

APPROVED

by Decision of the Board of Directors
of Mobile TeleSystems Public Joint Stock
Company

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**REGULATION
ON THE SYSTEM OF INTERNAL CONTROL

OF MOBILE TELESYSTEMS
PUBLIC JOINT STOCK COMPANY**

Contents:

1. GENERAL PROVISIONS	3
2. GOALS AND OBJECTIVES	3
3. FUNCTIONAL PRINCIPLES OF THE INTERNAL CONTROL SYSTEM	4
4. STRUCTURE OF THE INTERNAL CONTROL SYSTEM.....	5
5. ALLOCATION OF ROLES AND RESPONSIBILITIES WITHIN THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT.....	6
6. FINAL PROVISIONS.....	9

1. GENERAL PROVISIONS

1.1. This Regulation on the internal control system of MTS PJSC (hereinafter, The Regulation) was developed in accordance with the applicable legislation of the Russian Federation, the Code of Corporate Governance¹, Charter of MTS PJSC (hereinafter, The Company), and other corporate documents of the Company.

1.2. The Regulation sets goals, objectives, and functional principles of the Company's internal control system, and allocates roles and responsibilities among its subjects.

1.3. Terms and Definitions.

Internal control – the process effected by the subjects of the internal control system (the Board of Directors and its Committees, Revision Commission, Executive bodies, structural divisions and employees of the Company) and designed to provide a reasonable assurance regarding the achievement of the following Company's goals:

- effectiveness of the financial and business operations;
- reliability of the financial and non-financial reporting;
- compliance with the applicable legislation and local regulations.

Internal audit – the independent and objective assurance and consulting activity aiming to assist the Company's management bodies in raising efficiency and effectiveness of the corporate governance, risk management and internal control processes, as well as to detect cases of non-compliances in the activities of the Company and its subsidiaries and to monitor their elimination.

Internal control system (ICS) of the Company comprises a complex of internal control processes effected by the subjects of the internal control system based on the existing organizational structure, internal policies and regulations, procedures and methodologies of internal controls and risk management applied by the Company on all management levels and throughout all functions.

COSO Internal Control – Integrated Framework 2013 (COSO IC – IF) - the methodology on establishing and developing an internal control system released by COSO (Committee of Sponsoring Organizations), which provides guiding principles for the implementation of internal control system meeting provisions of 404 Sarbanes-Oxley Act and regulations of the US Securities and Exchange Commission (SEC).

Foreign Corrupt Practices Act (FCPA) – the act of law issued in 1977 on counteracting fraud and corruption in foreign economic activities (15 U.S.C. §§ 78dd-1, et seq.)

Enterprise risk management (ERM) is an essential part of operational management, strategic, business, budget, commercial and investment planning, it consists of a system of measures, taken at all management levels. ERM tasks include developing and maintaining effective system, aimed at identification and systematic risk analysis on a quarterly basis; accounting for significant risks in the process of making management decisions; segregation of responsibilities for risk management; development of additional measures and mitigation plans for significant risks and control of their execution; monitoring of risks and effectiveness of their management; accumulating knowledge in the sphere of enterprise risk management.

2. GOALS AND OBJECTIVES

¹ 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).

Establishment and effective operation of the internal control system aim to provide reasonable assurance regarding the achievement of the Company's goals, and to ensure proper monitoring of the Company's financial and business operations, and their efficiency.

The objectives of the internal control system are as follows:

- development of the control mechanisms, which ensure proper functioning of business processes and the Company's ability to achieve business goals;
- ensuring safeguarding of the Company's assets and efficient use of its resources;
- ensuring protection of interests of the Company's shareholders, prevention and elimination of conflicts of interest;
- ensuring timely preparation and reporting of the complete and reliable financial statements and other information required to be disclosed in accordance with the applicable legislation;
- ensuring the Company's compliance with the applicable legislation, regulatory requirements, and corporate policies, rules and procedures.

