

**Approved**

by the Board of Directors of Sistema JSFC on December 13, 2014 (Minutes No 10-14 dated December 17, 2014),  
as amended by the Board of Directors of Sistema PJSFC on October 29, 2016 (Minutes No 10-14 dated October 31, 2016)

**TERMS OF REFERENCE OF THE NOMINATION,  
REMUNERATION AND CORPORATE GOVERNANCE  
COMMITTEE OF THE BOARD OF DIRECTORS**

of Sistema Public Joint Stock Financial Corporation



Moscow  
2014

## **1. GENERAL PROVISIONS**

- 1.1. These Terms of Reference were developed in accordance with Russian law, the Charter of Sistema Public Joint Stock Financial Corporation (hereinafter "Sistema PJSFC" or the "Company"), the Corporate Governance Code and other internal regulations of the Company.
- 1.2. These Terms of Reference determine the status, procedure for appointing members, scope, functions, working procedures and decision-making procedures of the Nomination, Remuneration and Corporate Governance Committee (hereinafter the "Committee") of the Board of Directors of Sistema PJSFC.
- 1.3. The Committee is a body reporting to the Board of Directors and serving the following purposes:
  - 1.3.1. Preliminary review of matters that qualify as the scope of authority of the Board of Directors as per the Company's Charter in terms of:
    - a) appointment of the President and direct subordinates to the President of Sistema PJSFC and nomination of members of the boards of directors of subsidiaries;
    - b) development of an incentive and remuneration system to apply to employees of the Company.
  - 1.3.2. Forming an effective corporate governance system that meets international standards, contributes to governance efficiency enhancement, guarantees the protection of rights and interests of the shareholders, provides for the Company's compliance with the requirements of applicable laws, improvement of the Company securities' investment appeal, and reduction of the cost of borrowing.
- 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 governed by Russian law, the Company's Charter, the Corporate Governance Code, the Code of Ethics, and other internal regulations of the Company.

## **2. FUNCTIONS OF THE COMMITTEE**

- 2.1. The key functions of the Nomination, Remuneration and Corporate Governance Committee of the Board of Directors of Sistema PJSFC shall be as follows:
  - 2.1.1. Preliminary review of the following matters and formulation of related recommendations before submitting the matters to the Board of Directors for approval:
    - a) candidates nominated for the positions of the President, members of the Company's collective executive body (the Management Board), and other senior positions in the Company to report directly to the Company's President; as well as the position of the Company's Corporate Secretary;
    - b) candidates nominated by the Company as members of the boards of directors of the Company's subsidiaries;
  - 2.1.2. Planning of appointments with due account for numerous factors, including the need for continuity of work of the President and the Company's Management Board members.
  - 2.1.3. Based on nominations made by the President of the Company, pre-approval of executives to take charge of (i) the unit responsible for HR management, and (ii) the Corporate Governance Function, and annual approval of their KPIs;
  - 2.1.4. Based on nominations made by the President of the Company, preview of CEOs of key Sistema Group companies.

- 2.1.5. Formulation and regular revision of the Company's internal regulations governing the remuneration payable to Board members; and oversight of implementation of such regulations.
- 2.1.6. Formulation and preliminary review of the following matters and related recommendations before submitting the matters to the Board of Directors for approval:
  - a) terms of employment agreements to be signed with the Company's President and Management Board members;
  - b) conditions for modification and termination (early or otherwise) of such employment agreements to be signed with the President and Management Board members, including any financial obligations of the Company and conditions for performance thereof;
  - c) proposals about early termination of powers of the President and Management Board members;
  - d) the Company's internal regulations to govern the Company's strategy in HR management and the compensation and benefits system applied.
- 2.1.7. Providing help (including preparation, periodic review, and control of execution) with regard to policies to govern motivation and remuneration of the Company's employees including its President, Management Board members, other senior executives directly reporting to the Company's President, and the Company's Corporate Secretary, and help in the establishment of principles for motivation and remuneration of employees of the Sistema Group.
- 2.1.8. Help in the formulation and control of execution of a strategy for HR management and motivation of the Company's employees.
- 2.1.9. Appraisal of the performance of the President, members of the Management Board, other senior executives of the Company reporting directly to the Company's President, and the Company's Corporate Secretary in the reporting period, and determination of the amounts of related bonuses.
- 2.1.10. Determination of the amounts of bonuses payable in accordance with the Company's board-approved internal regulations;
- 2.1.11. Based on proposals made by the President of the Company, discussion of individual (not standard) terms of compensation payable to the Company's management and CEOs of the key companies within the Sistema Group.
- 2.1.12. Development of a corporate governance system in the Company:
  - a) analysis and assessment of current corporate governance practices and formulation of plans to develop this function;
  - b) organisation of drafting and preview of draft amendments to the Charter of the Company, the Corporate Governance Code of the Company, and the Code of Ethics, as well as drafts of other internal regulations of the Company to govern the work of governance bodies and implementation of key corporate governance procedures in the Company;
  - c) analysis of the performance of the Board of Directors and organisation of annual self-assessment or external assessment of the performance of the Company's Board of Directors, its Committees, and members of the Board of Directors in accordance with detailed formal procedures, and formulation of proposals to improve the efficiency of all of the above;
  - d) determination of priority areas of expertise required for optimal performance of the Company's Board of Directors (reinforcement of the BoD);
  - e) preview of nominated members of the Company's Board of Directors and liaison with the Company's shareholders (including but not limited to the largest shareholders) to formulate recommendations to be issued to the shareholders with regard to voting on Board members to be elected;

