



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

Minutes No 10-14  
dtd December 17, 2014

OPEN JOINT-STOCK COMPANY  
СИСТЕМА  
JOINT-STOCK FINANCIAL CORPORATION

**CORPORATE GOVERNANCE CODE**

## CONTENTS

I. GENERAL PRINCIPLES OF CORPORATE GOVERNANCE.....	3
<b>1.1. Mission and goals of Sistema JSFC .....</b>	<b>3</b>
<b>1.2. Corporate governance.....</b>	<b>3</b>
<b>1.3. Principles for building relations within the Group .....</b>	<b>3</b>
<b>1.4. Social responsibility.....</b>	<b>4</b>
II. CORPORATE GOVERNANCE AND CORPORATE PROCEDURES .....	4
<b>2.1. General shareholder meetings and preparation for general shareholder meetings .....</b>	<b>4</b>
<b>2.2. Formation and organisation of the Board of Directors .....</b>	<b>5</b>
<b>2.3. Executive management of the Corporation .....</b>	<b>6</b>
<b>2.4. Corporate Secretary .....</b>	<b>7</b>
III. PROTECTION OF INTERESTS OF INVESTORS AND SHAREHOLDERS .....	7
<b>3.1. Material corporate actions and corporate conflicts .....</b>	<b>7</b>
<b>3.2. Register and dividends.....</b>	<b>8</b>
<b>3.3. Procedures for control, audit, and risk management .....</b>	<b>8</b>
IV. INFORMATION DISCLOSURE.....	8
CLOSING PROVISIONS.....	9

## **I. GENERAL PRINCIPLES OF CORPORATE GOVERNANCE**

### **1.1. Mission and goals of Sistema JSFC**

Sistema JSFC (hereinafter referred to as "the Corporation") is one of Russia's largest investment companies. The Corporation is active in global financial markets and participates in strategic alliances with global economic leaders.

The Corporation's mission reflects the shareholders' aspiration to develop a large competitive diversified business and deliver value, creating business leaders in various industries.

### **1.2. Corporate governance**

The purpose of this Corporate Governance Code is:

- 1) to ensure that the rights and lawful interests of the Corporation's shareholders and other interested parties are observed;
- 2) to ensure accessibility of information about the Corporation, its activities, its performance, governance bodies, procedures and principles for decision-making with regard to the Corporation's development, and the essence of relevant decisions;
- 3) to create an atmosphere of openness, trust, and cooperation in relations between the Corporation, its shareholders, managers, investors, employees, partners, and other interested parties.

This Code sets out voluntary obligations of Sistema JSFC with regard to corporate relations assumed over and above those prescribed by law. Sistema JSFC declares and confirms:

- 1) its intention to strictly abide by the standards and requirements of law, including that pertaining to joint stock companies and securities markets;
- 2) its intention to observe all the basic principles of the Russian corporate governance code as well as international standards and guidelines;
- 3) its intention to ensure that its subsidiaries and affiliates comply with legal standards and requirements currently in effect as well as best corporate governance standards.

### **1.3. Principles for building relations within the Group**

The Corporation believes that its main objective with regard to subsidiaries and affiliates (portfolio companies) consists in contributing to their comprehensive development with a view to increasing their respective values.

When making management decisions, the Corporation takes due account of interests of all of its shareholders and investors, major consumers of products of subsidiaries, and other interested parties, including government bodies and employees of portfolio companies.

Where the Corporation does not possess a sufficient shareholding to dominate the management of specific portfolio companies, it seeks cooperation and partnership with the other shareholders and uses its best endeavours to influence its partners in pursuance of the goals described herein.

To accomplish the above objectives, the Corporation shall:

- 1) formulate its general development strategy as that of an investment company and contribute to the formulation of strategies of specific portfolio companies;
- 2) invest in the development of portfolio companies;
- 3) ensure coordination of activities and interaction between companies belonging to the Sistema Group;
- 4) seek to create unified principles for operation of governance bodies of the Sistema Group;
- 5) support companies of the Sistema Group in recruitment of highly skilled staff, preparation of succession pools, and organisation of trainings for executives and specialists;
- 6) provide expertise for the development of core businesses of its portfolio companies.

