



System and reducing risks. Evaluation of the Internal Control System performance was carried out in keeping with the principles and approaches set forth by the established internal audit concepts and practices.

The recommendations were communicated to the Audit Committee and the Board of Directors in quarterly reports.

During the 2015, the Internal Audit Department on the quarterly basis monitored and assessed complete nature, quality and timely execution of measures aimed at correcting previously identified deficiencies and implementation of steps aimed at improving efficiency of the Company business processes and Internal Control System, and made selective inspections of the risk management system efficiency.

Internal Control in the Company

One of the key purposes of internal control is to provide reasonable assurance regarding the achievement of the Company's objectives in the following categories: the effectiveness and efficiency of its operations, the reliability of financial reporting and compliance with applicable laws and regulations. To this end Rostelecom implemented and operates its Internal Control System (ICS) according to requirements of the Corporate Governance Code of the Bank of Russia, guidelines provided by the Ministry of Finance of the Russian Federation "On the organisation and implementation of internal control, accounting and preparation of financial statements by economic subjects", the regulations of the Russian Federation, and modern international standards.

On 30 September 2015, the Board of Directors approved the Concept for the development of Internal Control System of PJSC Rostelecom, which identifies the main objectives of the system, its organisation and functioning, as well as roles and responsibilities of its members.

The goals of creation and development of the Internal Control System in the Company are as follows:

- facilitating protection of the interests of shareholders, investors and customers; prevention and resolution of conflicts of interest; maintenance of effective management of the Company; support in achieving the Company's objectives in the most effective way taking into account changing internal and external conditions;
- creation of conditions conducive to protection of the Company against internal and external risks arising in the course of its activities, as well as the risks associated with reporting misleading or incomplete information in the financial statements of the Company;
- assistance in ensuring Company's compliance with legislative requirements and regulatory documents and the Company internal regulations;
- creation of conditions for timely preparation and delivery of reliable financial, accounting, statistical, management and other reporting information for internal and external users;
- assistance in safeguarding the Company's assets and assuring efficient use of the Company's resources and potential.



The Internal Control System is based on a risk-oriented approach, implementing its close alignment with risk mitigation processes resulting in the timely and effective application of risk management techniques using effective internal control mechanisms.

The President and management of the Company are responsible for the organisation, maintenance and monitoring of the Internal Control System. Their responsibilities are as follows:

- identifying/determining the roadmap of the Internal Control System development and improvement;
- development and approval of the internal regulations related to the Internal Control System;
- evaluation the internal control division performance, including results of the Internal Control System diagnostics;
- assignment of authority and responsibility for the implementation and effective operation of internal control procedures.

The responsibilities of the Internal Control Division in this context are as follows:

- coordination of efforts to shape and maintain efficiency of the ICS;
- methodological support of the ICS;
- development, implementation and supervising implementation of the ICS improvement and deficiency correction plan;
- organisation of training program preparation for employees on matters pertaining to the ICS implementation and improvement.

Members of the Board of Directors also devote significant attention to the ICS improvement: defining the general direction the ICS implementation; analysing the overall ICS effectiveness and alignment with the Company' activities scope and conditions, and in the event of changes, the Board reviews results of the ICS

effectiveness assessment, identified significant deficiencies and recommendations for their correction.

The Audit Committee is responsible for a more detailed examination and development of recommendations to the Board on the above matters, including the assessment of the overall ICS effectiveness and the Company's adherence to its principals (including those activities based on reports internal audit and control organizational units); also, the Audit Committee makes

recommendations for the ICS improvements. In this task, the Committee and the Board are actively supported by the Internal Audit Department, which carries out an independent assessment of the Company's ICS effectiveness and makes relevant recommendations based on the assessment outcome.

Efficient communication channels for information exchanges are created within the ICS framework to keep all involved participants informed and reach common understanding among them of the processes involved in the system organisation, functioning and implementation.

The materials related to the functioning of the IAS, any evaluation of its effectiveness, identified shortcomings, as well as recommended corrective actions are presented to the Board of Directors, the Audit Committee, the President and the Management Board of the Company in order for them to identify steps aimed at further improvements of the ICS.