



OPEN JOINT-STOCK COMPANY  
JOINT-STOCK FINANCIAL CORPORATION  
**SISTEMA**

Annual General Meeting of Shareholders of Sistema JSFC, 27 June 2015,  
Moscow, 13.1 Mokhovaya Str., Room 101.

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**Accounting reports of  
Sistema JSFC  
for 2014**

**Balance sheet**  
As of 31 December 2014

UNOFFICIAL TRANSLATION

Organisation	<b>SISTEMA JOINT-STOCK FINANCIAL CORPORATION</b>	OKUD form	<b>0710001</b>		
Taxpayer identification number		Date (day, month, year)	<b>31</b>	<b>12</b>	<b>2014</b>
Type of economic activity	<b>Investments in securities</b>	OKPO	<b>27987276</b>		
Business entity type / form of ownership	<b>Open Joint-Stock Company /private ownership</b>	INN (Russian taxpayer ID)	<b>7703104630</b>		
Measure unit:	thousand roubles	OKVED	<b>65.23.1</b>		
Location (address)	<b>125009, Moscow, 13/1 Mokhovaya St</b>	OKOPF / OKFS	<b>47</b>	<b>16</b>	
		OKEI	<b>384</b>		

Notes	Indicator	Code	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012
	<b>ASSETS</b>				
	<b>I. NON-CURRENT ASSETS</b>				
	Intangible assets	1110	18 370	232	265
	Fixed assets	1150	2 504 602	2 566 668	2 402 706
	including:				
	Buildings	11501	2 001 503	2 102 696	1 759 631
	Other PP&E	11502	411 780	377 934	444 841
	PP&E construction	11503	91 318	86 038	198 234
3	Investments	1170	278 462 198	597 013 915	504 599 439
	including:				
3.1	Units in mutual funds	11701	1 619 881	11 685 433	5 737 083
3.2	Shares and equity interests	11702	263 347 763	577 455 212	489 873 340
3.3	Debt securities	11703	6 000 000	393 295	393 295
3.4	Loans granted	11704	7 494 554	1 479 975	8 595 721
3.5	Bank deposits	11705	-	6 000 000	-
	Deferred tax assets	1180	13 802 753	2 776 413	4 218 673
	including:				
	Allowances	11801	162 559	669 516	765 544
	Losses of previous periods	11802	13 586 811	2 056 306	2 531 171
	Total for section I	1100	294 787 923	602 357 228	511 221 083

<b>II. CURRENT ASSETS</b>					
	Inventories	1210	17 416	283 714	1 833 231
	including:				
	Materials	12101	8 660	10 690	4 739
	Goods shipped	12102	-	-	1 770 819
	Prepaid expenses	12103	8 756	273 025	57 673
	Input VAT	1220	4 635	19 970	34 716
	Accounts receivable	1230	5 112 563	3 743 163	5 089 188
	including:				
	Settlements with suppliers and contractors	12301	122 496	180 164	137 524
	Settlements with buyers and customers	12302	372 892	215 382	198 906
	Settlements in respect of taxes and levies	12303	984 470	1 144 310	65 833
	Settlements in respect of social insurance and social security	12304	8 159	2 350	96
	labour	12305	172	-	-
	Settlements with accountable persons	12306	9 507	9 165	970
	Settlements with staff in respect of other operations	12307	290	268	658
	Settlements with various debtors and creditors	12308	3 294 021	2 190 598	3 326 116
	Non-interest bearing notes	12309	926	926	1 356 077
	Settlements in respect of dividends and other income due	12310	319 630	-	3 007
3	Investments (excluding cash equivalents)	1240	42 759 353	52 578 318	34 030 180
	including:				
3.3	Debt securities	12401	613 295	7 534 878	9 705 907
3.4	Loans granted	12402	42 146 058	39 760 507	18 691 074
3.6	Rights acquired as a result of rendering financial services	12403	-	612 933	944 066
3.5	Bank deposits	12404	-	4 670 000	4 689 134
	Cash and cash equivalents	1250	3 568 632	9 398 432	5 362 091
	including:				
	Cash on hand	12501	144	385	408
	Settlement accounts	12502	848 684	79 404	695 898
	Foreign currency accounts	12503	2 713 692	790 697	243 064
	Other special accounts	12504	6 112	6 186	6 722
	Transfers in transit	12505	-	6 760	-
3.5	Cash equivalents	12506	-	8 515 000	4 416 000
	Other current assets	1260	4 662	3 055	617 124
	including:				
	VAT from advance payments	12601	2 036	2 937	616 593
	<b>Total for section II</b>	<b>1200</b>	<b>51 467 261</b>	<b>66 026 652</b>	<b>46 966 530</b>
	<b>Balance</b>	<b>1600</b>	<b>346 255 184</b>	<b>668 383 880</b>	<b>558 187 613</b>

