

APPROVED

by Decision of the Board of Directors  
of Mobile TeleSystems  
Public Joint Stock Company  
December 20, 2018 Minutes No.276

**POLICY**  
**INTERNAL CONTROL AND AUDIT**  
  
**OF MOBILE TELESYSTEMS**  
**PUBLIC JOINT STOCK COMPANY**

2018

## **1. GENERAL PROVISIONS**

- 1.1. This Policy Internal control and audit of MTS PJSC (hereinafter, The Policy) was developed in accordance with the applicable legislation of the Russian Federation, the Code of Corporate Governance<sup>1</sup>, the International Professional Practices Framework developed by the Institute of Internal Auditors (The IIA), the Charter of MTS PJSC (hereinafter, The Company) and other corporate documents of the Company.
- 1.2. The Policy sets goals, objectives, responsibilities, operating principles and authority of internal control and audit units of the Company and subsidiaries (hereinafter, Subsidiaries), as well as the principles of interaction between the internal control and audit units of the Company and Subsidiaries with shareholders and management of the Company and Subsidiaries.
- 1.3. The internal control and audit function in the Company is performed by the Internal Control and Audit Block of the Corporate Center, MTS PJSC (hereinafter the IC&AB) and internal control and audit units located in key Regions and Subsidiaries.
- 1.4. The IC&AB of the CC MTS PJSC and internal control and audit units of Regions and Subsidiaries govern their activities by adherence to The Institute of Internal Auditors' Mandatory Guidance, which includes the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the International Standards for the Professional Practice of Internal Auditing, and the Definition of Internal Auditing.

## **2. INTERNAL CONTROL AND AUDIT GOALS**

- To assist the shareholders and management of the Company to add the shareholder value and improve the Company's operations by performing regular objective audits and providing consulting services aimed to improve the effectiveness of the Company's internal control system, risk management and corporate governance.

## **3. INTERNAL CONTROL AND AUDIT OBJECTIVES**

- To ensure protection of lawful interests of all shareholders of the Company.
- To provide unbiased information to the MTS management and shareholders on the existing risks and threats and probability of their occurrence.
- To raise information awareness of the Company's management and shareholders of Subsidiaries' performance.
- To exercise control over achievement of the targets set by the Board of Directors for the Company and Subsidiaries.
- To assess reliability and efficiency of risk management, internal controls and corporate governance.
- To coordinate operations with the external auditor and the parties providing advisory services concerning risk management, internal controls and corporate governance.
- To support the Company's management in developing the procedures and actions directed at upgrading risk management, internal controls and corporate governance and in monitoring their implementation.

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<sup>1</sup> Approved on 21.03.2014 by Board of Directors of the Bank of Russia, and recommended for application by the joint stock companies having their securities accepted for organized trades (Letter of the Bank of Russia # 06-52/2463 of 10.04.2014).

#### **4. ASSESSMENT OF RISK MANAGEMENT, INTERNAL CONTROLS AND CORPORATE GOVERNANCE EFFICIENCY**

4.1. The assessment of internal controls efficiency includes the following:

- ❑ Analysis of compliance of the objectives of business processes, projects and structural units with those of the Company. Determination of sufficiency of the criteria established by the executive bodies to analyze achievement of the targets set.
- ❑ Identification of deficiencies in risk management, internal controls and corporate governance that prevented (prevent) the Company from achieving the targets.
- ❑ Examination of credibility and integrity of business processes and information systems, including reliability of procedures for combating unlawful acts, abuse and corruption.
- ❑ Validity check of financial, statistical, management and other statements, determining how well the performance of business processes and structural units of the Company conforms to the targets set.
- ❑ Assessment of the actions taken (implemented) by the Company at all governance levels to remedy defects and improve internal controls.
- ❑ Inspection of effectiveness and feasibility of resource use.
- ❑ Audit of the assets protection.
- ❑ Verification of compliance with the legislation, the Charter and internal documents of the Company.