3. FUNCTIONAL PRINCIPLES OF THE INTERNAL CONTROL SYSTEM

The internal control system is based on the following functional principles:

- The principle of responsibility. All subjects of the internal control system bear responsibility for detection, assessment and analysis of risks within the scope of their competencies, as well as they are responsible for development and implementation of the risk management and internal control procedures.
- The principle of reasonable approach to formalization of the control procedures. The Company seeks to formalize the key control procedures to the extent necessary and sufficient for the effective functioning of the internal control system which will also allow ensuring timely update of the relevant internal regulatory documents.
- The principle of methodological uniformity. Internal controls (development, implementation, and monitoring of the effectiveness of the control procedures) and risk management (risk detection, analysis, assessment, development and monitoring of the effectiveness of the risk management measures) shall be carried out based on approaches and standards commonly applied within the Company.
- The principle of segregation of duties. Responsibilities and authorities shall be allocated between the subjects of the internal control system in order to eliminate or mitigate the risk of mistake and/or fraud through by avoiding consolidation by one subject of the functions of development, approval, monitoring, and assessment.
- The principle of optimality. According to this principle, the scope and complexity (i.e. «cost») of the internal control procedures and risk management measures shall not exceed «the effect of control».
- The principle of reasonable assurance. The implemented control procedures are deemed effective if they mitigate risks to an acceptable level.
- The principle of risk based approach. The decision on the need to implement control procedures involves analysis and assessment of the probability of risks materialization and the level of their impact on the Company's usual activities and its ability to achieve the goals set. Based on such assessment, the Company shall be able to take a decision on implementation of the control procedures to limit or mitigate risks within the target level.

In accordance with the approach of «three lines of defense» effectiveness of the Company's internal control system (in addition to the Company's Board of Directors and top management) shall be ensured on three levels, which are as follows:

- Level 1: Heads of structural divisions and employees of the Company are responsible for risk assessment and risk management, as well as establishment of an effective internal control system;
- Level 2: Risk Committee, financial monitoring, monitoring over procurement, security and compliance departments are responsible for monitoring implementation of the effective practices of risk management and internal controls, as well as regulatory compliance;
- Level 3: Internal control and audit function (IC&A) carries out independent assessment of effectiveness of the internal control system, risk management and corporate governance processes.

4. STRUCTURE OF THE INTERNAL CONTROL SYSTEM

The Company's internal control system is a complex of interrelated components, structured in line with the generally accepted COSO IC – IF methodology. The components of the internal control system are as follows:

- Control Environment (the basis of the effective internal control system, which defines attitude and awareness of the Company's employees and top management towards the internal control system):
 1. The organization demonstrates its commitment to fairness and moral values.
 2. The Board of Directors demonstrates independence from the management and carries out supervision over internal control development and implementation.
 3. The management, acting under supervision of the Board of Directors, shall establish the structures, the order of reporting, and the respective power and areas of responsibility in the course of achieving the objectives.
 4. The organization demonstrates its commitment to recruiting, developing, and retaining qualified personnel with due account of the organization's objectives.
 5. The organization assumes that employees shall bear responsibility for their activities of conducting internal control in the course of achieving the objectives.
- Risk Assessment (the process of identification and analysis of risks and assessment of their effects for the purpose of development of risk management approaches):
 6. The organization sets the objectives with sufficient clarity for recognition and assessment of the risks related to the objectives.
 7. The organization identifies the risks of failure to achieve the objectives existing throughout the organization as a whole, and analyses the risks as the basis for determining the method of managing such risks.
 8. The organization takes into account the risk of fraud when doing risk assessment for achieving the objectives.
 9. The organization determines and assesses the changes with potential significant impact on the internal control system.
- Control Procedures (the activities aiming to mitigate risks to an acceptable level, and to ensure the Company's ability to achieve the goals set):
 10. The organization selects and develops the instruments of control that assist risk mitigation to the acceptable level for achieving the objectives.
 11. The organization selects and develops the general instruments of control over the technologies that assist fulfillment of the objectives.
 12. The organization deploys the instruments of control following the policies setting the expectations and the procedures for implementing such policy.
- Information and Communication (the elements provide necessary background for the execution of the managerial functions, for timely and informed decision-making, for employees' ability to carry out their responsibilities):