Notes	Indicator	Code	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012
	<b>LIABILITIES</b>				
	<b>III. EQUITY</b>				
	Authorised capital	1310	868 500	868 500	868 500
	Revaluation of non-current assets	1340	2 070 082	2 084 101	1 827 670
	including: Revaluation of PP&E	13401	2 070 082	2 084 101	1 827 670
	Additional capital (without revaluation)	1350	37 708 280	37 708 280	37 708 280
	Reserve funds	1360	43 425	43 425	43 425
	including: Statutory reserves	13601	43 425	43 425	43 425
	Retained earnings	1370	223 565 201	550 646 306	426 016 763
	<b>Total for section III</b>	<b>1300</b>	<b>264 255 488</b>	<b>591 350 612</b>	<b>466 464 638</b>
	<b>IV. LONG-TERM LIABILITIES</b>				
5	Long-term borrowings	1410	62 438 972	36 521 340	41 719 372
	including: Credits	14101	18 000 000	-	-
	Loans	14102	28 129 200	16 364 600	15 186 350
	Debt securities	14103	16 309 772	20 156 740	26 533 022
	Deferred tax liabilities	1420	38 315	39 009	96 717
	<b>Total for section IV</b>	<b>1400</b>	<b>62 477 287</b>	<b>36 560 349</b>	<b>41 816 089</b>
	<b>V. SHORT-TERM LIABILITIES</b>				
5	Borrowings	1510	15 024 318	30 492 097	33 309 851
	including: Credits	15101	10 200 000	-	-
	Loans	15102	-	9 369 836	17 187 911
	Interest on credits	15103	66 852	-	10 500
	Interest on loans	15104	238 817	158 959	129 939
	Debt securities	15105	4 296 967	20 208 570	14 575 081
	Interest on debt securities	15106	221 682	754 732	1 406 421
	Accounts payable	1520	3 692 882	6 640 151	12 776 900
	including: Settlements with suppliers and contractors	15201	82 616	274 198	69 258
	Settlements with buyers and customers	15202	3 496	8 231	4 024 813
	Settlements in respect of taxes and levies	15203	23 397	26 661	654 490
	Settlements in respect of social insurance and social security	15204	343 423	4 853	101
	Settlements with staff in respect of payment for	15205	-	695	444
	Settlements with accountable persons	15206	1 489	1 129	526
	Dividends payable	15207	515	461	491
	Settlements with other suppliers and contractors	15208	3 237 946	6 323 923	8 026 777
6	Provisions	1540	805 209	3 339 995	3 820 135
	Other liabilities	1550	-	676	-
	<b>Total for section V</b>	<b>1500</b>	<b>19 522 409</b>	<b>40 472 919</b>	<b>49 906 886</b>
	<b>BALANCE</b>	<b>1700</b>	<b>346 255 184</b>	<b>668 383 880</b>	<b>558 187 613</b>

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(Signature)

**Vsevolod Rozanov**

(printed name)

Chief  
Accountant

(Signature)

**Irina Borisenkova**

(printed name)