4.2. The assessment of risk management efficiency includes the following:

- ❑ Check of sufficiency and maturity of the risk management system elements for effective risk management (objectives and targets, infrastructure, organization of processes, regulatory and methodological support, interaction of structural units within the risk management system and reporting).
- ❑ Verification of risk identification and assessment by the Company's management at all levels for completeness and correctness.
- ❑ Audit of effectiveness of control procedures and other risk management activities, including efficiency of use of the allocated resources.
- ❑ Analysis of the information about the materialized risks (on the basis of internal audit findings, failures to achieve the set targets, court proceedings).

4.3. The assessment of corporate governance efficiency includes the following:

- ❑ Check of compliance with ethical principles and corporate values of the Company specified in the Code of Business Conduct and Ethics.
- ❑ Check of procedures for goal-setting by the Company and for monitoring and control over their achievement.
- ❑ Assessment of the regulatory support and communication procedures (including with respect to internal control and risk management) at all governance levels of the Company, inclusive of interaction with all interested parties.
- ❑ Assessment of the assurance of the shareholders' rights, including of those of controlled companies, and effective interaction with interested parties.
- ❑ Check of compliance with the procedures for disclosing information about the Company's and related companies' performance.

## **5. INTERNAL CONTROL AND AUDIT ACTIVITIES**

5.1. Carrying out unbiased internal audits adhering to a risk-focused approach to provide an independent assessment of internal controls, risk management and corporate governance in the Company and Subsidiaries, issuing recommendations to remedy the identified deficiencies and exercising control over such remedial actions. The following audits are conducted:

- ❑ Operational Audit: assessment of the design and operating efficiency of control procedures to check business process efficiency, performance and effectiveness to achieve goals within the prescribed time limits and with required quality, as well as their compliance with the law and in-house regulations; evaluation of controls adequacy to prevent or identify fraud; assessment of the asset protection efficiency.
- ❑ Financial Audit: assessment of the design and operating efficiency of control procedures with regard to preparation of reliable financial, management and other statements; evaluation of controls adequacy to prevent or identify fraud related to financial statements; risk management audit; assessment of controls efficiency in financial processes, technologies and services.
- ❑ Corporate Function Audit: assessment of the design and operating efficiency of control procedures to ensure business compliance with the applicable legislation and in-house regulations in the following areas: anti-corruption compliance, antimonopoly compliance, personal data processing, insider information, anti-money laundering and prevention of financing of terrorism, observance of human rights at a work place, occupational safety and health and environmental protection and safety; evaluation of corporate governance efficiency.
- ❑ IT Audit: assessment of the design and operating efficiency of control procedures for creation and managing information systems and technologies, ensuring information and cyber security, personal data and IP protection; evaluation of effectiveness of business continuity and sustainability management.

5.2. Providing consulting services (advice, recommendations, etc.) to the management and shareholders of the Company, the scope and the content of which are the subject matter of agreement with a party receiving the advice to support and improve internal controls, risk management and corporate governance in the Company.

5.3. Carrying out an independent expert review, namely:

- ❑ Expert review of effectiveness of the control procedures with respect to investment projects and procurement procedures and their compliance with the in-house regulations.
- ❑ Expert review of economic justification and compliance with statutory documents when concluding the related-party transactions to submit the results to the Audit Committee.
- ❑ Assessment of compliance with the Company's in-house regulations; investigations of events proving to be a disciplinary offense and/or violation of compliance standards and/or a conflict in the Company or Subsidiaries for submission thereof to the Discipline Committee.

5.4. Administering of the Unified Hotline of MTS Group (hereinafter the UHL):

- ❑ Ensuring uninterrupted functioning of the Unified Hotline;
- ❑ Administering of reviews based on the reports to the UHL, including independent audits;
- ❑ Increasing the number of the UHL participants owing to involvement of newly acquired companies.

5.5. Coordination of the internal control and audit functions of Subsidiaries:

- ❑ Assistance with establishment of the internal control and audit function in newly acquired companies;
- ❑ Methodological support for the internal control and audit functions of Subsidiaries;

- ❑ Coordination of planning of the internal control and audit activities of Subsidiaries;
- ❑ Coordination of preparation and collection of reports on the internal control and audit performance of Subsidiaries.

