

Approved
by the Board of Directors
of Sistema JSFC
on December 13, 2014

Minutes No 10-14
dtd December 17, 2014

**TERMS OF REFERENCE
OF THE AUDIT, FINANCE AND RISK COMMITTEE OF THE
BOARD OF DIRECTORS**

of open joint-stock company Sistema Joint-Stock Financial Corporation



Moscow, 2014

1. GENERAL PROVISIONS

- 1.1. These Terms of Reference were developed in accordance with the applicable legislation, the Charter of Sistema JSFC, 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 Audit, Finance and Risk 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 Audit, Finance and Risk Committee of the Board of Directors of Open Joint-Stock Company Sistema Joint-Stock Financial Corporation is a body of the Board of Directors of the Company and serves the following purposes:
 - a) facilitating and supervising the processes of preparing and auditing the Company's financial statements;
 - b) facilitating interaction with the Company's external auditors;
 - c) assessing the risk management system and compliance with applicable legal requirements in financial reporting, audit and planning;
 - d) facilitating the budgeting and financial modelling processes of the Company;
 - e) supporting the development of the internal audit function;
 - f) conducting a preliminary appraisal of related party transactions and major transactions;
 - g) giving a preliminary consideration to other matters submitted to the Committee by the shareholders or the Board of Directors.
- 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 work shall be governed by Russian law, 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 Facilitating and supervising the processes of preparing and auditing the Company's financial statements:
 - a) Preliminary review of interim and annual financial statements of the Company, as well as the relevant documents and annexes to them.
 - b) Analysis of annual and interim financial statements with the purpose to determine their completeness, consistency of information and presentation of a valid and clear picture of the activities of Sistema JSFC.
 - c) Analysis of the Company's accounting policy, including analysis of the reflection in the reports of complicated and non-standard transactions, related party transactions and operations the accounting of which involves evaluation and/or a substantial degree of subjective judgment when applying generally accepted accounting standards.
 - d) Assessment of the audit findings and the audit opinion, including analysis of any difficulties faced in the course of the audit, remarks from auditors, legitimacy of adjustments made following the external audit, analysis of compliance with the current legal requirements and audit standards.
- 2.2 Facilitating interaction with the Company's external auditors:
 - a) Analysis and assessment of the external auditors' work, making recommendations to the Board of Directors regarding selection, re-appointment of external auditors or termination of their services.
 - b) Evaluation of the volume of audit procedures and the auditing methodology proposed by external auditors.

c) Ensuring and confirming independence of external auditors, including by means of receiving the auditors' representations regarding the relations between the auditors and the Company.

- d) Review of the key findings from the external auditors and the corresponding responses from the Company's management.
- e) Regular analysis of remedial action taken by the Company's management in response to the auditors' findings.
- f) Preliminary approval of audit and related services. Preliminary approval of the related services rendered by the auditor is not mandatory in the event the total value of all the related services does not exceed than 5 (five) per cent of the total amount of remuneration paid to the external auditor by the Company in the financial year in which the related services are rendered.¹

2.3 Assessment of the risk management system and compliance with the applicable legal requirements in financial reporting, audit and planning:

- a) Analysis of the effectiveness of the system ensuring compliance with the law and other regulations in the area of financial reporting, audit and planning.
- b) Analysis of the reliability and effectiveness of the internal control and risk management system, including the procedures for identifying, evaluating, mitigating and controlling risks.
- c) Assessment of the internal control and risk management system, and drafting of proposals on their improvement.
- d) Drafting proposals on improvement of the internal control and risk management systems.
- e) Analysis of the findings of external audits conducted by regulatory authorities.
- f) Control over efficient work of the whistleblowing system of Sistema JSFC in respect of potential breaches in the operations of Sistema JSFC, including fraudulent actions of the employees of Sistema JSFC and third parties.²
- g) Control over execution of measures undertaken by Sistema executives on the basis of Sistema's whistleblowing system.³
- h) Review of reports (including anonymous ones) from the Company's employees and other interested parties on potential drawbacks in the area of financial reporting, financial planning and internal audit of the Company.

2.4 Facilitating the budgeting process and financial modelling of the Company:

- a) Preliminary review of the draft budget and its pre-approval before it is submitted to the Company's Board of Directors.
- b) Quarterly review of the budget execution results and assessment of the progress being made in this area.
- c) Monitoring of the effectiveness of the Company's approved budgeting process and review of proposals on its improvement.
- d) Preliminary review of the Company's financial model.
- e) Monitoring of the effectiveness of the financial modeling methods used in the Company.

