
	MOSCOW	Segezha Group JSC	Internal Audit Division	
	K 004-1-2021	Internal Control System Code	Version 2	Page 1 of 10

APPROVED by
the Board of Directors
of
Segezha Group PJSC
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ed
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**CODE
OF THE INTERNAL CONTROL SYSTEM
OF SEGEZHA GROUP
K 004-1-2021**

	MOSCOW	Segezha Group JSC	Internal Audit Division	
	K 004-1-2021	Internal Control System Code	Version 2	Page 2 of 10

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DRAFTED BY

Internal Audit Division,
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APPROVED:

By the Resolution of the Board of Directors of Segezha Group PJSC (Minutes No. 10/21 dated April 9, 2021)

REPLACES the Code of the Internal Control System of Segezha Group (K 004-2021), approved by Order of the President of Segezha Group PJSC No. 14 dated February 12, 2021 (based on the Resolution of the Board of Directors of Segezha Group PJSC dated February 12, 2021, Minutes No. 4/21)

TABLE OF CONTENTS

1. GENERAL PROVISIONS.....	4
2. RESPONSIBILITY FOR APPLICATION	4
3. REGULATORY REFERENCES	4
4. GOALS AND OBJECTIVES OF THE INTERNAL CONTROL SYSTEM.....	5
5. ICS PERFORMANCE PRINCIPLES.....	5
6. STRUCTURE OF THE INTERNAL CONTROL SYSTEM.....	6
7. DISTRIBUTION OF DUTIES BETWEEN ICS PARTICIPANTS	7
8. PROCEDURE FOR MAKING AMENDMENTS AND SUPPLEMENTS TO THE CODE	9

	MOSCOW	Segezha Group JSC	Internal Audit Division	
	K 004-1-2021	Internal Control System Code	Version 2	Page 4 of 9

1. GENERAL PROVISIONS

This Code is an internal document of Segezha Group PJSC (hereinafter referred to as the "Company") and entities that are a part of Segezha Group¹ (hereinafter referred to as the "Organizations of Segezha Group"), which regulates internal control procedures and establishes the goals, objectives, and performance principles of the Company's internal control system and the allocation of duties and powers amongst its subjects.

Abbreviations and terms used in this Code have the meanings specified in Section 5 of the Policy for Preventing and Combating Corruption (hereinafter referred to as the "Anti-Corruption Policy").

2. RESPONSIBILITY FOR APPLICATION

The following officers of the Company and the Organizations of Segezha Group shall read this Code and use it in their work:

- President;
- Vice Presidents;
- Heads of Divisions;
- Heads of Business Units;
- Heads of the Organizations of Segezha Group.

This Code shall be binding on the Organizations of Segezha Group. Control over compliance with the requirements and procedures stipulated by this Code in the Organizations of Segezha Group shall be exercised by the Company's President.

Executives and employees of the Company and the Organizations of Segezha Group shall be personally liable for compliance with the requirements of this Code, as well as for the actions of their subordinates in terms of compliance with the principles and requirements of this Code.


Persons who violate the requirements of this Code may be subject to disciplinary, administrative, civil or criminal liability pursuant to the procedure and on the grounds set forth by the laws of the Russian Federation, the Articles of Association of the Company, bylaws and employment contracts.

3. REGULATORY REFERENCES

The Code was drafted pursuant to the current laws of the Russian Federation, with due regard for the international practice of corporate governance and the recommendations contained in the following documents:

- COSO Internal Control, which is a methodology developed by COSO for building and assessing an internal control system;
- The International Standards for the Professional Practice of Internal Auditing developed by the Institute of Internal Auditors Inc.;
- The Code of Corporate Governance of the Russian Federation;
- Federal Law No. 402-FZ dated December 6, 2011 "On Accounting";
- Information of the Ministry of Finance of Russia No. PZ-11/2013 "Management and internal control of ongoing business operations, bookkeeping and compilation of accounting (financial) statements by an economic agent";

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

	MOSCOW	Segezha Group JSC	Internal Audit Division	
	K 004-1-2021	Internal Control System Code	Version 2	Page 5 of 9