## **6. INTERNAL CONTROL AND AUDIT OPERATING PRINCIPLES AND AUTHORITY**

Internal control and audit constitutes a function independent of the Company's management that provides the Board of Directors/the Audit Committee of the Board of Directors with an independent, objective assurance and consulting activity designed to add value and improve the Company's operations.

By conducting risk-based independent audits the IC&AB and internal control and audit units of Regions and Subsidiaries assess internal controls, risk management and corporate governance in the Company and provide recommendations intended to enhance their effectiveness.

In the course of their activities, the IC&AB may request any information, including confidential one (in accordance with the effective regulations and procedures) requisite to perform their duties and assignments of the management and obtain unrestricted access to any assets, documents and book entries in a written format, inclusive by email, from heads of structural units and employees of the Company or Subsidiaries.

The IC&AB may receive any resources of the Company or Subsidiaries required for auditing, as well as engage external advisers and experts.

The principle of independence of the IC&AB is implemented by dividing the functional and administrative accountability of the Block. The IC&AB provides its functional reporting to the Board of Directors and its administrative reporting to the Company's President.

Functional reporting includes:

- ❑ The Board of Directors authorizes/the Board of Directors Audit Committee approves the Internal Control and Audit Policy that governs goals, objectives, responsibilities, operating principles, authority and interaction between internal audit functions.
- ❑ The Board of Directors authorizes/the Board of Directors Audit Committee approves the IC&AB action plan and budget.
- ❑ The Board of Directors/the Board of Directors Audit Committee receives and considers information on the IC&AB activities' results.
- ❑ The Board of Directors/the Board of Directors Audit Committee evaluates the IC&AB performance and efficiency, including the approval of the IC&AB KPI and evaluation of KPI achievement.
- ❑ The Board of Directors approves assignment to and dismissal from the position of Director of Internal Control and Audit (hereinafter, the IC&AB Director), and sets compensations and benefits.
- ❑ Regular meetings the Chairman of the Audit Committee/the Audit Committee with the Director of Internal Control and Audit.
- ❑ The Board of Directors/the Board of Directors Audit Committee reviews issue of significant restrictions on the IC&AB's competences, or other restrictions that may have negative influence on performance of the internal control and audit functions.

Administrative reporting encompasses:

- ❑ Allocation of the required resources within the approved budget of the IC&AB.
- ❑ Receipt of reports on the IC&AB's activities.
- ❑ Support for interaction with the Company's divisions.
- ❑ Issue of an order on the enforcement for the IC&AB policies and regulations.

- ❑ Issue of an order on the Action Plan for the relevant year after the Board of Directors/the Audit Committee's approval.

The IC&AB's employees shall not participate in any activity that may impair or be presumed as having a negative influence on the organizational independence of the function or individual objectivity of an employee.

The IC&AB Director confirms to the Board of Directors/the Board of Directors Audit Committee, annually, the organizational independence of the IC&AB.

## **7. INTERNAL CONTROL AND AUDIT BLOCK ANNUAL PLANNING**

The Action Plan for the relevant year describing the IC&AB priorities in accordance with the Company's goals, as approved by the Board of Directors/the Audit Committee under the Board of Directors and adopted by the Company's President, constitutes the documentary basis for the IC&AB activities.

When developing the annual audit plan, the IC&AB Director considers the proposals made by the management and the President of the Company for inclusion in the plan of certain business processes, units, operations of the Company and Subsidiaries and considering the available resources to improve the internal controls, risk management and corporate governance for the Company's benefit and enhance its operating performance takes decisions on including tasks in the annual plan.

The preparation of the annual plan includes reviewing of risk assessment carried out by the management within the scope of the integrated risk management of MTS Group and ranking of the Company's business processes by main risk levels.

Business processes and units of the Company and Subsidiaries (hereinafter the Entities) to be included in the draft annual plan are selected based on ranking by the following criteria:

- ❑ the most critical structural units and business processes of the Company and Subsidiaries identified on the basis of the risk map;
- ❑ importance of the Entities for the Company's strategic goals;
- ❑ materiality of the Entities for the Company's business;
- ❑ efficiency of the internal control of the Entities based on the IC&AB assessment;
- ❑ exposure of the Entities to fraud risks;
- ❑ time passed since the previous audit, the outcomes and execution of a remediation actions plan resulting from the previous audit;
- ❑ change in the organization/structure of the Entities and other important factors/risks.

