

**TERMS OF REFERENCE OF THE ETHICS AND CONTROL
COMMITTEE OF THE BOARD OF DIRECTORS**

Open Joint-Stock Company Sistema Joint-Stock Financial Corporation



Moscow, 2013

1. GENERAL PROVISIONS

- 1.1. These Terms of Reference were developed in accordance with the applicable legislation, the Charter of Sistema JSFC (hereinafter 'the Company'), the Code of Corporate Conduct and other internal regulations of the Company.
- 1.2. These Terms of Reference determine the status, the procedure for appointing members, the scope and the functions, the working procedures and the procedures for decision-making of the Ethics and Control Committee (hereinafter the "Committee") of the Board of Directors of Open Joint-Stock Company Sistema Joint-Stock Financial Corporation (hereinafter "Sistema JSFC" or the "Company").
- 1.3. The Committee is a body of the Company's Board of Directors and serves the purpose of facilitating an establishment of an efficient system of economic security, internal control and prevention of fraud and other misconduct involving violations of the current legislation.
- 1.4. The Committee shall not be considered a body of the Company, and the Company shall assume no civil rights or obligations via the Committee.
- 1.5. The Committee's activities shall be guided by the current laws of the Russian Federation, the Company's Charter, the Code of Corporate Conduct, the Ethics Code, and other internal regulations of the Company.

2. FUNCTIONS OF THE COMMITTEE

- 2.1. The key functions of the Ethics and Control Committee of the Board of Directors of Sistema JSFC are:
 - a) support to the development of Company's internal control and audit function, analysis of results in this field, jointly with the Audit, Finance and Risks Committee
 - b) assistance in the development of the Company's security function, and analysis of the results of related activities;
 - c) analysis of the appropriateness and effectiveness of the Company's internal control and audit system;
 - d) analysis of the appropriateness and effectiveness of the Company's security system, including information security systems;
 - e) Approval of internal audit plans, jointly with the Audit, Finance and Risks Committee;
 - f) study of findings of comprehensive audits conducted by the internal control and audit team at the Company and its subsidiaries;
 - g) review of the annual and semi-annual reports on the performance of the Internal Control and Audit Function, jointly with the Audit, Finance and Risks Committee;
 - h) appraisal of the performance of the Internal Control and Audit Function, jointly with the Audit, Finance and Risks Committee;
 - i) consideration of fraud incidents and material violations of the applicable legislation within Sistema Group;
 - j) monitoring of compliance with the requirements of the Ethics Code of the Company;
 - k) consideration of the plan for elimination of deficiencies identified by the Company's internal control and audit unit and control of fulfillment thereof;
 - l) facilitating the operation of the corruption prevention system at the Company and the subsidiaries within Sistema Group;
 - m) participation in the development and preliminary approval of action plans in accordance with the applicable legislation in the area of corruption prevention;
 - n) following a proposal from the President of the Company, pre-approval of candidates for the positions of heads of (i) the unit responsible for the security function, and (ii) the unit responsible for organising internal control and audit, and annual approval of their KPIs to be further submitted for consideration by the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of the Company.

- 2.2. The Committee's decisions shall be non-binding guidelines for the Company's Board of Directors.
- 2.3. The Committee is entitled to give assignments to the Company's management within its scope of authority.

3. MEMBERSHIP OF THE COMMITTEE

- 3.1. The membership of the Committee shall be determined at the first meeting of the Company's Board of Directors after the annual general meeting of the Company's shareholders.
- 3.2. The powers of Committee members shall terminate at the moment of opening of the annual general meeting of the Company's shareholders.
- 3.3. The Committee shall be formed of at least 3 (three) members of the Company's Board of Directors.
- 3.4. The membership of the Committee shall be approved by a resolution of the Company's Board of Directors. Committee candidates shall be nominated by the members of the Company's Board of Directors. Committee members shall be elected by the Board of Directors by a simple majority vote.
- 3.5. The Chairman of the Committee responsible for administration of the Committee's activities shall be appointed by the Company's Board of Directors.
- 3.6. The powers of any member of the Committee may be terminated at any time by a resolution of the Board of Directors taken on the initiative of the Board of Directors of the Company or its members, the Chairman of the Committee, or a member of the Committee.
- 3.7. For the purposes of organisation of the Committee's work, the Company's Board shall appoint the Secretary of the Committee from among the Company's employees or the Committee's members.
- 3.8. In the event the Company's Board of Directors take no decision on the appointment of the Secretary of the Committee, or the previously appointed Secretary of the Committee can no longer fulfill his/her responsibilities for any reason, the Chairman of the Committee shall appoint another Secretary of the Committee from among the Company's employees or the Committee's members.

4. RIGHTS AND RESPONSIBILITIES OF COMMITTEE MEMBERS

- 4.1. The Committee members shall have the right to:
 - a) request and obtain any documents of the Company;
 - b) request the Company officers to provide information and explanations on any matters within the scope of authority of the Committee;
 - c) be invited to working meetings, negotiations, sessions of commissions, working committees on any matters related to the Committee's scope, and to participate as members of working delegations of the Company in business trips and visits;
 - d) for the purposes of exercising their functions and as agreed with the Chairman of the Committee, use the services of external advisors paid from the Company's funds;
 - e) demand that the Committee meeting be held and submit items for consideration by the Committee;
 - f) request that their dissenting written opinion be recorded in the Minutes of the Committee's meeting.