The Corporation shall manage its portfolio companies via its representatives in their governance bodies.

#### **1.4. Social responsibility**

Sistema JSFC is conscious of the fact that business entities bear responsibility towards society as a whole. The Corporation believes that the principles of social responsibility of businesses to be unfailingly pursued when making decisions on any matters include:

- 1) openness and fairness in relations with society and the state. The Corporation shall disclose information about itself and its activities, thus enabling the state and society to properly control its activities;
- 2) loyalty and honesty in relations with partners, counterparties, and personnel. The Corporation shall develop and strictly observe its own code of ethics and provide comprehensive support to the development of business ethics in the companies of the Sistema Group. The Corporation is open to consideration of eventual business conflicts at the Arbitration Court and Business Ethics Commission of the Russian Union of Industrialists and Entrepreneurs;
- 3) focused allocation of financial and intellectual resources for the development of businesses in high added value industries (such as high technology) that can substantially influence the growth of economic and technological potential of Russia;
- 4) environmental friendliness and observance of safety of production processes and security of products and services produced;
- 5) personnel care. The Corporation seeks to provide its staff with fair compensation and favourable working conditions. It shall develop and implement programmes and action plans designed to expand the scope of health insurance provided, create good conditions for enhancing qualifications and education of its staff, develop sports, culture, and other social aspects for the benefit of its team;
- 6) use of part of the Corporation's profits for financing socially important projects and programmes. Companies of the Sistema Group shall have a charitable foundation for joint financing of such projects and programmes and for various charity initiatives;
- 7) publication of social reports.

Sistema JSFC is a member of the World Business Council for Sustainable Development (WBCSD). Sistema JSFC joined the United Nations Global Compact in furtherance of general values and principles for corporate social responsibility.

## **II. CORPORATE GOVERNANCE AND CORPORATE PROCEDURES**

### **2.1. General shareholder meetings and preparation for general shareholder meetings**

Sistema JSFC aspires to create as favourable conditions as possible for shareholders to participate in general meetings of shareholders. To this end, the Corporation assumes additional responsibilities with

respect to annual and extraordinary general meetings of shareholders and preparation for such meetings. These responsibilities are set out in the Terms of Reference of the General Meeting of Shareholders. In accordance with AGM procedures prescribed by law and the Corporation's internal regulations, the Corporation seeks:

- 1) to formulate agendas and resolutions in a way allowing for no misinterpretation;
- 2) to announce voting results before the end of the meeting and disclose reports on voting results and information on resolutions passed by the General Meeting of Shareholders on the Corporation's website;
- 3) to clearly communicate the procedure for determining powers and registering shareholders and/or their representatives;
- 4) to ensure that physical General Meetings of Shareholders are attended by BOD members, BOD nominees, representatives of the auditing commission, and an independent auditor, as well as the Corporation's other senior executives;
- 5) to prepare regulations for consideration of agendas providing shareholders with ample opportunity to ask questions to the Corporation's BOD and senior executives as well as other persons participating in the discussion of various agenda items;
- 6) to secure the shareholders' rights to seek clarifications to be provided by the Corporation's officials on any items of agendas;
- 7) to secure the shareholders' rights to request copies of their voting ballots upon conclusion of the meeting and announcement of voting results;
- 8) upon written requests of shareholders, to provide them with copies of minutes of meetings by e-mail or other means.

## **2.2. Formation and organisation of the Board of Directors**

The Board of Directors of Sistema JSFC plays a key role in:

- 1) determining the development strategy for both the Corporation and its investment portfolios;
- 2) forming the executive management team and controlling its performance;
- 3) securing rights and interests of the Corporation's shareholders and investors with regard to the Corporation's long-term development prospects;
- 4) deciding upon the most important aspects of the Corporation's business activities.

Implementation of the BOD's key role in the above matters is made possible by:

- 1) broad terms of reference of the Board of Directors described in the Corporation's Charter;
- 2) strict requirements applied to BOD members, their experience, and qualifications;
- 3) use of advanced corporate governance practices;
- 4) an efficient incentive system as applied to the BOD.