As a rule, 30% of time under the Action Plan shall be reserved for extraordinary audits conducted upon requests from the parties concerned.

The prepared draft annual plan is submitted for discussion and commentary to the Company's President and members of the Audit Committee of the Board of Directors. Further on, the draft annual plan is discussed at the Audit Committee meeting, approved by the Board of Directors/ the Board of Directors Audit Committee and adopted by the Company's President.

The annual plan may be revised and amended, if necessary, in case of changes in business processes, risks, systems and control procedures.

## **8. AUDITING PROCEDURE**

The body of rules governing the conduct of audits is set out in the Process Procedure RP-013 Conduct of Audits by the Internal Control and Audit Block of the MTS Group Corporate Centre.

The business process risks identified at the annual planning stage are further elaborated and detailed, the strategy, tasks and instruments of control of the entity are taken into account and the scope of the audit is determined. Each audit plan should include goals, the scope of the audit, deadlines and distribution of resources.

The materiality level is assessed during the development of the IC&AB's annual action plan and refined during the planning of the relevant audit. Apart from that, qualitative parameters may be used alongside quantitative indicators in order to evaluate the level of materiality.

The areas where the level of materiality is not relevant:

- ❑ Fraud and violation of ethical principles;
- ❑ Risks and threats of loss of life and damage to health;
- ❑ Reputation risks, compliance risks, other regulatory risks.

The Internal Control and Audit Director or his authorized representative is charged with approving the final Audit Program developed by the lead auditor and the composition of the audit team proposed by him.

The audit program defines the specific nature and scope of the control procedures to be performed in order to achieve the auditing goals.

The methods applied during audits and the choice of specific procedures depend on their objectives, admissibility and appropriateness of information required for their performance, need in their execution, audit type / trail, and professional judgement made by the audit team members. The number of procedures shall be proper and sufficient for the purposes of the audit.

The auditing process shall be aimed at obtaining reasonable assurance in the effectiveness of the internal control system, risk management system, corporate governance system, operations of the Company's structural units, etc., as well as at providing practical guidance on ways to rectify any issues / deficiencies identified.

The final audit report shall be developed based on the deficiencies identified, to be structured using the following sections:

- ❑ Criteria: standards, measures or expectations applied during assessment and/or verification (“proper” conditions). Example: parameters stipulated by corporate policies and procedures;
- ❑ Current status: factual evidence gathered by members of the audit team in the process of carrying out the audit work program (current situation);
- ❑ Causes: causes of divergences between the expected and actual operating conditions of the audited entity;
- ❑ Implications: damage, risks or exposure of the company to a risk, and/or other implications resulting from the inconsistency of conditions with the established criteria;
- ❑ Guidelines: specific actions to eliminate the deficiency and prevent its occurrence in the future.

The IC&AB's reports are confidential and their contents shall not be disclosed to any outside users or other recipients unless so authorized by the Internal Control and Audit Director.

The implementation of the Action plan on the correction of deficiencies identified during auditing is monitored by the audit team leaders in charge of the relevant projects or by other IC&AB employees with sufficient experience and competence.

## **9. CONSULTING SERVICES**

The consulting services are advisory in nature and generally performed at the specific request of a party receiving the advice (hereinafter, the Client). The goals, content and scope of the consulting engagement, respective responsibilities and other expectations of the Client, including restrictions on distribution of the results of the engagement and access to documents are a subject matter of the agreement with the Client.

Consulting engagements objectives should be consistent with the Company's strategies and objectives and usually include a review of internal controls, risk management and corporate governance.

When performing consulting services, in order to maintain objectivity the IC&AB and internal control and audit units employees in the Regions and Subsidiaries do not assume responsibility for managerial decisions. If the IC&AB and internal control and audit units employees in the Regions and Subsidiaries have potential impairments to independence or objectivity relating to proposed consulting services, disclosure should be made to the Client prior to accepting the engagement.