27 March 2015

**Statement of financial results**  
for January - December 2014

		<b>Codes</b>		
		<b>0710002</b>		
		OKUD form	31	12
		Date (day, month, year)	2014	
Organisation	<b>Open Joint-Stock Company SISTEMA JOINT-STOCK FINANCIAL</b>	OKPO	27987276	
Taxpayer identification number	<b>CORPORATION</b>	INN (Russian taxpayer ID)	7703104630	
Type of economic activity	<b>Investments in securities</b>	OKVED	65.23.1	
Business entity type / form of ownership	<b>Open Joint-Stock Company /private ownership</b>	OKOPF / OKFS	47	16
Measure unit:	thousand roubles	OKEI	384	

Notes	Indicator	Code	for January - December 2014	for January - December 2013
	Revenue	2110	59 553 440	47 238 145
	including:			
	equity holdings in other companies;	21101	59 425 402	47 112 485
7	Cost of sales	2120	(37 195)	(33 653)
	including:			
	Maintenance of leased out buildings	21201	(37 134)	(31 790)
	Gross profit	2100	59 516 245	47 204 492
7	Administrative expenses	2220	(8 691 890)	(11 181 911)
	including:			
	Payroll expenses	22201	(7 342 545)	(9 766 262)
	Profit from sales	2200	50 824 355	36 022 581
	Interest income	2320	3 349 784	2 453 277
5	Interest expense	2330	(5 829 656)	(4 805 748)
	Other income	2340	22 535 760	138 700 920
	including:			
	Income from sale of PP&E	23401	9 912	3 413 325
	Income from sale of securities	23402	20 017 831	64 564 168
4	Revaluation of investments	23403	-	70 347 348
	Excess of contractual value of equity holding over its book value	23404	1 476 658	-
	Other expenses	2350	(387 677 417)	(31 270 215)
	including:			
	Expenses related to sale of PP&E	23501	(5 128)	(1 771 589)
3	Expenses related to sale of securities	23502	(18 896 368)	(24 304 361)
	Foreign exchange losses	23503	(6 184 121)	(1 129 438)
4	Revaluation of investments	23504	(180 290 859)	-
	Charity and financial support	23505	(3 870 261)	(2 500 000)
	Disposal of Bashneft shares following the court ruling	23506	(140 071 799)	-
3.7	Impairment of investments	23507	(36 466 627)	(610 650)
	Earnings (loss) before tax	2300	(316 797 175)	141 100 815
8	Current income tax	2410	-	(4 631 797)
	including permanent tax (liabilities) assets	2421	(64 281 406)	12 804 022
8	Change in deferred tax liabilities	2430	694	57 708
8	Change in deferred tax assets	2450	11 026 340	(1 419 551)
	Other	2460	(1 431 964)	(1 213 632)
	including:			
8	Taxes payable in respect of dividends and other income due	24601	(1 333 954)	(1 185 694)
	Income tax (for previous years)	24602	(98 010)	(5 052)
	Write-off of deferred assets and liabilities	24602	-	(22 709)
	Fines and penalties for violation of tax and other laws	24603	-	(177)
	<b>Net income / (loss)</b>	<b>2400</b>	<b>(307 202 105)</b>	<b>133 893 543</b>

Notes	Indicator	Code	for January - December 2014	for January - December 2013
	<b>FOR REFERENCE</b>			
	Gain/loss from revaluation of non-current assets not included in the net income for the period	2510	(14 019)	256 431
	Gain/loss from other operations not included in the net income for the period	2520	-	-
	Total comprehensive income for the period	2500	(307 216 124)	134 149 974
	Basic earnings / (loss) per share (in roubles)	2900	(31.8)	13.9
	Diluted earnings/ (loss) per share (in roubles)	2910	(31.8)	13.9

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\_\_\_\_\_  
(Signature) **Vsevolod Rozanov**  
(printed name)

Chief  
Accountant

\_\_\_\_\_  
(Signature) **Irina Borisenkova**  
(printed name)

