

POLICY
ON REMUNERATION AND COMPENSATIONS FOR MEMBERS OF THE
BOARD OF DIRECTORS OF SISTEMA JSFC

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1. GENERAL PROVISIONS

1.1. Purpose of the document

This Policy on Remuneration and Compensations for Members of the Board of Directors of Sistema JSFC (hereinafter referred to as "the Policy") establishes the principles, grounds, conditions, and procedure for payment to members of the Board of Directors of Sistema JSFC (hereinafter referred to as "the Corporation") of remuneration for performance of the duties of the members of the Corporation's Board of Directors envisaged by the laws of the Russian Federation and the internal documents of the Corporation and compensations for expenses incurred in relation to performance of such duties.

1.2. Definitions of abbreviations and terms

Schedule 1. List of abbreviations

| Abbreviation | Definition |
|--------------|--|
| GDR | Global Depositary Receipt |
| S/A | Subsidiaries and Affiliates |
| KPI | Key Performance Indicator |
| RF | Russian Federation |
| CoE | Cost of Equity |
| iTSR | Internal Total Shareholder Return (return for the Corporation's portfolio) |
| MSCI | Morgan Stanley Capital International Russia Standard Index included in the MSCI Emerging Markets Index |
| TSR | Total Shareholder Return (total return for the Corporation's shareholders) |

Schedule 2. List of terms

| Term | Definition |
|--|---|
| Remuneration | Cash, securities, other property, and services provided to members of the Board of Directors as remuneration for participation in the work of the Board of Directors. |
| GDR | Global depository receipt for shares of Sistema JSFC listed on the London Stock Exchange. |
| Director / member of the Board of Directors | Person elected to be a member of the Corporation's Board of Directors in accordance with the procedure prescribed by law and the Corporation's internal regulations. |
| Additional KPI, the | TSR for the reporting year exceeding (or equalling) the amount of change in the reporting year's MSCI accompanied by iTSR for the reporting year exceeding (or equalling) the CoE approved by the General Meeting of the Corporation's Shareholders for the reporting year. |
| Internal Total Shareholder Return / iTSR | The rate of increase of the NAV of the Corporation calculated by the formula: (the Corporation's NAV as of the last date of the Reporting Year – the Corporation's NAV as of the first date of the Reporting Year + dividends paid by the Corporation in the Reporting Year) / the Corporation's NAV as of the first date of the reporting year * 100%. |
| Executive Director | Member of the Board of Directors being the Corporation's Chief Executive Officer, member of its collective governance body, or head of its subdivision. |
| Board Committee | Committee formed in compliance with the Corporation's internal regulations for preliminary preparation and review of matters reported to the Board of Directors for consideration. |
| Compensations | Amounts payable to members of the Board of Directors as compensation for |

| Term | Definition |
|--|--|
| | their expenses or to third parties for paying the expenses of the members of the Board of Directors incurred by them in relation to their participation in the Board of Directors. |
| Corporation, the | Open Joint-Stock Company Sistema Joint-Stock Financial Corporation. |
| Corporate Year | Period between annual general meetings of the Corporation's shareholders. |
| Independent Director | Board member meeting the applicable criteria of independence set forth by the applicable laws, regulations and internal documents of the Corporation. |
| Non-executive Director | Board member not being an executive director or an independent director. |
| Ordinary Share | Ordinary registered share of Sistema JSFC with a nominal value of RUB 0.09 each (state registration number of the issue 1-05-01669-A, state registration date 01 November 2007). |
| Principal KPI, the | Arithmetic mean of TSR and iTSR for the reporting year exceeding or equalling the CoE approved by the Corporation's general meeting of shareholders for the same reporting year. |
| Claim | Lawsuit; claim; civil, administrative, or criminal proceedings; or regulatory or other official investigation that can be initiated or brought against a member of the Board of Directors in relation to his/her act or omission during discharge of his/her functions and duties as a member of the Corporation's Board of Directors and/or a member of a governance body of any of the Corporation's S/As and/or a holder of any other position in the Corporation and/or its S/As (including that of a CEO) combined with the capacity of a member of the Corporation's Board of Directors and/or a member of a governance body of a S/A. |
| Total shareholder return / TSR | The rate of return per one GDR of the Corporation calculated by the formula: (price of one GDR as of close of business on the London Stock Exchange (LSE) on the day of the last LSE trading in the reporting year – price of one GDR as of opening of business on the LSE on the day of the first LSE trading in the reporting year + dividends paid in the reporting year per one GDR) / price of one GDR as of close of business on the LSE on the day of first LSE trading in the reporting year * 100%. |
| Authorised Company | A legal entity contracted by the Corporation for the purpose of implementing any procedures provided for by this Policy. |
| Federal Law on Joint-Stock Companies, the | Federal Law dd 26 December 1995 No.208-FZ <i>On Joint-Stock Companies</i> as amended. |