13. The organization receives or develops and uses relevant high-quality information in order to assist functioning of the internal control.
 14. The organization disseminates information within the company including the objectives and responsibilities for the internal control required to assist functioning of the internal controls.
 15. The organization maintains relations with the external organizations on the issues affecting functioning of the internal control.
- Monitoring (the activities designed to conduct regular assessments of effectiveness of the internal control system in order to identify material deficiencies as well as assess its ability to meet goals and objectives set).
 16. The organization selects, develops and implements the current and/or individual assessment for verifying existence and functioning of the internal control components.
 17. The organization assesses the deficiencies of internal control and communicates the information in a timely manner to the persons responsible for the correcting activities, including top management and the Board of Director, as applicable.

5. ALLOCATION OF ROLES AND RESPONSIBILITIES WITHIN THE INTERNAL CONTROL SYSTEM AND RISK MANAGEMENT

The Board of Directors establishes internal control policies and regularly assesses operation of the Company's internal control system.

For these matters, the Board of Directors:

- ensures monitoring and assessment of activities of the Company's executive bodies and top management;
- approves financial and business plans, budgets, investment programs, and periodically considers progress reports for the approved plans and adopted decisions prepared by the Company's executive bodies and management;
- ensures periodic monitoring and assessment of progress of implementation of the approved development strategies, execution of the approved annual and quarterly budgets and targets, results of management actions;
- performs an assessment of managerial, financial, political and other risks affecting the Company's activities, ensures effective operation of the internal control system;
- ensures the Company's compliance with local legislation, principles of corporate governance, complete and accurate disclosure of the Company's information;
- ensures monitoring of execution of the decisions taken by the Board of Directors.

The competences of the Audit Committee of the Board of Directors within the scope of internal control system are as follows:

- overseeing completeness, accuracy, and objectivity of the Group's financial statements;
- overseeing adequacy and effectiveness of the Group's risk management, internal control and corporate governance systems, including assessment of risk management and internal controls effectiveness, corporate governance practices of the Group, and development of recommendations on improvement;
- overseeing the procedures used to ensure the Group's compliance with laws (including anti-corruption, antimonopoly legislation and others), as well as with ethical standards, the Group's rules and regulation, the requirements of stock exchanges;
- assessing the related parties transactions and major transactions;
- ensuring independence and objectivity of internal and external audit functions;

- review of IC&A plan of activities and the respective budget for audits;
- review of results of IC&A activities, analysis the reports produced, and evaluation of IC&A performance;
- overseeing the process of external audit and evaluation of the quality of execution of audits and audit reports produced;
- overseeing special investigations on suspected fraudulent activities, allegations of corruption, unfair use of insider or confidential information;
- overseeing compliance with ethical norms, analysis and assessing implementation of the policies managing the conflicts of interest.

The competences and responsibilities of the Risk Committee within the internal control system are as follows:

- analysis and approval of the following: development goals of the of integrated risk management process; risk management methodology; portfolio of the Company's risks and prioritization of the risk management activities taking into account costs vs benefits analysis; strategies of the Company's risk portfolio management;
- preliminary review and submission of the risk management outcomes to the Company's Board of Directors;
- formulation of the particular tasks assigned to the Company's structural divisions based on risk ratings. Such decisions shall be made based on the outcomes of preliminary consideration of all issues at a meeting of the Risk Committee taking into account the opinions expressed by the representatives of the functional divisions and business units within the scope of their competences;
- initiation of changes of the adopted functional plans of structural divisions (blocs, business units) required for implementation of the Company's risk management activities;
- setting up working groups and allocation of assignments to participants of the risk management process;
- development of the decision-making practices addressing risk response methods;
- communication of risk management related information (risks identified, risk assessments, risk status, measures, decisions taken) to other collective bodies of the Company in response to their requests.

The Chief Executive Officer (CEO) ensures development and maintenance of the effective risk management and internal control system of the Company.