The scope of the BOD's duties is governed by the Corporation's Charter. The procedure for decision-making, rights, obligations, and responsibilities of BOD members are governed by the Terms of Reference of the Board of Directors.

### *Formation of the Board of Directors*

The Corporation aims to have on its BOD highly qualified specialists possessing the knowledge, skills, and expertise the Corporation needs. For these purposes the BOD's committee in charge of issuing recommendations with regard to candidates to be elected to the Corporation's BOD (hereinafter "the Committee") formulates recommended priority areas for development of the Corporation's competences and qualification criteria to apply to BOD members.

For the purposes of objectivity and soundness of decisions made, the Corporation aims to make sure that the BOD includes independent directors duly nominated and appointed by the Corporation's shareholders.

Before nominating BOD members, shareholders consult the Committee, make sure that the candidate they propose is interviewed, and decide on nomination of candidates to the Corporation's BOD, taking due account of the Committee's opinion of the nominee.

#### *Organisation of work of the Board of Directors*

The Board of Directors shall conduct meetings in accordance with its schedule. The most important matters shall be discussed at physical meetings only. For the purposes of preparation and preliminary review of documents on the most important matters requiring Board approval, the BOD shall have specialised Committees in place.

Shareholders possessing two or more percent of the Corporation's shares are entitled to initiate extraordinary Board meetings and request that particular matters be put on BOD agendas.

The procedure for preparation of and participation in Board meetings, as well as for documentation of BOD resolutions, shall aim to make as efficient use of the time and competences of Board members as possible. The procedure for Board meetings and preparation thereof shall be governed by the Board-approved Terms of Reference. The Terms of Reference shall provide for:

- 1) preliminary notification of Board members about meetings scheduled and provision of materials in accordance with the agenda in the form most convenient to such members, including formats generated using information systems;
- 2) participation of representatives of the Corporation's management authorised to provide information and clarifications, as may be necessary for the BOD to make informed decisions on matters discussed, in Board meetings;
- 3) preliminary consideration of matters to be submitted to the BOD for review by relevant Board committees;
- 4) ongoing notification of BOD members about the most important events happening in the Corporation;
- 5) access of BOD members to additional information and resources required for them to perform their duties;
- 6) maintenance of an efficient system for control of execution of the BOD's decisions.

### **2.3. Executive management of the Corporation**

Day-to-day work of the Corporation shall be managed by the President, who shall also be the Chairman of Sistema JSFC's Management Board.

The President shall be a person possessing high professional qualification, experience in managing large companies, and an impeccable personal reputation.

The President shall refrain from any actions that can lead to a conflict of interest between the President and the Corporation. Should such a conflict occur, the President shall notify the Corporation's Board of Directors accordingly.

The President shall provide the Corporation's BOD with quarterly and annual reports on work performed and the Corporation's financial status.

Collective decision-making on matters of management of the Corporation's day-to-day activities requiring comprehensive discussion shall be performed by the Management Board. The scope of duties of the Management Board is reflected in the Corporation's Charter and the Terms of Reference of the Management Board of Sistema JSFC.

The President and the Management Board may establish special Committees and task groups for preliminary discussion and analysis of specific matters pertaining to the management of the Corporation's day-to-day activities and consideration of investment projects.

The Corporation's organisational structure is subject to approval by the Corporation's Board of Directors.

The President shall develop and approve the descriptions of the Corporation's basic business processes for organisation of interaction of corporate subdivisions.

The incentive system applying to the Corporation's employees shall rely on best practices used in relevant markets and provide for motivation of employees to ensure the accomplishment of the Corporation's strategic goals.

#### **2.4. Corporate Secretary**

The Corporate Secretary is an official in charge of implementation of corporate governance rules and procedures adopted by the Corporation.

The Terms of Reference of the Corporation's Corporate Secretary are subject to approval by the Corporation's Board of Directors.

The Corporate Secretary shall be appointed and dismissed by order of the Corporation's President pursuant to a decision passed by the Board of Directors and shall report directly to the Chairman of the Board of Directors of the Corporation.