27 March 2015

**Statement of Changes in Equity**  
for January - December 2014

UNOFFICIAL TRANSLATION

		<b>Codes</b>		
	OKUD form	<b>0710003</b>		
	Date (day, month, year)	<b>31</b>	<b>12</b>	<b>2014</b>
Organisation	<b>Open Joint-Stock Company SISTEMA JOINT-STOCK FINANCIAL CORPORATION</b>	<b>27987276</b>		
Taxpayer identification number	INN (Russian taxpayer ID)	<b>7703104630</b>		
Type of economic activity	<b>Investments in securities</b>	<b>65.23.1</b>		
Business entity type / form of ownership	<b>Open Joint-Stock Company /private ownership</b>	<b>47</b>	<b>16</b>	
Measure unit:	thousand roubles	<b>384</b>		

**1. Equity flows**

Indicator	Code	Authorised capital	Additional capital	Reserve capital	Retained earnings	Total
<b>Equity as of 31 December 2012</b>	<b>3100</b>	<b>868 500</b>	<b>39 535 950</b>	<b>43 425</b>	<b>426 016 763</b>	<b>466 464 638</b>
<b>for 2013</b>						
Equity increase, total:	3210	-	256 431	-	133 893 543	134 149 974
including:						
net income	3211	X	X	X	133 893 543	133 893 543
revaluation of assets	3212	X	256 431	X	-	256 431
Equity decrease - total:	3220	-	-	-	(9 264 000)	(9 264 000)
including:						
dividends	3227	X	X	X	(9 264 000)	(9 264 000)
<b>Equity as of 31 December 2013</b>	<b>3200</b>	<b>868 500</b>	<b>39 792 381</b>	<b>43 425</b>	<b>550 646 306</b>	<b>591 350 612</b>
<b>for 2014</b>						
Equity increase, total:	3310	-	-	-	-	-
Equity decrease, total:	3320	-	(14 019)	-	(327 081 105)	(327 095 124)

including:						
loss	3321	X	X	X	(307 202 105)	(307 202 105)
revaluation of assets	3322	X	(14 019)	X	-	(14 019)
dividends	3327	X	X	X	(19 879 000)	(19 879 000)
<b>Equity as of 31 December 2014</b>	<b>3300</b>		<b>868 500</b>	<b>39 778 362</b>	<b>43 425</b>	<b>223 565 201</b>
					<b>223 565 201</b>	<b>264 255 488</b>

## 2. Net assets

Indicator	Code	As of 31 December 2014	As of 31 December 2013	As of 31 December 2012
Net assets	3600	264 255 488	591 350 612	466 464 638

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(Signature)

**Vsevolod Rozanov**

\_\_\_\_\_  
(printed name)

Chief  
Accountant

\_\_\_\_\_  
(Signature)

**Irina Borisenkova**

\_\_\_\_\_  
(printed name)

27 March 2015

UNOFFICIAL TRANSLATION

**Statement of Cash Flows**  
for January - December 2014

			<b>Codes</b>		
		OKUD form	<b>0710004</b>		
		Date (day, month, year)	<b>31</b>	<b>12</b>	<b>2014</b>
Organisation	<b>Open Joint-Stock Company SISTEMA JOINT-STOCK FINANCIAL</b>	OKPO	<b>27987276</b>		
Organisation	<b>CORPORATION</b>				
Taxpayer identification number		INN (Russian taxpayer ID)	<b>7703104630</b>		
Type of economic activity	<b>Investments in securities</b>	OKVED	<b>65.23.1</b>		
Business entity type / form of ownership	<b>Open Joint-Stock Company /private ownership</b>	OKOPF / OKFS	<b>47</b>	<b>16</b>	
Measure unit:	thousand roubles	OKEI	<b>384</b>		

