

TERMS OF REFERENCE
OF THE AUDIT, FINANCE AND RISK 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, 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 Risks 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 Risks 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) facilitating the development of the internal audit function;
 - f) conducting a preliminary appraisal of related party transactions and major transactions;
 - g) conducting a preliminary consideration of 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 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 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, the accounting of which involves evaluation and/or a substantial degree of subjective judgment when applying generally accepted accounting standards.
 - d) Assessment of the results of audit 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 methodology of auditing proposed by external auditors.

- c) Confirmation of independence of external auditors by means of receiving the auditors' representations relating to 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 of the auditor shall not be mandatory in the event the total value of all the related services is less 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 adequacy and the effectiveness of the system of managing risks associated with the financial and business activities of Sistema JSFC, including the procedures of identifying, evaluating, mitigating and controlling the risks.
 - b) Analysis of the effectiveness of the system of ensuring compliance with the law and other regulations in the area of financial reporting, audit and planning.
 - c) Assessment of the internal control and risk management system, and drafting proposals on their improvement.
 - d) Analysis of the findings of external audits conducted by regulatory authorities.
 - e) 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 Facilitating the development of internal audit function:
- a) Support to the development of Company's internal control and audit function, analysis of results in this field, jointly with the Ethics and Control Committee.
 - b) Approval 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) Performance appraisal of the Internal Control and Audit Function, jointly with the Ethics and Control Committee.
- 2.6 Valuation of related party transactions and major transactions:
- a) Pre-approval of the valuations of related party transactions before they are submitted for the approval of the Company's Board of Directors.
 - b) Pre-approval of the valuations of major transactions before they are submitted for the approval of the Company's Board of Directors.

¹ The Committee shall be entitled to delegate powers of preliminary approval of services pursuant to these Terms of Reference to one or several members of the Committee being independent directors on the Board of Directors of Sistema JSFC. Decisions of any member of the Committee authorised, pursuant to this section of the Terms of Reference, to perform preliminary approval of the services must be communicated to all members of the Committee in each regular session.

- 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 decisions shall be non-binding for the Company's Board of Directors.
- 2.9 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 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 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 The membership of the Committee shall be approved with a resolution of the Company's Board of Directors. Candidates to the Committee 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.
- 3.7 The Chairman of the Committee responsible for managing the Committee's activities shall be appointed by the Board of Directors of the Company.
- 3.8 The powers of any member of the Committee may be terminated at any time with 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.
- 3.9 For the purposes of organizing the work of the Committee, the Company's Board of Directors shall appoint the Secretary of the Committee from among the employees of the Company or members of the Committee.
- 3.10 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 their responsibilities for any reason, the Chairman of the Committee shall appoint another Secretary of the Committee from among the employees of the Company or the members of the Committee.

4. RIGHTS AND RESPONSIBILITIES OF THE 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 the Company officers to provide information and explanations on any matters within the scope of authority of the Committee;

- d) 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;
- e) 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;
- f) demand that the Committee meeting be held and submit items for consideration of the Committee;
- g) request that their dissenting opinion be reflected in the Minutes of the Committee's meeting.

4.2 The Committee members are obliged to:

- a) attend the meetings and actively participate in preparation and discussion of items reviewed at the 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 of 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 the assignments from 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 to 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 respective amendments to the budget of the Company must be suggested.

5. PROCEDURES OF THE COMMITTEE

5.1. The Chairman of the Committee is in charge of its activities. The Chairman of the Committee shall be approved by the Board of Directors and 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 the meetings and approve the agenda of the meetings;
- d) make lists of persons invited to attend the Committee meeting;
- 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 the 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 taken decisions;
- i) use the available resources of the Company to achieve the Committee's goals, including external expertise;
- j) perform other functions arising from the goals and tasks of the Committee.

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 the Committee members;
 - c) take the minutes of the Committee meetings and get them signed;
 - d) safekeep the minutes and prepare and sign abstracts from the minutes of the Committee meetings;
 - e) fulfill assignments given by the Committee Chairman;
- 5.4. The activities of the Committee shall be plan-based. Committee meetings shall be held as necessary, but at least 5 (five) times a year.
- 5.5. The work plan of the Committee shall normally be 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. The work plan of the Committee may also 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) long-term financial and economic model of the corporation's development;
 - d) preliminary review of the draft Company budget.
- 5.8. The work plan of the Board of Directors of Sistema JSFC may also include agenda items that must be preliminarily reviewed by the Committee. In this case the Committee must include such items on its work plan.
- 5.9. 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 the meeting or from discussing a specific agenda item if, as the Committee believe, there is a conflict of interest.
- 5.11. As decided by the Chairman of the Committee, other persons may be invited to participate in a Committee meeting.
- 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 in the meetings of the Committee.
- 5.13. As 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 confidentiality.
- 5.14. The Committee shall perform its activities by considering the agenda items at the Committee meetings. The dates and the procedures of the meetings shall be set by the Committee Chairman. A meeting shall be considered as having a quorum if attended by at least 50% of the Committee members. Decision shall be taken by simple majority vote. In case of the equal number of 'for' and 'against' votes the Chairman of the Committee has a decisive vote.
- 5.15. It is allowed to hold Committee meetings in the form of letter ballots, 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. 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 respective materials.
- 5.17. 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.
- 5.18. The notice of the Committee meeting shall be e-mailed to the Committee members by the Secretary of the Committee at least 3 (three) days before the meeting with materials on the agenda items attached.
- 5.19. Based on the results of the Committee meeting the Secretary of the Committee shall draw up the minutes of the meeting. The following shall be specified in the minutes of the Committee meeting:
 - a) date, time and venue of the meeting;
 - b) attendees including the Committee members and the persons invited;
 - c) agenda of the meeting;
 - d) proposals and remarks made in the process of discussing the matters under consideration;
 - e) the voting results and the decisions taken.
- 5.20. The minutes of the Committee meeting shall be drawn up within 2 (two) working days after the date of the meeting.

6. FINAL PROVISIONS

- 6.1 These Terms of Reference, as well as amendments thereto, shall be approved 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 of the Committee and the information on the membership of the Committee shall be disclosed on the Internet website of the Company.

ANNEX A
to the Terms of Reference of the Audit, Finance and Risks
Committee of the Board of Directors
of Open Joint-Stock Company
Sistema Joint-Stock Financial Corporation

Pursuant to the provisions of item 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. It is the Board of Directors that 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. Whether this criterion is met may be determined by the Board of Directors.

The following shall be taken into account for these purposes:

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