- Order of the Federal Tax Service of Russia No. MMB-7-15/509@ dated June 16, 2017 "Approval of the Requirements for the Organization of an Internal Control System";
- The Foreign Corrupt Practices Act (FCPA), a law adopted in 1977 to counteract fraud and corruption in foreign economic activities;
- The Code of Ethics of Segezha Group;
- The Policy for Preventing and Combating Corruption;
- The Regulations on the Audit Committee;
- The Regulations on the Unified Hotline Deficiency Notification Program;
- The Regulations on the E-document Management and Archiving System;
- Other internal documents of the Company.

4. GOALS AND OBJECTIVES OF THE INTERNAL CONTROL SYSTEM

4.1 The internal control system (hereinafter, the "ICS") constitutes a set of internal control processes that are to be implemented by the ICS participants on the basis of the existing organizational structure, internal policies and regulations, and the procedures and methods of internal control and risk management applicable in the Company at all management levels and within all functions.


4.2 The development and effective performance of the ICS is designed to ensure reasonable assurance in the achievement of the Company's goals. The effective performance of the ICS helps to ensure proper control over the financial and economic activities of the Company and the Organizations of Segezha Group.

4.3 The objectives of the internal control system are as follows:

- ensuring reasonable assurance in the achievement of the goals of the Company;
- identifying risks and managing such risks;
- creating control mechanisms to ensure the performance of business processes and the implementation of investment projects of the Company and the Organizations of Segezha Group;
- ensuring the safety of the assets of the Company and the Organizations of Segezha Group, as well as the efficiency of financial and economic activities and the economical use of resources;
- protecting the interests of the Company's shareholders and preventing and eliminating conflicts of interests;
- creating conditions for the timely preparation and provision of complete and reliable reporting, statistical, management and other reporting, and other information to be disclosed pursuant to applicable laws;
- ensuring that the Company and the Organizations of Segezha Group comply with applicable laws and regulatory requirements, as well as internal policies, regulations and procedures of the Company.

4.4 The President of the Company is responsible for the formation and effective implementation of the ICS requirements and procedures and for monitoring compliance therewith. Vice Presidents of the Company are responsible for creating ICS procedures and monitoring compliance therewith within their business units. The Company's Internal Audit Division (hereinafter, the "IAD") shall perform an independent regular assessment of the effectiveness and reliability of the ICS, both for individual business processes and overall.

5. ICS PERFORMANCE PRINCIPLES

	MOSCOW	Segezha Group JSC	Internal Audit Division	
	K 004-1-2021	Internal Control System Code	Version 2	Page 6 of 9

5.1 The ICS performance is based on the following principles:

The principle of responsibility. All ICS participants shall be responsible for identifying, assessing, and analyzing risks within the framework of their activities, as well as for developing and implementing the necessary measures to manage risks and create (develop) and apply control procedures within their scope of authorities.

The principle of a reasonable approach to the formalization of control procedures. The Company seeks to formalize the primary control procedures so that the scope of formalization is appropriate and adequate for the effective performance of the ICS and can be kept up to date by the Company and the Organizations of Segezha Group.

The principle of methodological cohesion. Internal control (development, implementation and monitoring of the effectiveness of control procedures) and risk management (identification, analysis, assessment, and monitoring of risks, development and monitoring of the effectiveness of risk management measures) shall be based on approaches and standards that are common to the entire Company and the Organizations of Segezha Group.

The principle of segregation of duties. Responsibilities and powers shall be allocated between ICS participants so as to exclude or reduce the risk of error and/or fraud by preventing the allocation of functions for development, approval, monitoring, and assessment to one and the same participant.

The principle of optimality stating that the scope and complexity ("cost") of internal control procedures and risk management measures shall not exceed the "control effect."

The principle of reasonable assurance. Control procedures shall be deemed effective if they enable reduction of risk to an acceptable level.