Parameter	Code	for January - December 2014	for January - December 2013
<b>Cash flow from operating activities</b>			
Total cash inflows	4110	58 362 500	46 084 914
including:			
proceeds from sale of products, goods, works and	4111	97 754	64 785
dividends	4114	58 091 448	45 929 074
other receipts	4119	173 298	91 055
Total cash outflows	4120	(22 343 318)	(20 765 921)
including:			
payments to suppliers (contractors) for raw and consumable materials, works, and services	4121	(1 925 858)	(1 719 846)
remuneration to employees	4122	(7 964 761)	(8 102 932)
payments of interest on loans	4123	(6 291 889)	(5 227 162)
income tax	4124	(187)	(9 873)
other payments	4129	(6 160 623)	(5 706 109)
Net cash flow from operating activities	4100	36 019 182	25 318 992
<b>Cash flow from investing activities</b>			
Total cash inflows	4210	77 104 967	86 560 173
including:			
proceeds from sale of non-current assets (except for financial investments)	4211	7 862	7 523
proceeds from sale of shares (stakes) in other companies	4212	12 712 103	58 120 148
proceeds from repayment of loans and sale of debt securities (rights to claim cash payments from other parties)	4213	35 545 421	19 207 110
interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	4214	2 526 164	2 010 882
proceeds from bank deposits	4215	26 238 116	5 975 005
other receipts	4219	75 300	1 239 505
Total cash outflows	4220	(96 233 229)	(89 772 698)
including:			
payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	4221	(71 828)	(11 416)
payments related to acquisition of shares (stakes) in other companies	4222	(42 781 269)	(43 860 397)
payments related to acquisition of debt securities (rights to claim cash payments from other parties), provision of loans to other parties	4223	(37 955 014)	(28 160 424)
purchases of bank deposits	4225	(15 424 960)	(11 919 490)
other payments	4229	(158)	(5 820 971)
Net cash flow from investing activities	4200	(19 128 262)	(3 212 526)



**NOTES TO THE FINANCIAL STATEMENTS OF SISTEMA JSFC FOR 2014**

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**1. GENERAL INFORMATION**

Sistema Joint-Stock Financial Corporation, hereinafter referred to as "the Company", was registered by the Moscow Registration Chamber on 16 July 1993 (State Registration Certificate No 025.866).

The Company was included in the Unified State Register of Legal Entities with the primary state registration number (OGRN) 1027700003891.

Full name of the Company in the Russian language: Открытое акционерное общество «Акционерная финансовая корпорация «Система».

Short name of the Company in the Russian language: ОАО АФК «Система»

Full name of the Company in the English language: Sistema Joint-Stock Financial Corporation.

Short name of the Company in the English language: Sistema JSFC

Legal and actual address: 1125009, Russian Federation, Moscow, 13/1 Mokhovaya St.

The controlling shareholder of the Company is Vladimir Evtushenkov. The minority shareholders of the Company are top managers and members of the Board of Directors of the Company. Other shares of the Company are traded on the London Stock Exchange in the form of depositary receipts and on the Russian stock exchanges.

The main types of the Company's business activities are:

- equity holdings in other companies;
- leasing out assets (properties) for a fee;
- issuing guarantees.

The Company operates in accordance with the Civil Code of the Russian Federation, Federal Law 'On Joint-Stock Companies' and other laws and regulations of the Russian Federation and the Company's Charter.

The average number of the Company's employees in 2014 and 2013 was 302 and 217 people respectively.

OJSC Reyestr is the company in charge of keeping records on the rights to securities.

**2. ORGANISATION OF FINANCIAL ACCOUNTING**

The Company's financial statements were compiled in accordance with the existing Russian financial accounting and reporting rules.

The Company's accounting process was organised in compliance with the requirements of the Russian accounting regulations, the rules and regulations issued by the Ministry of Finance of the Russian Federation and by the regulatory authorities that have the right to issue accounting regulations in accordance with federal laws.

In 2014 the accounting process was conducted in accordance with the procedures set forth in the Accounting Policy of the Company approved by the President's Order No. U-113/13 on 27 December 2013.

**2.1. Applicability of the going concern assumption**

The financial statements of the Company were prepared by the Company's management on the basis of the assumption that the Company was going to continue its operations in the foreseeable future and that the Company did not have any intention or need to wind up or significantly scale down its operations and, therefore, all the liabilities of the Company would be settled in due course.

**2.2. Chart of accounts**

The Company has developed and is using a chart of accounts based on a standard chart of accounts for companies approved by the Ministry of Finance of the Russian Federation on 31 October 2000 with order No94n, and is using sub-accounts making it possible to ensure that its financial statements are consistent with the accounting and tax regulations and standards of the Russian Federation.