1.3. General principles

1.3.1. This Policy was developed in compliance with the Federal Law on Joint-Stock Companies and establishes the amount and procedure for the payment of remuneration and compensations to members of the Corporation's Board of Directors.

1.3.2. This Policy is subject to approval by the General Meeting of Shareholders and provides grounds for the accrual and payment of remuneration and compensations to members of the Corporation's Board of Directors.

1.3.3. Unless otherwise stipulated by the Russian laws, when making payments to members of the Corporation's Board of Directors, the Corporation shall function as a tax agent as provided for by the Russian laws, and shall, inter alia, withhold the individual income tax from the amounts payable to the members of the Board of Directors hereunder.

1.3.4. Should authority of a member of the Board of Directors terminate before the annual general meeting of the Corporation's shareholders, or should a member of the Board of Directors be elected

after the annual general meeting of the Corporation's shareholders, the remuneration envisaged as per sections 2.1. and 2.2. hereof shall be paid to such member of the Board of Directors in proportion to the number of days during which the member of the Corporation's Board of Directors was performing his/her duties relative to the total number of days between annual general meetings of the Corporation's shareholders.

2. COMPONENTS OF REMUNERATION PAYABLE TO THE MEMBERS OF THE BOARD OF DIRECTORS OF THE CORPORATION

Remuneration payable to members of the Corporation's Board of Directors comprises the following components:

- 2.1. basic remuneration;
- 2.2. remuneration for additional duties;
- 2.3. supplementary remuneration.

3. BASIC REMUNERATION

3.1. Members of the Board of Directors shall receive the following amounts as remuneration for their work:

3.1.1. each member of the Board of Directors who is not a tax resident of the RF shall receive RUB 17,800,000.00 per Corporate Year;

3.1.2. each member of the Board of Directors who is a tax resident of the RF shall receive RUB 13,700,000.00 per Corporate Year.

3.2. Basic remuneration shall be paid to members of the Corporation's Board of Directors in cash on a quarterly basis in equal installments.

4. REMUNERATION FOR ADDITIONAL DUTIES

4.1. The member of the Board of Directors acting as the Chairman of the Board shall receive an additional RUB 350,000.00 per quarter.

4.2. Each member of the Board of Directors acting as a Deputy Chairman of the Board shall receive an additional RUB 140,000.00 per quarter.

4.3. Each Independent or Non-executive Director acting as the Chairman of a Board Committee shall receive an additional RUB 70,000 per quarter.

4.4. Remuneration for additional duties shall be paid to members of the Board of Directors in cash on a quarterly basis as provided for by this Policy and the internal documents of the Corporation.

5. SUPPLEMENTARY REMUNERATION

5.1. Terms of payment of supplementary remuneration of members of the Corporation's Board of Directors

5.1.1. Supplementary remuneration shall be paid to members of the Board of Directors who have been performing their duties throughout a full Corporate Year.

5.1.2. Supplementary remuneration shall be paid to members of the Board of Directors provided that the Principal KPI or Additional KPI is met within the reporting year during which the annual general

meeting of the Corporation's shareholders electing the relevant member of the Board of Directors takes place.

