

**APPROVED**

by Resolution of the Board of Directors  
of Joint Stock Company SITRONICS  
Minutes No. 4 (64) dated 19 October 2006

Chairman of the Board of Directors

\_\_\_\_\_ A. Yu. Goncharuk

**Regulation  
on Procedures of Internal Control over Financial  
and Business Operations of  
Joint Stock Company  
SITRONICS**

**Moscow  
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## 1. General

- 1.1. This Regulation on Procedures of Internal Control over Financial and Business Operations (hereinafter the "Regulation") of JSC SITRONICS (hereinafter the "Company") has been developed in accordance with current laws, the Company's Charter (hereinafter the "Charter"), the Regulation on the Board of Directors of the Company, and the Regulation on the Audit Committee of the Board of Directors (hereinafter "Company regulations").
- 1.2. This Regulation sets out the concepts used, organizational principles, objectives, and procedures of internal control over the Company's financial and business operations (hereinafter "internal control") and the tasks of internal control bodies with respect to implementing and monitoring compliance with internal control procedures.

## 2. Concepts and definitions

**Internal control** is the system of procedures used by the Board of Directors, executive and supervisory bodies, and officers and other employees of the Company to provide reasonable assurance that the Company will achieve its goals in the following areas:

- efficiency and effectiveness of the Company's business activities;
- reliability and accuracy of all forms of reporting of the Company;
- compliance with the requirements of regulations of the Russian Federation and internal documents of the Company.

**Internal control procedures** means the documented system of activities for ensuring effective internal control over the implementation of the Company's financial and business plan, identifying and conducting nonstandard transactions, and anticipating, limiting, and preventing financial and operational risks and potential malfeasance on the part of officers of the Company.

**Internal control system** means the combination of the Company's organizational structure and procedures (methodologies) adopted by the Company's management as tools for the orderly and efficient conduct of business;

**Internal control bodies** means those management bodies of the Company that participate in the internal control system: i.e., the Board of Directors and the President of the Company, committees of the Board of Directors, committees and commissions of the President of the Company, the Audit Commission, and structural units and employees of the Company authorized and responsible for performing internal control functions assigned to them (by Company regulations).

## 3. Objectives of internal control in the Company

- 3.1. Promote investor confidence in the Company and its management bodies and protect the interests of shareholders and the Company's assets;
- 3.2. Ensure that strategic development objectives are achieved;
- 3.3. Ensure fulfillment of the Company's financial and business plans;
- 3.4. Safeguard assets and ensure that the Company's resources are used effectively;
- 3.5. Ensure the completeness, reliability, and authenticity of the Company's financial, accounting, and management information and reporting.
- 3.6. Anticipate, identify, and eliminate violations in the conduct of financial and business operations by the Company;
- 3.7. Ensure compliance with the requirements of current laws and the Company's internal policies, regulations and procedures;
- 3.8. Assist in optimizing the Company's organizational structure;
- 3.9. Identify and analyze risks in the Company's operations in a timely manner; and
- 3.10. Evaluate performance of the Company's internal control procedures.

## 4. Structure, organization, and procedures of internal control in the Company

- 4.1. Procedures of internal control over the Company's financial and business activities are based on an integrated organizational and legal framework, the foundation of which is the following internal documents of the Company:
  - the Company's Charter;
  - the Regulation on the Board of Directors;