**2.3. Stocktaking**

Stocktaking is conducted in accordance with the "Methodological guidelines on the stocktaking of assets and financial liabilities" approved by the Ministry of Finance of the Russian Federation on 13 June 1995 with Order No 49.

The stocktaking of assets and liabilities was conducted as of 31 December 2014 with the exception of the stocktaking of intangible assets, fixed assets, valuables and inventories, investments in fixed assets, settlements with buyers and customers and settlements with suppliers, other debtors and creditors that was conducted as of 1 November 2014.

**2.4. Foreign currency assets and liabilities**

The accounting of foreign currency transactions is done on the basis of the official rouble rate set by the Central Bank of Russia (CB RF) and valid as of the date of the respective transaction. Assets and liabilities with values denominated in foreign currencies are recorded as amounts estimated on the basis of the official rouble rate set by CB RF and valid as of 31 December 2014, 2013, and 2012.

The accounting procedure for foreign currency assets and liabilities is provided for in Accounting Standard (PBU) 3/2006 "Accounting for foreign currency assets and liabilities". In accordance with Accounting Standard (PBU) 3/2006, foreign currency assets and liabilities should be converted to roubles as of:

- the last date of the reporting month;
- the date of the respective transaction.

Foreign exchange differences are reflected in the Income Statement as part of "other income and expenses" item on a net basis.

**2.5. Accounting for investments**

The initial measurement of the investments acquired for a consideration is considered to be the total amount of expenses for their acquisition with the exception of VAT and other recoverable taxes (excluding the instances provided for by the Russian laws on taxes and duties).

The investments whose current market value may be determined in accordance with the existing procedures are recorded in the accounts at their current market value as of the end of quarter by means of adjusting their valuations as of the previous quarter. The difference between the valuation of investments at their current market value as of the reporting date and the previous valuation of investments is recorded as other income and expenses on a net basis.

Revaluation of the investments whose current market value should be determined in accordance with the existing procedures, is done on the basis of the market price estimated as of the last date of the reporting quarter, and if the last day of the quarter falls on a non-working day - based on the market prices as of the last trading day.

If the securities of the same issuer owned by the Company are traded on different stock exchanges, the Company shall use the market price of the New-York stock exchange for determining their current market value. If securities are not admitted for trading on the New-York Stock Exchange, they shall be recorded at their current market value set by the London Stock Exchange. If securities are not listed on any international stock exchanges, their current market value shall be determined on the basis of market prices set by the Moscow Stock Exchange.

The investments for which it is not possible to determine their current market values shall be recorded in the accounts at their initial value.

Valuation methods used for the disposal of investments:

- Investments in the form of non-issue grade securities, contributions in authorized (share) capitals of other companies (with the exception of the shares of joint-stock companies), accounts receivable acquired as a result of assignment, contributions of the Company under simple partnership agreement, loans and deposits in lending organisations granted to other companies are estimated at their initial acquisition value at the time of disposal;
- Investments in the form of issue-grade securities, the market value of which is not determined, are estimated on the basis of FIFO method at their disposal.
- Investments whose current market value is determined are estimated at disposal at the value of the last valuation performed.

As of 31 December of each reporting year, if there are any indicators of impairment of investments, an impairment review is conducted and, if necessary, allowance is made in the accounts for the impairment of investments in accordance with Accounting Standard (PBU) 19/02 "Accounting for investments". Provisions are made if the review confirms that there is a steady and significant reduction in the value of investments, which falls below the amount of financial benefits that the Company expects to receive from these investments.

## **2.6. Accounting for gains**

The Company's gains, depending on its nature, source and business area is divided into:

- income from operating activities;
- other gains.