5.1.3. The Principal KPI shall be deemed met if the arithmetic mean of total shareholder return (TSR) and internal total shareholder return (iTSR) for the reporting period exceeds or equals the Corporation's cost of equity (CoE), i.e.,

$$\frac{TSR + iTSR}{2} \geq CoE$$

5.1.4. The Additional KPI shall be deemed met if (a) the Corporation's total shareholder return (TSR) for the reporting year exceeds or equals the amount of change of the Morgan Stanley Capital International Russia Standard index, one of the MSCI Emerging Market indices ($\Delta MSCI$), and (b) the Corporation's internal shareholder return (iTSR) for the reporting year exceeds or equals its cost of equity (CoE), i.e.,

$$\begin{cases} TSR \geq \Delta MSCI \\ iTSR \geq CoE \end{cases}$$

5.1.5. The TSR, iTSR, CoE, and $\Delta MSCI$ values shall be included in the respective annual report of the Corporation and are subject to approval by the annual meeting of the Corporation's shareholders as part of the annual report of the Corporation or in another manner in compliance with the laws of the Russian Federation.

5.2. Method of payment of supplementary remuneration of members of the Corporation's Board of Directors

5.2.1. Supplementary remuneration of members of the Corporation's Board of Directors shall be paid on a one-off basis after the annual general meeting of the Corporation's shareholders held in the year following the reporting year in the form of:

- (a) Ordinary Shares of the Corporation in the amount and according to the procedures determined in compliance with cl. 5.2.2. and 5.2.3. of this Policy, or
- (b) cash in the amount set forth in cl. 5.2.2.(b) below on the condition that the each member of the Board of Directors shall simultaneously purchase Ordinary Shares of the Corporation in the amount and according to the procedures determined in compliance with cl. 5.2.2. and 5.2.3. of this Policy.

5.2.2. The number of Ordinary Shares to be provided to a member of the Board of Directors as supplementary remuneration shall be determined based on:

- (a) the average price of the Corporation's GDRs in the month preceding the date of the annual general meeting of shareholders and
- (b) the fixed amount of the supplementary remuneration, which is equivalent to RUB 17,800,000.00 for each member of the Board of Directors who is not a tax resident of the RF and RUB 13,700,000.00 for each member of the Board of Directors who is a tax resident of the RF

and shall be calculated as per the following formula:

for tax non-residents of the RF

$$17,800,000 * (1 - T) / \frac{\sum_{i=1}^{NUM} P_i}{NUM * 20} * RUB/USD$$

for tax residents of the RF

$$13,700,000 * (1 - T) / \frac{\sum_{i=1}^{NUM} P_i}{NUM * 20} * RUB/USD$$

where

P is the price of one GDR of the Corporation as of close of business on the London Stock Exchange (LSE) on each day of trading on the LSE within 30 calendar days preceding the date of the annual general meeting of the Corporation's shareholders;

NUM is the number of days during which trading was held on the LSE in the month preceding the date of the annual general meeting of the Corporation's shareholders;

RUB/USD is the rouble to US dollar exchange rate established by the Bank of Russia as of the day of the annual general meeting of the Corporation's Shareholders;

$\frac{\sum_{i=1}^{NUM} P_i}{NUM * 20} * RUB/USD$ is the price in roubles of one Ordinary Share of the Corporation for the purposes of the calculation and payment of supplementary remuneration to members of the Corporation's Board of Directors;

T is the applicable tax rate.

5.2.3. For the purposes of payment of supplementary remuneration in the form of Ordinary shares the relevant member of the Board of Directors may sign an agreement with the Corporation or an Authorised Company for the acquisition of Ordinary Shares of the Corporation in the amount which shall be determined as per cl.5.2.2. hereof. The Corporation may pay the supplementary remuneration by paying for Ordinary Shares under requests in writing by members of the Board of Directors for the purpose of performing the agreements between them and an Authorised Company or another person or entity.

5.2.4. Fractional shares received as per cl.5.2.2. hereof shall be transferred to members of the Corporation's Board of Directors in cash.

6. ADDITIONAL FORMS OF REMUNERATION AND COMPENSATIONS

6.1. Benefits

6.1.1. The Corporation shall provide non-executive and independent directors who are not heads of the Corporation's subsidiaries benefits similar to those provided to the Corporation's senior executives in compliance with the Corporation's internal regulations.