2.5 Support for development of internal audit function:

- a) Support to the development of the Company's internal control and audit function, analysis of results in this field, jointly with the Ethics and Control Committee.

¹ The Committee is entitled to delegate powers of pre-approving services in accordance with these Terms of Reference to one or several Committee members who are independent directors on the Board of Directors of Sistema JSFC. Decisions of any Committee member authorised to pre-approve services in accordance with this section of the Terms of Reference shall be reported to all Committee members at every regular meeting.

² See also subcl. (p) cl. 2.1. of the Terms of Reference of the Ethics and Control Committee of the Board of Directors of Sistema JSFC.

³ See also subcl. (r) cl. 2.1. of the Terms of Reference of the Ethics and Control Committee of the Board of Directors of Sistema JSFC.

- b) Drafting and review of internal audit plans, jointly with the Ethics and Control Committee.
 - c) Review of the annual and semi-annual reports on the performance of the Internal Control and Audit Service, jointly with the Ethics and Control Committee.
 - d) Appraisal of the performance of the Internal Control and Audit Service, jointly with the Ethics and Control Committee.
 - e) Ensuring independent and impartial work of the department that performs internal audit.
- 2.6 Appraisal of related party transactions and major transactions:
- a) Pre-approval of the valuations of related party transactions before they are submitted for approval to the Company's Board of Directors.
 - b) Pre-approval of the valuations of major transactions before they are submitted for approval to the Company's Board of Directors.
- 2.7 Following a proposal from the President of the Company, pre-approval of the candidate to the position of the head of the Finance and Investment Function of the Company and annual approval of their KPIs to be further submitted for the consideration of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of the Company.
- 2.8 The Committee's resolutions shall have the status of recommendations issued to the Company's Board of Directors.
- 2.9 The Committee is entitled to give instructions to the Company's management acting within its scope of authority.

3. MEMBERS OF THE COMMITTEE

- 3.1 Members of the Committee shall be determined at the first meeting of the Company's Board of Directors following the annual general meeting of the Company's shareholders.
- 3.2 Appointment of the Committee members, suspension of the Committee members and determination of the term of their powers shall be included in the scope of authority of the Company's Board of Directors.
- 3.3 The Committee shall be formed of at least 3 (three) members of the Company's Board of Directors.
- 3.4 A majority of the Committee's members must meet the independence criteria as defined in the respective internal regulations of the Company.
- 3.5 Pursuant to Annex A to these Terms of Reference, all Committee members must possess knowledge in the area of finance.
- 3.6 Members of the Committee shall be approved by a resolution of the Company's Board of Directors. Committee candidates shall be nominated by members of the Company's Board of Directors. Committee members shall be elected by the Board of Directors by a simple majority vote.
- 3.7 The Chairman of the Committee responsible for administration of the Committee's activities shall be appointed by the Company's Board of Directors.
- 3.8 The powers of any member of the Committee may be terminated at any time by a resolution of the Board of Directors passed 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.
- 3.9 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.
- 3.10 In the event the Board of Directors takes 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) directly participate in the work of the Committee and facilitate the implementation of decisions taken by the Committee;
 - b) request and obtain any documents of the Company;
 - c) request officers of the Company to provide information and explanations on any matters within the scope of authority of the Committee;
 - d) be invited to working meetings, negotiations, or sessions of commissions and working committees dedicated to any matters related to the Committee's scope of authority and participate in business trips and visits as members of working delegations of the Company;
 - e) for the purposes of exercising their functions and as agreed with the Chairman of the Committee, use the services of external advisors to be paid from the Company's funds;
 - f) request that Committee meetings be held and particular matters be included in agendas for consideration by the Committee;
 - g) request that their dissenting written opinion be recorded in the Minutes of the Committee's meeting.
- 4.2 The Committee members shall:
 - a) attend and take an active part in preparation and discussion of agenda items to be reviewed at the Committee meetings;

- b) take part in the Committee's decision-making process by voting on 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 decisions taken;
 - d) notify the Committee Chairman of their being unable to attend any particular meetings specifying the reason of such inability;
 - 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 international corporate governance practices;
 - f) fulfill assignments of the Committee Chairman;
 - g) refrain from disclosing inside information to third parties or using it to their own personal benefit or to the benefit of their families and affiliates, in compliance with the Company's internal regulations on preventing use of information the disclosure of which may have a material effect on market prices of the corporation's securities.
- 4.3 Should the Committee deem it necessary to hire external consultants, they shall introduce amendments to the Company's budget accordingly.

