

Internal audit at JSC FPC is delegated to the Internal Audit Department, which operates in accordance with the requirements of the regulations of the Russian Federation, the 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. It is regulated by the following documents:

- Regulations on internal audit<sup>1</sup>
- Regulations on Internal Audit Department<sup>2</sup>
- Internal corporate auditing standards<sup>3</sup>
- Code of Ethics for Internal Auditors
- Internal audits quality assurance and improvement programme

In 2023, 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. It has also monitored the elimination of violations and deficiencies in the Company's operations identified during internal audits.

Each year, the internal audit specialists attend conferences, seminars, and other events to advance their knowledge in order to maintain the level of quality for internal audits. The share of employees certified in internal audit is 80%, which is in line with the target value. In April 2023, the Head of Internal Audit was awarded a diploma in the category "Best Internal Auditor of the Year" in the national award "Effective Internal Control and Audit – 2022".

## Assessment of the effectiveness of the Internal Control and Audit System

The Company has a standard annual procedure in place for quality control of the internal control and audit system. Approaches to quality control are defined in the relevant programme<sup>4</sup>.

The internal audit quality assessment covers all aspects of the internal audit function and is conducted through a questionnaire survey of members of the Audit and Risk Committee of the Board of Directors, management, and employees of the Internal Audit Department. The results of the assessment are presented to the Audit and Risk Committee and the Board of Directors.

The final internal audit quality score for 2023 was 94% (+3 p.p. year-on-year), which is in line with stakeholder expectations<sup>5</sup>. The Department has also prepared an Internal Audit Assurance and Quality Improvement Plan for 2024–2026.

The self-assessment of the 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.

According to the results of the self-assessment of RM&ICS at the end of 2023, the level of RM&ICS development in the Company can be characterised as 'above average'. The Company fulfils all regulatory procedures under the risk management process, but some aspects still 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.

# Conflict of Interest Management and Corruption Prevention

## Managing conflicts of interest

The procedure for preventing, identifying and resolving conflicts of interest is formalised in the Company's internal documents (regulations):

- The Regulations on the Board of Directors of JSC FPC regulate conflicts between the interests of the Company and the personal interests of a member of the Board of Directors or the sole executive body of the Company, which shall mean any direct or indirect personal interests or interests in favour of a third party, including due to their business, friendly, family and other relations and relationships, their holding of positions in another legal entity or the ownership of shares in another legal entity by them or related persons, conflicts between their duties to the Company and their duties to another person.
- The Regulations on Preventing and Resolving Conflicts of Interest in JSC FPC regulate conflicts of interest that arise for employees in the performance of their employment duties.

The Board of Directors plays a key role in preventing, identifying and settling internal conflicts. The Regulations on the Board of Directors stipulate that members of the Board of Directors are obliged to report:

- Facts that may cause or have already caused a conflict of interest, including information on organisations related and affiliated Board members, persons serving on the governing bodies of organisations, members of the executive body, other key management personnel and conflicts of interest that exist in connection therewith (including the existence of an interest in the conclusion of transactions)
- Intention to enter into transactions involving shares in the Company or shares (interests) in legal entities controlled by the Company and immediately after entering into such transactions to report that such transactions are made
- Existence of a conflict of interest and the reasons for it before the matter is discussed by the Board of Directors or its committee

The Regulations also stipulate that a member of the Board of Directors may not participate in decision-making if there is a conflict of interest. He/she may be advised not to be present when such matter is discussed at the meeting. Independent directors who do not have a conflict of interest may present their standpoint (provide an assessment) in advance with respect to material corporate actions involving a possible conflict of interest.

The Company has a Conflict of Interest Committee chaired by the Deputy General Director for Security. The Corporate Security Centre is responsible for reviewing conflict of interest declarations.

In 2023, 86 conflict of interest declarations were reviewed for 55 situations showing signs of conflict of interest. In 29 cases, a conflict of interest was found, in 26 cases there was no conflict of interest. The incidents were related to the participation of the employee or related persons in the activities of commercial entities engaged with JSC FPC, as well as the subordination or controllability of relatives. There were 36 inspections of managers (65%), and 19 inspections of white-collar and blue-collar employees (35%).

Thirty-seven conflicts of interest were resolved (29 established in 2023, 8 – in 2022). The following ways of resolving conflicts of interest were applied: employee's renunciation of personal interest (including dismissal), limitation of decision-making and control functions, transfer to another position within the Company, non-approval of a candidate for a position. Disciplinary sanctions (warning, reprimand) were applied to six employees (17%).

<sup>1</sup> All of the above documents were approved by decisions of the Board of Directors of JSC FPC, unless otherwise stated.

<sup>2</sup> Agreed by the Board of Directors and approved by the order of JSC FPC.

<sup>3</sup> Approved by the Parent Company's Order No. 2327r dated 16 November 2016 and put in practice by the Board of Directors of JSC FPC.

<sup>4</sup> Internal Audit Quality Assurance and Improvement Programme approved by the Board of Directors of JSC FPC (Minutes No. 15 dated 5 February 2021).

<sup>5</sup> The results of the internal audit quality assessment for 2023 were reviewed by the Audit and Risk Committee of FPC's Board of Directors in February 2024 (Minutes No. 10 dated 22 February 2024).