For these matters, the CEO:

- bears responsibility for implementation of the decisions taken by the Board of Directors regarding establishment of the system of risk management and internal controls, and its effective functioning;
- organizes involvement and effective interaction of the Company's structural divisions;
- allocates tasks to heads of structural divisions, oversees their accomplishment;
- initiates development of budgets and oversees their execution;
- ensures safeguarding of fixed assets and material resources of the Company;
- ensures compliance with regulations through the Company's operation.

The competences of the Internal Control and Audit function (IC&A) of the Corporate Center within the scope of the internal control system are as follows:

- assessment of effectiveness of the internal control system, risk management, and corporate governance, and development of recommendations for their improvement;
- monitoring implementation of the recommendations provided by IC&A on elimination of violations and deficiencies identified as result of the reviews performed;
- assessment of investment and procurement projects and practices;
- monitoring executive discipline;
- administration and support of the on-going operation of the Unified Hotline of the MTS Group.

The competences of the Risk Management Unit of the Financing and Investment Bloc of the Corporate Center (CC) within the scope of the risk management are as follows:

- providing the CC management with the methodological updates on principles and methods of integrated risk management and current best practices in this area;
- monitoring the risk management process and supporting cross-functional interaction of the CC divisions for the purpose of integrated risk management;
- development of the methods for assessment and simulation of the major types of risks, providing methodological support to the subdivisions within the scope of risk assessment and analysis;
- overseeing over implementation of resolutions of the Risk Committee of the CC. Providing analytical reviews required by the Company's management for informed decision-making taking into account risks and other information from the external and internal sources within the scope of the integrated risk management;
- accumulation of knowledge, provision of trainings and external communications in the area of risk management, promotion of favorable image of the risk management process and the culture of risk management within the Company.

The competences of the Internal Control Department of the Corporate Center within the scope of the internal control system are as follows:

- identification and assessment of the risk of falsification of the financial statements. Designing control procedures and maintaining database on risks and controls, identifying the structural units and processes which require implementation of the internal controls over the preparation of the financial statements, performing periodic reviews of changes in the significant processes of the Company;
- elaboration of the methodology of development, supporting, testing, and certification of effectiveness of the internal controls over preparation of the financial statements of the MTS Group;
- testing of the system of internal controls over preparation of the financial statements for the purpose of compliance with the article 404 of Sarbanes-Oxley Act. Appraisal of the deficiencies identified during testing. Development of the recommendations for elimination/mitigation of impacts of the deficiencies identified and enhancement of the effectiveness of the internal control system. Assessment of potential impact of the procedures, actions and policies of the Company's divisions on the effectiveness of the system of internal control over the preparation of the financial statements;
- certification of the internal control system of the Company.

The competences of the Company's structural divisions within the scope of the internal control system are as follows:

- allocation of authority and responsibilities between subordinates in accordance with the principle of segregation of duties;

- incorporation of the internal control activities in the employees' job descriptions;
- development of the corporate culture supporting effective operation of the internal control system;
- monitoring of the Company's employees compliance with provisions of the internal rules and regulations;
- establishing and monitoring execution of the control procedures;
- timely communication to the senior management facts of breaches of the control procedures.

The competence of all employees of the Company, being assignees responsible for execution of the control procedures, within the scope of the internal control system are as follows:

- efficient execution of control procedures and risk management activities in accordance with job descriptions and provisions of the internal rules and regulations;
- timely communication to the management regarding newly identified risks, cases of inability to execute control procedures due to any reasons, and/or necessity to change control procedures and risk management activities;
- periodical training within the scope of internal control and risk management in line with the approved training program.

The competencies of the Revision Commission within the scope of internal control system are as follows:

- conducting planned and ad-hoc reviews of the Company's financial and business activities and based on their results:
 - ascertain reliability of the data presented by the Company's annual report, financial statements, and other financial documents;
 - develop recommendations on improvement of the internal control system, and implementation of the measures enhancing the financial and business performance of the Company.

6. FINAL PROVISIONS

This Regulation with amendments and additions shall be approved by the Company's Board of Directors.

Should individual provisions hereof become contradictory to the legislation of the Russian Federation or the Company's Charter as result of amendment of the latter, the Regulations shall be applicable to the extent, which does not contradict the effective legislation and the Company's Charter.