5.2 The effectiveness of the Company's ICS is ensured at three levels:

Level 1: Vice Presidents, line directors, heads of business units, and employees of the Company and the Organizations of Segezha Group are responsible for assessment and risk management and for building an effective ICS;

Level 2: The Audit Committee, the Security Department, and business units exercising financial control, procurement control, and compliance control are responsible for control over the implementation of the effective practice of risk management and internal control and for compliance;

Level 3: The IAD shall perform an independent assessment of the effectiveness of the ICS, risk management procedures, and the corporate governance system.


6. STRUCTURE OF THE INTERNAL CONTROL SYSTEM

The Company's internal control system is a set of interconnected components whose structure corresponds to the COSO generally accepted framework². The ICS consists of the following interconnected components:

6.1 The control environment is the basis for an effective ICS; it ensures the understanding and value of the ICS among employees and executives of the Company and the Organizations of Segezha Group:

- The Company and the Organizations of Segezha Group are committed to honesty, moral values, and business ethics;

² The Committee of Sponsoring Organizations of the Treadway Commission (COSO) is a voluntary private organization for elaborating recommendations for corporate leadership on critical aspects of corporate governance, business ethics, financial statements, internal control, risk management, and fraud deterrence. COSO has developed a unified internal control model against which companies and organizations can evaluate their own governance systems.

	MOSCOW	Segezha Group JSC	Internal Audit Division	
	K 004-1-2021	Internal Control System Code	Version 2	Page 7 of 9

- The Company's Board of Directors is independent from the Company's management and oversees the development and implementation of internal control;
- The Company's President and heads of business units under the supervision of the Board of Directors shall determine reporting lines, respective powers, and responsibility areas in the course of achieving the ICS goals.

6.2 Risk assessment is the process to identify and analyze risks, including consequences thereof, in order to ensure subsequent risk management:

- the management of the Company and the Organizations of Segezha Group shall set goals and objectives, taking into account the assessment of risks associated with their achievement;
- the management of the Company and the Organizations of Segezha Group shall identify, analyze, and assess risks on an ongoing basis and develop measures to mitigate them;
- the Company shall identify and evaluate changes that may have a significant effect on the ICS.

6.3 Control procedures are measures designed to mitigate risks to an acceptable level and ensure the accomplishment of goals by the Company and the Organizations of Segezha Group:

- the management of the Company and the Organizations of Segezha Group shall select and develop controls that help to mitigate risks to an acceptable level;
- the Company and the Organizations of Segezha Group shall strive to use available state-of-the-art technologies and automated tools to create and implement control procedures;
- executives and employees of the Company and the Organizations of Segezha Group shall compare the costs of implementing control procedures with the potential effect of their implementation and the minimization of risks to an acceptable level.

6.4 Information and communications create the conditions necessary for implementing management functions, making timely and informed decisions, and fulfilling official duties by employees of the Company and the Organizations of Segezha Group:

- the Company and the Organizations of Segezha Group shall receive and use reliable and verified information, which contributes to the reliability of the ICS;
- the management of the Company and the Organizations of Segezha Group shall interact with third-party entities on matters affecting the performance of internal control.

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


- employees and executives of the Company and the Organizations of Segezha Group shall evaluate deficiencies of the ICS and promptly notify the persons responsible for taking measures to correct them, including the President of the Company and the members of the Company's Board of Directors.

7. DISTRIBUTION OF DUTIES BETWEEN ICS PARTICIPANTS

7.1 The Company's Board of Directors shall determine the policy in relation to internal control and regularly assess the ICS performance.

7.2 For these purposes, the Company's Board of Directors shall:

- ensure control over and assessment of the activities of executive bodies and senior officers of the Company and the Organizations of Segezha Group;
- approve financial and economic plans, budgets, and investment programs for the Company's development and periodically hear reports of the executive body and officers of the Company and the Organizations of Segezha Group on the implementation of approved plans and resolutions;

	MOSCOW	Segezha Group JSC	Internal Audit Division	
	K 004-1-2021	Internal Control System Code	Version 2	Page 8 of 9

- regularly review and assess the progress of approved development strategies, the compliance with approved annual and quarterly budgets and performance targets, and the managers' work results;
- assess management, financial, political, and other risks affecting the Company's activities and ensure the performance of an effective internal control system;
- ensure compliance of the Company and the Organizations of Segezha Group with the laws of the Russian Federation and corporate governance principles and the disclosure of complete and accurate information;
- exercise control over the implementation of resolutions by the Board of Directors and orders, decrees, and instructions by the Company's President.