6.2. Professional liability insurance

6.2.1. The Corporation executes and maintains agreements for insurance against liability risks for members of the Board of Directors to cover any damages or losses with respect to their acts of commission or omission in the course of performing their functions and obligations as members of the Board of Directors, including those caused to holders of securities of Sistema JSFC or its S/As, their counterparties, or other persons who may be entitled to indemnity against any damages or losses.

6.2.2. Agreements for insurance against liability risks to be signed with Board members shall be subject to preliminary review by the Board of Directors.

6.3. Compensation for expenses and costs

6.3.1. Members of the Board of Directors shall receive compensation for their expenses incurred in relation to their functions performed. Such expenses shall include but not be limited to travel expenses and costs of accommodation and transport services incurred on account of such Board members participating in any meetings as required by the Corporation or as decided by such Board members with the Corporation's consent and in the Corporation's interest. Compensation for such expenses shall be paid based on the actual reasonable amounts spent or shall be made an advance against within reasonable constraints.

6.3.2. Meetings mentioned in cl.6.3.1. include but are not limited to general meetings of shareholders, meetings of the Board of Directors, and meetings of Board Committees.

6.3.3. The principles and procedure for determining reasonable monetary compensation and payment thereof shall be prescribed by the Corporation's internal regulations approved by the Board of Directors.

6.3.4. The Corporation shall additionally pay to Board members monetary compensations for participation in meetings of the Board of Directors and the Corporation's Board Committees:

6.3.4.1. For each meeting of the Board of Directors:

6.3.4.1.1. to each executive director: RUB 55,000;

6.3.4.1.2. to each non-executive director: RUB 110,000;

6.3.4.1.3. to each independent director: RUB 220,000.

6.3.4.2. Each member of the Board of Directors also being a member of a Board Committee shall receive RUB 30,000 as a monetary compensation for each meeting of the Board Committee.

6.3.5. Should a meeting of the Corporation's Board of Directors be conducted by letter ballot, or should a member of the Board of Directors fail to participate in the meeting in person, providing his/her written opinion on matters reviewed at the meeting of the Board of Directors instead, such member shall receive monetary compensation equalling 50% of the amounts specified in cl.6.3.4.1. hereof.

6.3.6. The compensations envisaged in cl.6.3.4., 6.3.5. hereof shall be paid to members of the Board of Directors in cash on a quarterly basis as provided hereby and by the internal documents of the Corporation.

6.3.7. The Corporation shall compensate each Board member for, or make an advance within reasonable constraints against, his/her litigation costs and other expenses and losses related to lawsuits; claims; civil law, administrative, or criminal proceedings; or regulatory or any other official investigations (hereinafter referred to as "Claims") that may be initiated or brought against Board members in respect of their acts or omissions during discharge of their functions and obligations as members of the Corporation's Board of Directors and/or members of governance bodies of any of the Corporation's S/As and/or any capacity in the Corporation and/or S/As (including that of a CEO) performed simultaneously with that of the Corporation's Board member and/or member of a governance body of a S/A, including possible fines, taxes, and other expenses associated with the settlement of claims or enforcement of judgments that any of the Board members may have to incur as a result of the Claim(s) filed against him/her. The total compensation that may be paid to Board members under individual agreements shall not exceed 2 (two) percent of the book value of the Company's assets as of the last reporting date preceding the date of signature of such agreements.

6.3.8. The compensation shall be paid subject to availability of documented proof of litigation costs and other expenses or losses of the Board member that he/she has suffered or is sure to suffer, including those in case of obligations of Board members to pay fees to legal counsels, experts, witnesses, translators and other participants of the proceedings in relation to defence against a Claim and/or in the event a Board member is recognised liable for the requirements related to the Claim by virtue of a writ of execution (or another instrument having the force identical to that of a writ of execution in any jurisdiction) for the enforcement of a court decision regarding the Claim.

6.3.9. No compensation shall be paid if an act or omission of the Board of Directors serving as grounds for the Claim is determined by the competent court to be in instance of gross negligence or willful breach of official duties and/or recognised as actions intended for wrongful attainment of personal benefit or premeditated infliction of damage to the Company or another S/A.