If necessary, the Corporation shall provide the Corporate Secretary with a dedicated office team.

### **III. PROTECTION OF INTERESTS OF INVESTORS AND SHAREHOLDERS**

#### **3.1. Material corporate actions and corporate conflicts**

Sistema JSFC aspires to avoid corporate conflicts and resolve any and all problems that may arise by negotiations.

When making decisions on matters qualifying as material corporate actions or potentially resulting in corporate conflicts, the Corporation's Board of Directors shall perform comprehensive analysis of decisions proposed and formulate the final decision taking into account legal interests of all parties concerned in the fullest possible way.

When analysing the conditions of large-scale transactions and related party transactions, as well as other material corporate actions, the Board of Directors shall rely primarily on the opinions of independent directors. Special committees and task groups may be established for organising this process. Such committees and groups shall be provided ample opportunity to use resources required for the above analysis.

Should Sistema participate in any reorganisation requiring a conversion of shares, the market value of shares involved in the conversion shall be determined by a top-reputed independent appraiser.

### **3.2. Register and dividends**

Aiming to create as favourable terms as possible for the shareholders to use their rights to administer their shareholdings, the Corporation shall charge a leading licenced registrar with keeping the register of the Corporation's shareholders.

A first-class depository bank shall be hired to keep records of the Corporation's global depository receipts.

We view growth of the Corporation's capitalisation as an important method of honouring the interests of shareholders with regard to income to be derived from equity holding in the Corporation.

The Corporation shall pay dividends to its shareholders, for which purposes the Board of Directors shall approve the Corporation's dividend policy.

Dividends shall be paid in cash within a reasonable time from the date of the relevant decision passed by the Corporation's general meeting of shareholders.

### **3.3. Procedures for control, audit, and risk management**

Organisation of internal control and audit, preparation of recommendations for choosing independent auditors, and coordination of activities with regard to internal control and audit fall within the scope of responsibilities of the Corporation's Board of Directors and BOD Audit and Finance Committee.

Internal control and audit shall be performed by specialised units whose heads shall be appointed and dismissed by order of the Corporation's President pursuant to a decision of Sistema JSFC's Board of Directors.

The Corporation's Board of Directors shall approve an internal regulation governing the internal control and audit procedures.

Sistema JSFC shall take measures to create and support an efficient internal control and audit system applying to the Sistema Group companies.

The Corporation shall regularly issue audited reports in compliance with Russian and international standards. To ensure high quality of audit of the above reports, the Corporation shall use competitive bidding for choosing independent auditors. The basic terms and conditions of contracts to be signed with independent auditors are subject to approval by the Corporation's Board of Directors.

Sistema JSFC gives high priority to managing risks the Corporation faces and thus creates a mechanism for timely risk identification and mitigation. The Board of Directors shall regularly review the reports of the executive body containing the analysis and assessment of relevant risks.

## **IV. INFORMATION DISCLOSURE**

Sistema JSFC views availability of information on the Corporation's activities and financials as an important mechanism for ensuring control of the Corporation's activities on the part of its shareholders, the state, and society as a whole.

The scope, methods, and time for public disclosure of information as well as provision of information to shareholders and other parties shall be governed by the Regulation on the Information Policy as approved by Sistema's Board.

The Corporation shall regularly prepare and disclose consolidated financial reports in compliance with international standards.

The Corporation has a specialised investor relations department in charge of communications with the investor community. The principal duty of the department is organisation of efficient two-way communication between the Corporation and the investment community aiming to achieve fair market valuation of the Corporation's securities.

The Corporation has approved a list of documents constituting trade secret, as well as an internal regulation describing procedures for trade secret protection.

The Corporation has approved an inside information list and keeps a list of persons allowed access to inside information. Any and all agreements signed between the Corporation and such persons include clauses on the protection of inside information accessible to such persons.

## **CLOSING PROVISIONS**

The BOD Committee in charge of supporting Sistema's corporate governance system shall ensure the observance of provisions hereof when drafting the Corporation's internal regulations and enforcing such regulations.

This Code is subject to revision and update as the Corporation's corporate governance systems develop and new corporate governance standards and requirements appear.