- f) organisation of learning activities for the members of the Company's Board of Directors and communication of up-to-date information on the Company's activities to them;
  - g) providing help in obtaining corporate governance ratings for the Company;
  - h) providing help in developing the Company's corporate culture;
- 2.1.13. Providing help in improving corporate governance practices in the Company's subsidiaries and affiliates:
- a) review of findings of analyses of corporate governance practices currently in place in the Company's subsidiaries and affiliates;
  - b) review of findings of monitoring and approval of assessment of the status of corporate governance in the Company's subsidiaries and affiliates;
  - c) preparation of recommendations for improving corporate governance systems in the Company's subsidiaries and affiliates;
  - d) preview of drafts of standard charters and terms of reference of governance bodies of Sistema Group companies;
  - e) (in cooperation with the Company's management) organisation of activities to improve qualifications of corporate secretaries and members of boards of directors of the Company's subsidiaries and affiliates.
- 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 instructions to the Company's management as long as such instructions pertain to the Committee's purview.

### **3. MEMBERS 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 time of opening of the Annual General Meeting of the Company's shareholders.
- 3.3. Committee members shall be elected from members of the Company's Board of Directors.
- 3.4. The Committee shall include at least 3 (three) members of the Company's Board of Directors.
- 3.5. Members of the Committee shall be approved by a resolution of the Company's Board of Directors. Committee members 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.
- 3.6. The Chairman of the Committee responsible for administration of the Committee's activities shall be appointed by the Company's Board of Directors.
- 3.7. 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.
- 3.8. For the purposes of organisation of the Committee's activities, the Company's Board shall appoint the Secretary of the Committee from among the Company's employees or the Committee's members.
- 3.9. 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 fulfil 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 receive any of the Company's documents related to the scope of authority of the Committee;
- b) request officers of the Company to provide information and explanations on any matters within the scope of authority of the Committee;
- c) be invited to meetings, negotiations, or sessions of commissions and task committees dedicated to any matters related to the Committee's scope of authority and participate in business trips and visits as members of delegations of the Company;
- d) 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 for from the Company's funds;
- e) request that Committee meetings be held and particular matters be included in agendas 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 shall:

- a) 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) and conducting investigations, as well as update all the Committee members on all available information pertaining to decisions thus made;
- 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 Governance and best international corporate governance practices;
- f) fulfil assignments issued by the Committee Chairman;
- g) (in accordance with the Company's internal regulations issued to prevent the use of information the disclosure of which is likely to significantly impact the market value of the securities of the Company and/or its subsidiaries) not disclose inside information to third parties and not use such information for personal benefit or for the benefit of their family members or affiliates.

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 shall bear ultimate responsibility for its activities. The nominated Chairman of the Committee shall be subject to approval by the Board of Directors, and the appointed 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 formulation 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 of 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 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) fulfil any assignments received from the Chairman of the Committee.
- 5.4. The Committee shall work in accordance with its work plans in place. Committee meetings shall be held when required, at least 4 times a year.
- 5.5. Work plans of the Committee shall be typically made on an annual basis.
- 5.6. Work plans of the Committee may include the following items:
- a) approval of the Committee's work plan;
  - b) appraisal of the performance of the President, members of the Management Board, and other senior executives reporting directly to the Company's President in the reporting period, and determination of amounts of related bonuses to be paid;
  - c) preliminary consideration of nominations made by the Company for the governance and control bodies of the Company's subsidiaries;
  - d) improvement of the Company's corporate governance;
  - e) development of corporate governance at the Company's subsidiaries and affiliates;
  - f) preliminary consideration of matters related to convocation of the Annual General Meeting of the Company's shareholders;
  - g) statistics on the work of the Board of Directors and its Committees;
  - h) performance results of the Boards of Directors of the Company's subsidiaries and affiliates;
  - i) approval of the Committee's reports before Board meetings.
- 5.7. Work plans of Sistema's Board of Directors may also include agenda items requiring preliminary review by the Committee. The Committee shall include such items in their work plans accordingly.
- 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 meetings or from discussing a specific agenda item if, as the Committee believe, there is a conflict of interest involved.
- 5.10. Persons not being Committee members may be invited to participate in Committee meetings if so decided by the Committee Chairman.
- 5.11. 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.
- 5.12. 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. 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 (speakers).
- 5.14. Speakers shall submit documents covering their respective agenda items to the Committee Secretary in advance.
- 5.15. 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.
- 5.16. 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 items considered;
  - e) voting results and decisions taken on 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, 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 Secretary of the Committee shall make the Terms of Reference of the Committee as well as the names of Committee members available to the Company's website.