5. PROCEDURES OF THE COMMITTEE

- 5.1. The Chairman of the Committee is in charge of its activities. The candidate for 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 accomplishment of its specific objectives.
- 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 agendas;
 - d) make lists of invitees to Committee meetings;
 - e) organise minuting of Committee meetings and sign minutes of such meetings;
 - f) distribute responsibilities among Committee members and give them instructions with regard to in-depth research on particular matters and preparation of documents to be reviewed at Committee meetings;
 - g) report the Committee's performance results to the Company's Board of Directors;
 - h) supervise execution 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 work plans for the Committee;
 - b) send out notices of forthcoming meetings and documents related to specific 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 any assignments given by the Committee Chairman.
- 5.4. The Committee shall work in accordance with its work plans in place. Committee meetings shall be held when required, at least 5 (five) times a year.
- 5.5. Work plans of the Committee shall be typically made for one calendar year.
- 5.6. At least 5 (five) meetings of the Committee per annum shall be held with the participation of external auditors to review the following matters:

- a) discussion of the audits plan for the forthcoming year, matters related to financial statements preparation and approval of the cost of audit services;
 - b) discussion of the press release on the results of the financial year and the results of the annual audit;
 - c) discussion of press-releases on the results of the first, second and third quarters and the results of reviewing the financial statements for the reporting quarter.
- 5.7. Work plans of the Committee may include the following items:
- a) report from the internal audit services of the Company;
 - b) status report on the Company's risk management system;
 - c) the long-term financial and economic model of the Corporation's development;
 - d) preliminary review of the Company's draft budget.
- 5.8. Work plans of Sistema JSFC's Board of Directors may also include agenda items subject to preliminarily review by the Committee. The Committee shall include such items in their work plans accordingly.
- 5.9. As necessary, the Committee may hold additional meetings to discuss what the Committee deems necessary within its scope of authority.
- 5.10. The Committee may suspend any person (persons) from participating in meetings or from discussing a specific agenda item if, as the Committee believe, there is a conflict of interest involved.
- 5.11. Persons not being Committee members may be invited to participate in Committee meetings if so decided by the Committee Chairman.
- 5.12. The head of the Finance and Investment Function, the Managing Director for Planning and Reporting, the head of the unit responsible for organising internal audit, and the Chief Accountant shall normally be present at the meetings of the Committee.
- 5.13. When necessary, the Committee may hold additional meetings and closed sessions with external auditors, internal auditors, and the management of Sistema JSFC to discuss any items that the Committee or the parties specified believe to require a confidential discussion.
- 5.14. The Committee shall perform their activities by reviewing agenda items at Committee meetings. The dates and procedures of 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 passed by simple majority vote. In the event of a tie vote the Chairman of the Committee shall have a casting vote.
- 5.15. 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.
- 5.16. Agendas of Committee meetings shall be approved by the Chairman of the Committee. Agendas of Committee meetings shall contain full subjects of all items specifying persons in charge of preparation and provision of related documents.
- 5.17. Speakers shall submit documents covering their respective agenda items to the Committee Secretary in advance.
- 5.18. Notices of forthcoming Committee meetings shall be e-mailed to Committee members by the Secretary of the Committee at least 3 (three) days before the meeting with documents covering agenda items attached.
- 5.19. 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 items considered;

- e) voting results and decisions taken on items considered.
- 5.20. 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, are subject to approval by a simple majority vote of the Company's 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 names of Committee members shall be posted by the Committee Secretary on the Company's website.

ANNEX A
to the Terms of Reference of the Audit, Finance and Risk
Committee of the Board of Directors
of open joint-stock company
Sistema Joint-Stock Financial Corporation

Pursuant to the provisions of clause 3.5 of these Terms of Reference, knowledge in the area of finance shall be assessed with the following aspects taken into consideration:

1. Knowledge in the area of finance.

All Committee members must possess knowledge in the area of finance or gain knowledge in the area of finance within a reasonable time period after their appointment. The Board of Directors shall determine whether this criterion is met.

Knowledge in the area of finance includes the ability to understand the main types of financial reports, including the balance sheet, the profit and loss statement, and the cash flow statement.

2. Professional experience in the area of preparing financial statements.

At least one Committee member must have professional experience in the area of accounting or financial management. The Board of Directors may determine whether this criterion is met.

The following shall be taken into account for these purposes:

- Previous professional experience in finance or accounting.
- A certificate of education in accounting.
- Financial management experience of the relevant level (e.g. professional experience as a CEO/CFO or as a manager responsible for financial reporting or financial control)