6.3.10. Compensations provided for by cl.6.3.7. hereof shall be paid by the Corporation's accounting department within reasonable time after the date of receipt of a written request from a member of the Corporation's Board of Directors enclosing a report and documented proof of legal and other costs that the Board member has incurred or is sure to incur. Compensations for satisfaction of demands of persons or organisations having filed a Claim against a member of the Corporation's Board of Directors shall be paid within reasonable time after the date of provision by the relevant Board member of a writ of execution (or another instrument having the force identical to that of a writ of execution in any jurisdiction) issued by a court or a competent authority for the enforcement of a court decision regarding the Claim filed against the Board member.

7. PROCEDURE FOR ACCRUAL AND PAYMENT OF REMUNERATION TO MEMBERS OF THE BOARD OF DIRECTORS

7.1. For the purposes of payment of remuneration and compensations to members of the Corporation's Board of Directors in compliance with sections 3 and 4 and cl.6.3.4., 6.3.5. hereof, the Corporation's Corporate Secretary shall prepare a statement containing a calculation of amounts of remuneration and compensations payable to Board members and provide this statement to the Chairman of the Board of Directors or Deputy Chairman of the Board of Directors within 10 (ten) business days after the end of each quarter for signature and further submission to the Corporation's President.

7.2. The Corporation's President shall organise the payment of remuneration to members of the Corporation's Board of Directors based on the statement containing a calculation of remuneration and compensations payable to members of the Corporation's Board of Directors within 15 (fifteen) business days after the end of each quarter.

7.3. For the purposes of determining whether there are grounds for payment of supplementary remuneration to members of the Corporation's Board of Directors the Board Committee whose responsibilities include the review of matters pertaining to remuneration of the Corporation's senior executives shall organise the calculation of TSR, iTSR, ΔMSCI, and CoE and shall propose that the Corporation's Board of Directors include them in the annual report of Corporation or another form for approval by the general meeting of shareholders.

7.4. TSR, iTSR, ΔMSCI and CoE shall be generally accepted values calculated based on standard business practices and the Corporation's internal regulations.

7.5. The Corporation's Corporate Secretary shall prepare a statement containing a calculation of supplementary remuneration payable to members of the Corporation's Board of Directors in the form of Ordinary Shares of the Corporation and shall provide it to the Chairman of the Board of Directors or Deputy Chairman of the Board of Directors within 10 (ten) business days of the date of the minutes of the general meeting of the Corporation's shareholders approving TSR, iTSR, ΔMSCI, and CoE values as part of the annual report of in another manner, for signature and further submission to the Corporation's President.

7.6. The Corporation's President shall organise the payment of supplementary remuneration to members of the Corporation's Board of Directors in the form of Ordinary Shares of the Corporation based on the statement containing a calculation of supplementary remuneration payable to members of the Corporation's Board of Directors within 15 (fifteen) business days of the date of the minutes of the general meeting of the Corporation's shareholders approving TSR, iTSR, ΔMSCI, and CoE as part of the annual report of in another manner.

8. CLOSING PROVISIONS

8.1. This Policy may be amended, supplemented, or canceled by resolution of the general meeting of the Corporation's shareholders only.

8.2. If law, regulating authorities, or internal regulations of the Corporation require approvals or consents to be provided by public authorities, regulators, or the Corporation's governance bodies as conditions for payment of remuneration and compensations to members of the Corporation's Board of Directors in accordance with this Policy, the Corporation's obligations with respect to payment of remuneration to Board members in accordance with this Policy shall only arise once all the necessary approvals and/or consents are provided.

8.3. This Policy is prepared based on and in compliance with Russian law effective as of the date of approval hereof. Should any applicable provisions of Russian law change, this Policy shall be aligned with the law as amended.

8.4. In case of any conflict between this Policy and applicable law, including conflicts resulting from legislation amendments not reflected herein, the Russian law shall prevail, with all provisions hereof being in no conflict with the current Russian law remaining in full legal force.