- regulations on committees of the Board of Directors of the Company and committees and commissions of the President of the Company;
  - the Company's Code of Corporate Governance;
  - regulations governing the Company's structural units (departments, offices, and integrated units,);
  - the Regulation on the Audit Commission;
  - the Company's Risk Management Policy;
  - the Company's Contract Approval Procedures;
  - the Rules for the Preparation and Approval of Major Transactions and Interested Party Transactions;
  - other approved rules and regulations in effect in the Company.
- 4.2. The Board of Directors shall formulate the Company's internal control policies and regularly evaluate the operation of the Company's internal control system. For these purposes, the Board of Directors shall:
- approve the Company's internal documents that regulate internal control procedures associated with the adoption and implementation of management decisions and the execution of core business processes, including risk management procedures;
  - approve the Company's financial and business plans, budgets, and development investment programs and periodically hear reports from the executive body and officers of the Company on the implementation of approved plans and adopted decisions;
  - regularly review and assess the implementation of approved development strategies, compliance with approved annual and capital budgets and plan targets, and the results of the management's work; and
  - regularly review, analyze, and evaluate the operation of the system of risk management and internal controls.
- 4.3. To enable the Board of Directors to exercise effective direct supervision over the Company's financial and business activities and the implementation of its financial and business plan, the Board of Directors has formed an Audit Committee operating under an approved Regulation.
- 4.4. Compliance with the Company's internal control procedures shall be monitored by a separate structural unit of the Company, the Internal Control and Audit Department, which operates under an approved Regulation on the Internal Control and Audit Department and reports violations to the Audit Committee of the Board of Directors.
- 4.5. The President of the Company shall ensure the formation and day to day operation of an effective and reliable internal control system in the Company.
- 4.5.1. The basis of day to day control over the Company's financial and business activities consists in monitoring that all transactions conform to the Company's approved budget. Budget compliance shall be monitored by the Company's Finance and Investment Unit.
- 4.5.2. A Finance and Investment Committee and a Budget Commission, each reporting to the President, have been created.
- 4.5.3. The Finance and Investment Committee shall perform expert evaluation and selection of investment products, recommend key indicators for project business plans, and monitor their implementation.
- 4.5.4. The Budget Commission shall prepare a draft of the Company's annual budget with a quarterly breakdown, which the President shall submit for approval to the Company's Board of Directors in the prescribed manner.
- 4.6. Heads of the Company's structural units and employees of the Company, when their duties of their position or function so provide, shall be responsible for formulating, documenting, implementing, monitoring, and developing internal control procedures in the areas of the Company's activities under their responsibility.
- 4.7. Certain functions of internal control over transactions/processes of the Company's activities may be assigned to special units and commissions formed within the Company or to individual employees of the Company.
- 4.8. The Company's Audit Commission shall monitor financial and business activities to the extent prescribed by law in accordance with the approved regulation governing its activity.
- 4.9. Current regulations governing the Company's departments and integrated units establish that procedures of internal control over the Company's financial and business activities are integrated into its core business processes and operations, and include:
- control over the maintenance of fiscal discipline in the Company;
  - control over the implementation of resolutions of the Company's management bodies and officers;
  - control over the implementation of the Company's direct and portfolio investment strategies;
  - planning and control over the implementation of the Company's budget;
  - development of investment projects and control over their implementation;

- monitoring the acquisition, disposal, and restructuring of assets;
- monitoring maintenance of property rights in the Company's assets;
- managing financial and operational risks of the Company's activities;
- monitoring financial restrictions and established performance criteria in conjunction with the conclusion of transactions by the Company;
- control over accounting policies and compliance with procedures for preparing the Company's reports (accounting, management, financial, and tax reports) and ensuring that records are reliable and accurate;
- control over compliance with the law in the preparation and conclusion of transactions by the Company;
- control over compliance with established procedures of information disclosure by the Company;
- identifying and analyzing potential risks that could prevent the Company from achieving its objectives;
- organizing the system of gathering, processing, and transmitting information, including the preparation of reports and messages containing operational, financial, and other information on the Company's activities, and establishing effective channels and means of communication that provide for vertical and horizontal communication within the Company;
- informing all employees of the Company of their internal control responsibilities;
- defining performance criteria and evaluating the performance of structural units, officers, and other employees of the Company;
- monitoring the effectiveness of interaction among the Company's structural units in the implementation of financial and business plans;
- control over the implementation of resolutions adopted by the Board of Directors and the Audit Committee and orders, directives, and instructions issued by the President of the Company; and
- monitoring compliance with document flow procedures in the Company.