Work programs for consulting engagements may vary in form and content depending upon the nature of the engagement, and include the procedures required and sufficient for achievement of the approved engagement goals.

The Internal Control and Audit Director or the authorized person will approve the work program for consulting engagements.

The final results of consulting engagements in the form of a report will be communicated to the Client. The subsequent actions following results of consulting engagements are monitored to the extent agreed upon with the Client.

## **10. INDEPENDENT EXAMINATION**

10.1. Evaluation of effectiveness of the control procedures for investment projects and procurement and their compliance with in-house regulations.

The analysis of compliance with the Company's regulations describing business processes of investment projects at all investment stages: approval of the project concept; procurements; opening of the project financing; interaction with counterparties and management of the project changes.

The results of the analysis in the form of information materials are provided to the Internal Control and Audit Director.

10.2. Examination of economic justification and compliance with the Company rules and regulations during approval of related party transactions.

The analysis of the economic justification and compliance with the Company's regulations during approval of related party transactions by using risk criteria for transaction ranking (high, medium and low).

## **11. ADMINISTERING OF THE UNIFIED HOTLINE OF MTS GROUP**

The information resource Unified Hotline has been established in the Company to handle requests of employees, subscribers and suppliers of MTS Group. The MTS Group Unified Hotline represents a database aggregating all existing MTS Group lines as their single entry point. The Unified Hotline base is also used to store reports on the operations of standalone lines.

The procedure for receipt and handling of messages submitted to the MTS Group Unified Hotline, presentation of consolidated data to MTS management and informing the MTS Group employees about the performance of the MTS Group Unified Hotline is set out in Process Procedure RP-319 Handling of Messages Received via the Unified Hotline of the MTS Group.



## **12. QUALITY ASSURANCE AND IMPROVEMENT PROGRAM**

The IC&AB maintains a quality assurance and improvement program intended for an evaluation of the IC&AB activities' conformance with the International Standards for the Professional Practice of Internal Auditing and an evaluation of whether the IC&AB employees apply the Code of Ethics of the Institute of Internal Auditors. The program includes ongoing monitoring and periodic self-assessments and external assessments of the IC&AB activities conducted at least once every five years by qualified, independent assessors from outside the Company.

The Internal Control and Audit Director communicates to the Board of Directors/the Board of Directors Audit Committee on the results of the IC&AB's quality assurance and improvement program.

## **13. INTERACTIONS WITH INTERNAL CONTROL AND AUDIT UNITS OF SUBSIDIARIES**

The policy has no direct and unconditional performance effect on Subsidiaries and/or their employees, serving as a guideline for them, except where delimitation of functional and administrative accountability is concerned, and where the relevant duties of Subsidiaries' employees will be formalized in the internal documents of Subsidiaries based on decisions adopted by their governing bodies or in another way.

The respective rights and obligations of Subsidiaries and/or their employees with regard to interactions with the Company and its employees on issues related to the internal control and auditing of Subsidiaries may be conferred by decisions of the Audit Committee and/or competent governing bodies of the relevant Subsidiaries.

Any rights and obligations of or requirements for Subsidiaries and/or their employees mentioned herein, are provided for the purposes of describing the interaction procedures and processes used in managing and planning the Subsidiaries' activities.

In order to enhance the effectiveness of the internal control and audit functions of Subsidiaries, the IC&AB ensures the use of a single methodological framework, and participates in the development of action plans and collection of reports on the performance of the internal control and audit functions of Subsidiaries. Such reports are collected regularly and encompass all lines of activity of the internal control and audit units of Subsidiaries.

Operational interaction is carried out by means of functional supervision over the activities of the internal control and audit units of Subsidiaries.

## **14. FINAL PROVISIONS**

The need and frequency of review of this Policy is determined by the Internal Control and Audit Director.

This Policy, as well as changes and amendments hereto shall be approved by decision of the Board of Directors of MTS PJSC in accordance with the Charter and the internal document regulating activities of the Board of Directors of MTS PJSC.