

POLICY

**ON INTERNAL AUDIT
at Sistema JSFC**

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1. DOCUMENT PROFILE

1.1. Purpose of the document

This Policy on Internal Audit (hereinafter referred to as "the Policy") of Sistema JSFC (hereinafter referred to as "the Corporation") lays out the goals, objectives, and work principles for the Corporation's division performing internal audit functions (hereinafter referred to as "the internal audit unit").

1.2. Access and frequency of revisions

Type of document:	Internal policy		
Summary:	Policy on internal audit at Sistema JSFC		
Maximum frequency of revision:	2 years	Minimum frequency of revision:	1
Access:	For internal use only		

1.3. Revision control

Revision number	Revision date	Drafted by: job title	Drafted by: name	Summary of changes to the document
1	22 Oct 2014	Director for Internal Audit Methodology	A. Menshikova	Initial draft

2. TERMS AND DEFINITIONS

Internal Control means an activity performed by all parties to the internal control system (BoD, BoD committees, Auditing Committee, the Corporation's President, the President's committees and commissions, units, officials, and other employees) to ensure reasonable confidence regarding the achievement of the following goals of the Corporation:

- efficiency of financial and business operations;
- fairness of financial and non-financial reports;
- compliance with applicable law and internal regulations.

Internal Audit means independent and objective controls and consultations provided to help the Corporation's governance bodies improve the efficiency and productivity of administration, risk management, and control; identify irregularities in the activity of the Corporation and its S/As; and control remediation thereof.

Control Procedures means measures (incl. automated operations) performed by parties to the internal control system for decreasing the probability of a risk (or several risks) to an admissible level.

3. GENERAL PROVISIONS

This Policy has been prepared in compliance with Russian law, the Corporation's Charter (hereinafter "the Charter"), the Terms of Reference of the BOD and BOD Committees, the Corporate Governance Code (dd 10 April 2014 No. 06_52/2463), other internal regulations of the Corporation, and recommendations of international professional organisations and standards existing in internal control and audit (e.g., the Committee of Sponsoring Organisations of the Treadway Commission (COSO) and International Internal Audit Standards).

This Policy is binding on all employees of the Corporation and must serve as a guideline for employees of the Corporation's S/As.

This Policy is subject to approval by the Corporation's BOD and shall come into effect pursuant to a special order. The Policy may be declared null and void if so decided the Corporation's BOD.

Responsibility for updating this Policy rests with the Executive Vice President, Head of Internal Audit Department.

4. GOALS AND FUNCTIONS OF THE UNIT IN CHARGE OF INTERNAL CONTROL

4.1. Goals of the internal audit unit

The goal of the unit in charge of internal control and audit shall be helping the Corporation's shareholders and management raise shareholder value and improve financial and business performance. Such help shall be provided through regular audits and monitoring aimed at improving the efficiency of internal control systems, risk management, and corporate governance of the Corporation.

4.2. Objectives of the internal audit unit

The internal audit unit pursues the following objectives:

- helping shareholders and the management improve the internal control system by performing regular audits of efficiency of the Corporation's internal control, risk management, and corporate governance systems;
- contributing to the achievement of the Corporation's strategic goals in the most efficient ways possible;
- supplying the management and the shareholders of the Corporation with objective information on existing internal risks and their probability;
- enhancing the awareness of the Corporation's management about the performance of the Corporation's S/As;
- controlling the achievement of the goals of the shareholders of the Corporation and S/As.

4.3. Functions of the internal audit unit

The internal audit unit performs the following functions:

- performing independent audits of particular operations, processes, and units;
- assessing the efficiency of the internal control system;
- assessing the efficiency of the risk management system;
- assessing the corporate governance system, preventing violation of law and the Corporation's regulations, ensuring observance of professional and ethical standards, and preparing recommendations for improvement thereof;
- developing recommendations to remedy deficiencies identified and monitoring remediation thereof;
- examining and evaluating documents provided with regard to specific investment projects for compliance with current regulations; performing scheduled and unscheduled monitoring of performance against project targets;
- ensuring uninterrupted functioning of the whistleblowing programme;
- administering investigations, including internal ones;
- monitoring compliance with the Corporation's internal regulations;

- monitoring execution of assignments issued by the Management Board and the President of the Corporation;
- monitoring and investigating instances potentially qualifying as disciplinary violation and/or violation of execution discipline and/or conflict in the Corporation or S/As for further reporting of such instances to the President's Discipline Committee.