7.3 The scope of authorities of the Audit Committee of the Company's Board of Directors with respect to the ICS shall comprise:


- assistance in and control over the preparation and audit of financial statements, including assessment of the performance of external auditors;
- assessment of the risk management system and compliance with applicable statutory requirements for financial statements, audit, and planning;
- assistance in the budgetary process and financial modeling, including preliminary consideration of the draft budget before its submission to the Company's Board of Directors;
- approval of the IAD's action plan and review of its performance reports.

7.4 The scope of authorities of the Company's President with respect to the ICS shall comprise:

- managing the implementation of resolutions adopted by the Company's General Meeting of Shareholders and the Board of Directors;
- ensuring an effective Internal Control and Risk Management System;
- managing the performance of and effective interaction between the business units of the Company and the Organizations of Segezha Group;
- allocating duties among the heads of business units and exercising control over their performance;
- budget management and follow-up;
- ensuring the safety of fixed assets and material resources of the Company and the Organizations of Segezha Group;
- ensuring the compliance of the Company and the Organizations of Segezha Group activities with the applicable laws and regulations.

7.5 The IAD's scope of authorities with respect to the ICS shall comprise:

- assessment of the ICS effectiveness (including individual business processes) and the risk management and corporate governance system;
- recommendations to improve the ICS and the risk management and corporate governance system;
- follow-up measures on recommendations to eliminate violations and deficiencies based on the audit findings;
- providing consulting support to the Company's management in the development of ICS elements, including control procedures;
- preparing an annual report for the Company's Board of Directors members on the assessment and actual performance of the ICS and the corporate governance and risk management system

	MOSCOW	Segezha Group JSC	Internal Audit Division	
	K 004-1-2021	Internal Control System Code	Version 2	Page 9 of 9

in the Company. The procedure and time frames for generating reports are defined in the Internal Audit Code of Segezha Group.

7.6 Heads of the Company's business units shall, within the framework of the internal control system, ensure:

- the allocation of authorities and responsibilities between employees who administratively report to them pursuant to the segregation of duties principle;
- that functions and responsibilities relating to the implementation of control procedures are included in the employees' job descriptions;
- the development of the company-wide corporate culture contributing to the effective performance of the ICS;
- control over the compliance with the requirements of internal regulations by the employees of the Company's business units;
- the implementation of control procedures and follow-up;
- timely notification of the senior management and the IAD about deviations while implementing control procedures.

7.7 All of the Company's employees who implement control procedures within the ICS framework shall be responsible for:

- the effective performance of control procedures and risk management measures pursuant to job descriptions and the requirements of internal regulations;
- timely notification of immediate managers about new risks and cases when it has become impossible to implement control procedures for some reason and/or any control procedures and risk management measures need to be changed;
- regular upgrading of skills in internal control and risk management pursuant to the approved training program.

7.8 Within the scope of its authorities, the Auditing Commission shall conduct scheduled desk audits of the financial and economic activities of the Company for a year, as well as unscheduled audits, which results shall be used to:

- verify the reliability of data contained in the Company's annual report, annual financial statements, and other financial documents of the Company;
- form proposals to develop the ICS and suggest measures to improve the financial and economic position of the Company.

8. PROCEDURE FOR MAKING AMENDMENTS AND SUPPLEMENTS TO THE CODE

Any amendments or supplements to the Code may only be made by issuing a new version of the Code.

A new version of the Code may not be approved more often than once a calendar quarter and shall come into effect on the 1st day of the first month of a quarter (except for emergencies when changes are introduced to the applicable laws of the Russian Federation, statutory requirements of higher authorities are imposed or targeted decisions of the Company's executive bodies are adopted).

The President of the Company shall bear responsibility for drafting, reviewing, and amending this Code.