting and auditing processes, including evaluating the work of external auditors;
- assessment of the risk management system and compliance with the applicable statutory requirements for financial reporting, auditing and planning;
- facilitating the budgeting process and financial modeling, including preliminary review of the draft budget prior to submission to the Board of Directors of the Company;
- approval of the IAD's activity plan and consideration of the reports on its activity.

7.4 The competence of the President of the Company in relation to the ICS includes:

- organization of executing the resolutions of the General Meeting of Shareholders and the Board of Directors of the Company;
- organization of an effective Internal Control and Risk Management System;
- organization of work and effective interaction between the Company's structural subdivisions and the SGO;
- allocation of responsibilities between the heads of structural units and control over their fulfillment;
- organization of budgeting and control over budget implementation;
- ensuring the preservation of the Company's and the SGO's fixed assets and material resources;
- ensuring observation of the laws in the activity of the Company and the SGO.

7.5 The competence of the IAD within the ICS includes:

- evaluating the ICS effectiveness (including individual business processes), risk management and corporate governance systems;
- elaboration of recommendations on improvement of ICS, risk management and corporate governance systems;
- monitoring the implementation of recommendations to eliminate violations and deficiencies identified as a result of inspections;
- providing advisory support to the Company's management when developing the ICS elements, including control procedures;
- preparation of an annual report to the members of the Board of Directors of the Company on the results of evaluation and condition of the ICS, corporate governance and risk management system in the Company. The procedure and terms of drafting the reporting are defined in the "Internal Audit of Segezha Group" Code.

	Moscow	Segezha Group PJSC	Internal Audit Department	
	K 004-1-2021	Internal Control System Code	Edition 2	Page 9 of 10

7.6 In the field of the ICS the heads of the Company's structural divisions shall ensure the following:

- distribution of powers and responsibilities between the employees under their administrative subordination under the principle of allocation of duties;
- inclusion of the functions and responsibilities for implementing control procedures in the job descriptions of the employees;
- development of a unified corporate culture that contributes to the effective ICS functioning;
- control over compliance by employees of the Company's structural subdivisions with the requirements of internal regulatory documents;
- implementing and monitoring the control procedure implementation;
- timely reporting to higher management and IAD of the deviations in the control procedure implementation.

7.7 All employees of the Company, as executors of control procedures within the ICS, are responsible for:

- effective execution of control procedures and risk management measures in conformity with job descriptions and the requirements of internal regulatory documents;
- timely informing of direct supervisors about new risks and cases when, for any reason, the execution of control procedures has become impossible and/or changes in control procedures and risk management measures are required;
- periodic advanced training in the field of internal control and risk management under the approved training program.

7.8 Within its competence, the Audit Commission shall conduct the scheduled documentary audits of the Company's financial and business activities for the year, as well as unscheduled audits, based on the results of which:

- the reliability of the data contained in the Company's annual report, annual financial statements, and other financial documents of the Company is confirmed;
- proposals for improving the ICS, as well as proposals for measures to improve the financial and economic condition of the Company are formed.

8. PROCEDURE FOR INTRODUCTION OF AMENDMENTS AND SUPPLEMENTS TO THE CODE

Amendments and additions to the Code may be made only by issuing a new version of the Code.

A new version of the Code may be approved no more often than once a calendar quarter and shall take effect on the first day of the first month of the quarter (except for emergency situations caused by changes to the current laws of the Russian Federation, regulatory requirements of higher authorities or fit-for-purpose decisions of the Company's executive bodies).

The President of the Company shall be responsible for the development, revision and amendment of this Code.