## Anti-Corruption

In accordance with FPC's [Anti-Corruption Policy](#), the Company conducts open and honest business and follows the best practices of corporate governance and strong business reputation. The [Anti-Corruption](#) section is publicly available on FPC's official website.

The Deputy General Director in charge of the Security Block was appointed Commissioner for the Prevention of Corruption Offences. The unit responsible for the prevention of corruption offences is the Corporate Security Centre, a structural unit of JSC FPC, which has a Corporate Communications Control and Anti-Corruption Division. In 2023, JSC FPC implemented measures to prevent and combat corruption in line with its Anti-Corruption Plan for 2021–2024.

FPC's corruption risk management is an integral part of the Company's RM&ICS. It is based on the Methodological Recommendations for Managing Corruption Risks at JSC FPC. The Company periodically assesses corruption risks and implements multi-stage internal control procedures. The findings of the corruption risk assessment were used to create a list of FPC's positions associated with corruption risks. The share of employees occupying positions with a high corruption risk is 0.1% of the actual Company's headcount. In 2023, JSC FPC and controlled companies were not held administratively liable for offences under Articles 19.28 and 19.28 of the Code of Administrative Offences of the Russian Federation.

To assess the effectiveness of the RM&ICS in preventing and combating corruption, an annual internal audit is conducted and the Audit and Risk Committee of the Board of Directors is informed on a quarterly basis of progress in preventing and combating corruption and other unfair practices, as well as of the work of FPC's Anti-Corruption Hotline.

Sources of information on possible corruption:

- Reports to FPC's [anti-corruption](#) hotline and other communication channels
- Notification of the employer of the instigation of an employee to commit corruption offences
- Reports of employees on receiving a gift in connection with protocol events, business trips and other official events, participation in which is connected with their official position or performance of their official duties
- Results of audits of financial and business operations carried out by control and supervisory divisions of JSC FPC, the parent company, and state authorities

In 2023, 26 reports were received about possible corrupt practices at JSC FPC. Following the review, four staff members were dismissed, two were reassigned, and six were subject to disciplinary action. Information on two cases was sent to law enforcement agencies.

Anti-corruption work was monitored at 40 divisions of the Company, and measures to eliminate identified violations and shortcomings were developed and are being implemented.

The Company's personnel are familiarised annually with key internal anti-corruption regulations. Anti-corruption information boards were placed in all divisions of the Company.

In 2023, JSC FPC joined the Anti-Corruption Charter of Russian Business and took part in the Anti-Corruption Rating of Russian Business. The Company was assigned the AAA+ grade (an organisation with maximum level of anti-corruption).

## Risk Management

### Risk Management System

Risk management at JSC FPC is a continuous and systematic process embedded throughout the organisation, integrated with business processes and aimed at mitigating exposure and strengthening the assurance that the objectives and goals of the Company will be achieved.

All units and divisions are involved in the risk management process within their scope of responsibility. The Risk Management Department is responsible for the overall coordination and methodological support of the risk management process, the creation and submission of reports to the management, and the risk management training for the Company's personnel.

The following documents serve as the foundation for risk management at JSC FPC:

- [Risk Management Policy of JSC FPC](#)<sup>1</sup>

- Methodological recommendations for determining the acceptable risk profile (risk appetite)<sup>2</sup>
- Methodological recommendations on risk management and internal control<sup>3</sup>
- Regulations on interaction in the risk management and reporting process<sup>4</sup>

In 2023, JSC FPC managed corporate-wide risks in accordance with the mentioned regulations. Lower-level operational risks were managed in a simplified manner, with limited procedures.

The Internal Audit Department is responsible for assessing the RM&ICS system reliability and effectiveness.

### Management principles

The Board of Directors approved the Risk Management and Internal Control Policy of JSC FPC (hereinafter, the Policy), which was developed in accordance with the Risk Management and Internal Control Policy of the parent company.

In accordance with the Policy, the main purpose of the RM&ICS is to provide reasonable assurance that the following will be achieved:

- Strategic objectives
- Operational objectives
- Objectives in ensuring compliance with applicable international regulations, regulations of the Russian Federation and internal regulations of the Company
- Objectives in ensuring the reliability, timeliness and quality of all types of reporting

The Risk Management and Internal Control Policy stipulates that RM&ICS organisation and functioning in the Company is to be carried out in accordance with the principles set out in GOST R ISO 31000-2019 Risk Management. Principles and guidelines, namely:

- Risk management creates and protects value

- Risk management is an integral part of all organisational processes
- Risk management is part of the decision-making process
- Risk management is explicitly associated with uncertainty
- Risk management is systematic, structured and timely
- Risk management is based on the best available information
- Risk management is adaptable
- Risk management takes into account human and cultural factors
- Risk management is transparent and takes into account the interests of stakeholders
- Risk management is dynamic, iterative and responsive to changes
- Risk management contributes to the continuous improvement of the organisation

<sup>1</sup> Approved by the resolution of the Board of Directors (Minutes No. 11 dated 27 December 2019).

<sup>2</sup> Approved by the decision of the Board of Directors (Minutes No. 24 dated 2 July 2020).

<sup>3</sup> Approved by Order of the General Director of JSC FPC No. 258r dated 20 March 2020.

<sup>4</sup> Approved by Order of the General Director of JSC FPC No. 258r dated 20 March 2020.