## **5. Evaluating the implementation of internal control procedures**

- 5.1. The Board of Directors shall evaluate the effectiveness of the internal control system as a whole and make decisions to improve current internal control procedures on the basis of recommendations of the Audit Committee of the Board of Directors.
- 5.2. In accordance with the Regulation on the Audit Committee of the Board of Directors, the Audit Committee in performance of its functions shall:
  - 5.2.1. analyze the adequacy and effectiveness of the Company's internal control system, including the system of information and technological security;
  - 5.2.2. evaluate the procedures used by the Company to identify major risks associated with financial and business activities, and evaluate the adequacy and effectiveness of relevant control procedures;
  - 5.2.3. evaluate the effectiveness of procedures for ensuring the Company's compliance with the law and the Code of Corporate Governance;
  - 5.2.4. review and analyze analytical reports of the Internal Control and Audit Department and external auditors on the internal control system and business risks, and the substantive remarks and recommendations contained in such reports, review reports of the Company's officers and the actions taken by them to address such remarks, and submit their findings to the Company's Board of Directors for consideration;
  - 5.2.5. jointly with the Company's management and internal and external auditors review any violations of the law and other material deficiencies in internal control and risk management procedures; and
  - 5.2.6. evaluate coordination between the internal and external auditors for the purpose of monitoring the completeness of applied audit procedures, avoiding duplication, and making effective use of available resources in conducting such procedures.
- 5.5. In accordance with the Regulation on the Internal Control and Audit Department, the Department in performance of its functions shall:
  - 5.3.1. conduct audits to evaluate the reliability and effectiveness of procedures of internal control over the Company's financial and business activities, including internal financial control procedures, business risk control (operational control) procedures, and procedures to monitor compliance with laws and regulations and the Company's internal management rules and procedures;
  - 5.3.2. based on results of internal audits, prepare and provide the Audit Committee of the Board of Directors and the President of the Company with materials (reports and fact sheets) on identified violations and substantial problems of internal control over the Company's financial and business activities and on business risks;

- 5.3.3. provide assistance and advice to the Company's officers and employees in the development and planning of activities to address identified problems and deficiencies, improve the internal control system, and monitor the implementation of plans of activities; and
- 5.3.4. coordinating its work with the Company's external auditor and Audit Commission to improve efficiency and reduce audit costs.

## **6. Organization of internal control in the Company**

- 6.1. The Company's internal control system is a constituent part of the integrated internal control system established in the Company's group of companies. The Company shall take necessary measures for the development and due approval of similar provisions in enterprises of the Company.
- 6.2. The Company shall provide the Company's enterprises with methodological and practical assistance on forming an internal control system.
- 6.3. Exercising the Company's rights as a shareholder to obtain information, the Internal Control and Audit Department and the Finance and Investment Unit shall monitor the effectiveness of the internal control system at the Company's enterprises.
- 6.4. Employees of the Company's internal control bodies may participate, as provided by law, in the work of the Company's audit commissions and audits of the Company's enterprises.

## **7. Concluding provisions**

- 7.1. All amendments and supplements to this Regulation shall be approved by the Board of Directors by majority vote of its members participating in the respective meeting and/or expressing their opinions in writing.
- 7.2. If changes to current laws of the Russian Federation cause individual articles of this Regulation to become contrary to such laws, such articles shall be inoperative and the provisions of the laws of the Russian Federation shall prevail. Articles of this Regulation that are contrary to the current laws of the Russian Federation shall not affect the legal validity of the other articles hereof, and the Company shall make every effort to replace the inoperative articles with new articles that are not contrary to the laws of the Russian Federation.
- 7.3. In case of any inconsistency between this Regulation and the Company's Charter, the Company's Charter shall prevail.