

Control and Audit

To provide shareholders with reliable and complete information on the Company's financial and economic activities, the Board of Directors annually appoints an auditing organisation and elects the Auditing Commission for a period of three years.

To assess the reliability and efficiency of risk management and internal control, the Company put an internal audit division in place.

External audit

The Board of Directors annually appoints an audit organisation to audit the financial statements prepared under IFRS and RAS. The independent audit organisation is selected on a competitive basis in accordance with the Company's current procedure. The initial (maximum) price of the contract for the audit of accounting (financial) statements is determined by the Board of Directors based on the recommendations of the Audit and Risk Committee. Following the results of competitive procedures, the Audit and Risk Committee makes a recommendation regarding the appointment of the audit organisation by the Board of Directors.

The Audit and Risk Committee of the Board of Directors shall arrange for assessment of independence, objectivity and absence of conflict of interest of the Company's external auditors, supervision of the external audit and assessment of the quality of the audit and auditor's report. The provision of non-audit services by the audit organisation is subject to FPC's Policy on the Provision of Non-Audit Services¹.

For the audit of the Company's RAS and IFRS financial statements for 2023, the Board of Directors appointed the auditing organisation which won an open tender. No non-audit services were rendered in the reporting year.

The Audit and Risk Committee of the Board of Directors at its meeting held on 11 May 2023 (Minutes No. 15) considered the issue on the IFRS consolidated financial statements for 2022, the auditor's report on the consolidated financial statements and the auditor's recommendations, where the Auditor reported that there were no instances of bad faith and no conflicts of interest.

In 2023, the aggregate remuneration of the audit organisation totalled

RUB 23.1 million

Remuneration to the Audit Organisation for the audit of the 2023 financial statements

Description of service	Cost, including VAT (RUB mln)
Review of the Company's IFRS interim condensed consolidated financial statements for the first half of 2023	7.2
Review of the Company's IFRS summarised consolidated interim condensed financial statements for the first half of 2023	0.36
Audit of the Company's RAS financial statements for 2023	8.4
Audit of the Company's IFRS consolidated financial statements for 2023	6.6
Audit of the Company's IFRS summarised consolidated financial statements for 2023	0.54
Non-audit services	0
Total:	23.1

Auditing Commission

The Auditing Commission is a permanent elected body of control over financial and economic activities of the Company.

As stipulated by the Company's Articles of Association, the Auditing Committee is elected by the Board of Directors for a term of three years. Its quantitative composition is determined by the decision of the Board of Directors and may not include less than three persons. The General Director and members of the Board of Directors may not be elected to the Auditing Commission.

In its activities, the Auditing Committee shall be guided by the legislation of the Russian Federation, the Company's Articles of Association, the Regulations and other internal documents, as well as decisions of the General Meeting of Shareholders.

The results of audits, proposals to eliminate causes and conditions contributing to violations of financial and economic activities, as well as proposals to improve the internal control system and increase the efficiency of the Company's operations are communicated to the General Meeting of Shareholders, the Board of Directors and the executive bodies.

During 2023, the Auditing Committee conducted:

- audit of the financial and economic activities of JSC FPC and its branches for 2022
- Monitoring that individual measures to address the concerns arising from the audit of the financial and economic activities of the Company are implemented

- confirmation of the reliability of the data contained in the Company's Annual Report.

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.

In 2023, the aggregate remuneration of the Auditing Commission totalled

RUB 1,607,900

In the course of the audit, the Auditing Commission of JSC FPC identified violations totalling RUB 1,010,000. A respective plan¹ was devised to eliminate the identified violations. It outlines 116 actions, identifies those responsible and sets deadlines for elimination.

Interim plan progress monitoring showed that the planned activities were fulfilled; violations were eliminated by 99.9%. There are still violations amounting to RUB 0.2 million outstanding (work is ongoing to bring inventories into economic turnover).

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 RM&ICS and corporate governance practices as tools for providing reasonable assurance of achieving the Company's goals.

The Board of Directors of the Company approves internal documents defining the policy in the field of organisation and implementation of internal audit. The Head of the Internal Audit Function is appointed and dismissed by the General Director based on the decision of the Board of Directors. The action plan and budget of the internal audit function, as well as the terms of the employment agreement with its head, including the amount of remuneration, are approved by the Board of Directors. The Board of Directors also considers a progress report on the internal audit action plan.

¹ Approved by the Board of Directors (Minutes of the Board of Directors of JSC FPC No.10 dated 7 December 2018).

¹ Action Plan for the elimination of violations identified by the Auditing Commission of JSC FPC for 2022, approved by Order No. 204 dated 5 May 2023.

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 audit¹
- Regulations on Internal Audit Department²
- Internal corporate auditing standards³
- 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 programme⁴.

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 expectations⁵. 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%).

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

² Agreed by the Board of Directors and approved by the order of JSC FPC.

³ 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.

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

⁵ 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).