5. PRINCIPLES OF OPERATION AND REPORTING LINES

Functional independence of the internal audit unit from the Corporation's management is a mandatory condition enabling the unit to properly perform its duties and make fair judgments.

The internal audit function directly reports to an Executive Vice President. The head of the internal audit unit shall be appointed and dismissed by order of the Corporation's President pursuant to a decision passed by the Corporation's BOD after pre-approval by the BOD Ethics and Control Committee. The head of the Department shall report to the President (administrative reporting line) and the Corporation's BOD (functional reporting line).

Internal Audit priorities shall be determined based on annual internal audit work plans prepared in accordance with the risk oriented approach. Annual work plans of the internal audit unit are subject to approval by the Ethics and Control Committee and Audit, Finance and Risk Committee to be granted at a joint committee session in December of the year preceding the plan year.

The BOD, the Ethics and Control Committee, and the President may request surprise audits to be performed at any time.

The internal audit unit shall keep the BOD Ethics and Control Committee and the President informed about audit findings and the quality of execution of remedial plans prepared by the management based on audit findings.

The internal audit unit shall make annual and semi-annual reports on their performance results to the Ethics and Control Committee and the Audit, Finance and Risk Committee at joint committee sessions.

The internal audit unit shall keep the BOD, the Ethics and Control Committee, and the President informed about any barriers preventing it from acting efficiently and performing its duties.

The internal audit unit is entitled to receive from the Corporation any resources reasonably required for audits and to hire independent consultants and experts.

For the purposes of individual objectivity and independence of the internal audit function:

- internal audit unit employees shall not participate in audits of business aspects they were responsible for at any time during the past year);
- internal audit unit employees shall possess skills and knowledge required for proper and competent performance of their duties.

Internal audit employees shall not participate in the following activities:

- combination of their direct duties with any operating activity within the Corporation, including preparation and execution of remediation plans, operational control procedures and transactions, risk management on behalf of the management, etc.;
- participation in the drafting of documents, approval of transactions, and other activities that become targets of audits they perform;
- instructing employees of other units of the Corporation, except when such employees participate in the audits.

6. POWERS OF THE UNIT IN CHARGE OF INTERNAL CONTROL

In furtherance of their duties, employees of the internal audit unit are entitled:

- to request and receive from the employees of the Corporation and S/As any information necessary for fulfillment of their job responsibilities, including confidential information (in line with the existing policies and procedures); to request and obtain free access to any employees, assets, documents and accounting records, and to make copies of documents;
- to receive sufficient and complete explanations and clarifications, in verbal and/or written form, from any employees and heads of subdivisions of the Corporation and S/As on the matters related to the audit targets;
- to represent the Company in any organisations on the matters falling within the remit of the internal audit unit when commissioned by the senior management (subject to approval by the senior management of the Corporation);
- to engage on a contractual basis consulting and other firms and specialists to perform their functions and responsibilities (in line with effective policies and procedures);
- to gain access to the information resources of the Corporation which are required for fulfillment of their functions;
- to interact with other units of the Corporation in line with internal regulations establishing the procedures for such interaction or as directed by head of the internal audit unit.

The internal audit unit is also entitled to:

- initiate the establishment of focus groups and standing committees for accomplishment of objectives assigned to the internal audit unit;
- distribute work loads among the subordinates according to their qualifications and job responsibilities, and engage them in fulfillment of additional assignments necessary to perform the functions of the internal audit unit.
- approve appointments/dismissals of the heads of the control services at S/As.