4.2. The Committee members are obliged to:

- a) attend the meetings and actively participate in the preparation and discussion of items reviewed at Committee meetings;
- b) take part in the Committee's decision-making by voting on the agenda items;
- c) take informed decisions by studying all the necessary data (materials), conducting investigations and updating all the Committee members on the information concerning the decisions taken;
- d) notify the Committee Chairman and provide the reasons for being unable to attend the meeting in person;
- e) act reasonably and in good faith when taking decisions in order to promote the interests of the Company's shareholders in conformity with the guidelines of the Russian Code of Corporate Conduct and best practice of corporate governance adopted abroad;
- f) fulfill assignments of the Committee Chairman;
- g) in accordance with the Company's internal regulations on preventing the use of information whose disclosure may have a significant impact on the market value of the Corporation's securities, not disclose insider information to third parties and not to use such information for personal ends or in the interests of family members or affiliated entities.

4.3. When the Committee deems it necessary to hire external consultants, the Committee must introduce their relevant amendments to the Company's budget.

5. PROCEDURES OF THE COMMITTEE

5.1. The Chairman of the Committee is in charge of its activities. The candidacy of the Chairman of the Committee shall be approved by the Board of Directors, and the Chairman shall be personally responsible for the performance of the Committee and for the achievement of the tasks set before the Committee.

5.2. The Chairman of the Committee shall:

- a) organise the development of the Committee's work plan and submit it for the Committee's approval;
- b) convene Committee meetings and preside over them;
- c) determine the format of Committee meetings and approve their agenda;
- d) make lists of invitees to Committee meetings;
- e) organise the minuting of Committee meetings and sign the minutes of these meetings;
- f) allocate responsibilities among the members of the Committee; give assignments to Committee members relating to in-depth research on the matter and preparation of materials to be reviewed at the Committee meeting;
- g) report on the Committee's performance to the Company's Board of Directors;
- h) supervise the fulfillment of the decisions taken;
- i) use resources available to the Company, including external expertise, to achieve the Committee's goals;
- j) perform other functions arising from the Committee's goals and tasks.

5.3. The Secretary of the Committee shall:

- a) draw up the work plan for the Committee;
- b) send out notices of the forthcoming meetings and materials on the agenda items to Committee members;
- c) prepare minutes of Committee meetings;

- d) safekeep minutes of Committee meetings, prepare abstracts from minutes of Committee meetings and get them signed;
- e) fulfill assignments given by the Committee Chairman.

5.4. The activities of the Committee shall be plan-based. Committee meetings shall be held when required, but at least 4 times a year.

5.5. The work plan of the Committee is usually made for one calendar year.

5.6. The work plan of the Committee may include the following items:

- a) approval of the Committee's work plan;
- b) security strategy*;
- c) internal control strategy;
- d) findings of internal audits conducted by the security and internal control unit;
- e) status of corruption prevention activities;
- f) appraisal of performance of the units responsible for organising the security and internal control function at Sistema JSFC;
- g) approval of the Committee's reports before Board meetings.

5.7. The work plan of Sistema JSFC's Board of Directors may also include agenda items subject to preliminarily review by the Committee. In this case the Committee must include such items in their work plan.

5.8. As necessary, the Committee may hold additional meetings to discuss what the Committee deems necessary within its scope of authority.

5.9. The Committee may suspend any person (persons) from participating in the meeting or from discussing a specific agenda item if, as the Committee believe, there is a conflict of interest.

5.10. By decision of the Committee's Chairman, other persons may be invited to participate in Committee meetings.

5.11. The Committee shall perform their activities by considering the agenda items at Committee meetings. The dates and procedures of the meetings shall be established by the Committee Chairman. A meeting shall be considered as having a quorum if attended by at least 50% of Committee members. Decisions shall be taken by simple majority vote. In the event of an equality of 'for' and 'against' votes the Chairman of the Committee shall have a casting vote.

5.12. It is allowed to hold Committee meetings in the form of letter ballots or teleconferences, or to take into account written opinions of absent members of the Committee on the agenda items considered. If a written opinion of an absent Committee member on all agenda items is available, it shall be taken into account when determining the quorum of the meeting.

5.13. The agenda of the Committee meeting shall be approved by the Chairman of the Committee. Each agenda item shall contain a wording of the item and specify the person responsible for preparing and submitting relevant materials (the speaker).

5.14. The person responsible for preparing and submitting materials on the item of the Committee's agenda must submit the materials on the agenda item in advance to the Secretary of the Committee.

5.15. Notices of forthcoming Committee meetings shall be e-mailed by the Committee Secretary at least 3 days before the meeting with materials on the agenda items attached.

5.16. Based on the results of Committee meetings, the Secretary shall draw up minutes of these meetings. Minutes of Committee meetings shall include the following:

- a) date, time and venue of the meeting;
- b) attendees including Committee members and invitees;
- c) agenda of the meeting;
- d) proposals and remarks made in the course of discussion of the items considered;

e) voting results and decisions taken on the items considered.

5.17. Minutes of Committee meetings shall be drawn up within 2 (two) working days from the dates of these meetings.

6. FINAL PROVISIONS

6.1. These Terms of Reference, as well as amendments hereto, shall be approved by a simple majority vote of the Board of Directors.

6.2. The Committee shall report on its work to the Board of Directors on an annual basis.

6.3. The Terms of Reference on the Committee and information on the Committee's membership shall be posted by the Committee Secretary on the Company's website.