The Company recognises the following types of gains as income from operating activities:

- equity holdings in other companies (organisations) resulting in receipt of dividends;
- leasing of its assets;
- providing guarantees for the liabilities of third parties to their creditors;

The following types of gains are recognised by the Company as "other gains":

- revaluation of listed shares (on a net basis with the respective expenses);
- sale (purchase) of foreign currency (on a net basis with the respective expenses);
- foreign exchange differences (on a net basis with the respective expenses);
- redemption of debt securities;
- sales of shares, interests and stakes;
- sales of fixed assets, intangible assets and materials;
- other operations.

Gains from shareholdings in other companies (organisations), resulting in the generation of dividends, are recorded in the accounts as of the date of the passing of decision by the general meeting of shareholders of the issuer on dividend payout.

Interest and discount (including coupon yield) on investments, provided that the conditions set in Accounting Standard (PBU) 9/99 are met, are recognised as gain as of the date of the Company obtaining the right to them, and:

- interest (discount) payable on debt securities is accrued at the end of the reporting period (month);
- on "after sight" promissory notes the interest (discount) is accrued from the date of acquisition of the promissory note within 1 year from the date of the promissory note;
- on "after sight but not earlier than" promissory notes the interest (discount) is accrued from the date of acquisition of the promissory note within the period before the stipulated "not earlier than" date plus 1 year.

## **2.7. Accounting for expenses**

The Company's expenses, depending on their nature, source and business area are divided into:

- expenses from operating activities;
- other expenses.

The following expenses are recognised by the Company as "other expenses ":

- revaluation of listed shares (on a net basis with the respective gains);
- sale (purchase) of foreign currency (on a net basis with the respective gains);
- foreign exchange differences (on a net basis with the respective gains);
- sales of shares, interests and stakes;
- sale, disposal and other write-offs of fixed assets and other assets not specified above, other than cash, goods or products;
- allocations to valuation provisions made in accordance with accounting standards;
- granting free-of-charge financial aid;
- fines and penalties for violation of contract terms;
- accounts receivable whose limitation period expired and other bad debts;
- other operations.

## **2.8. Accounting for loans and credits**

Expenses related to the meeting of liabilities under obtained loans and credits include:

- interest charged on the amount of the loan (credit) payable to the lender (creditor) in the amount and on the terms specified in loan (credit) agreements;
- additional loan expenses.

Additional loan expenses include:

- amounts payable for informational and consulting services;
- amounts payable for appraisal of a loan (credit) agreement;
- other expenses directly related to obtaining loans (credits).

Additional loan expenses are recorded as part of other expenses on a one-off basis.

Interest payable to the lender (creditor) is evenly spread across "other expenses" irrespective of the payment terms stipulated in loan (credit) agreements.

## **2.9. Accounting for allowances and provisions**

**Allowances.** Accounts include charges for the following types of allowances:

- for impairment of investments (annually);
- for doubtful debts (quarterly).

The following procedure is used for creating allowances:

**Allowances for the impairment of investments** are created at the end of the year for the amount of the difference between the carrying value and the estimated value of the investments for which it is not required to determine their current market value and the review of which confirmed a steady fall in value below the value of economic benefits that the Company expects to receive from such investments. Depending on the circumstances and information available, the Company determines an estimated value by engaging an independent appraiser or by using the method of net assets or discounted cash flows.

**Doubtful debt allowances** are made for the following types of debt:

- doubtful debts of buyers and customers for provided services;
- other doubtful debtors.

Doubtful debts are the accounts receivable of the Company that were not settled within the timeframes stipulated in the respective agreement and were not secured by any guarantees.

**Provisions.** The Company's accounts and reports include the following types of provisions:

- payment of quarterly and annual remuneration;
- payment of compensation for unused leaves.

**2.10. Deferred income tax**

In accordance with Accounting Standard (PBU) 18/02 "Accounting for income tax estimates" the Company's accounts and reports reflect a deferred income tax (deferred tax assets and deferred tax liabilities), i.e. amounts that may influence the amount of the current income tax in the subsequent reporting periods.

Income tax is calculated in compliance with the Russian Tax Code. Tax rate on dividends received from Russian legal entities equals 9%. Tax rate on dividends received from foreign legal entities equals 15%. Tax rate on income in the form of accumulated coupon yields on government and municipal securities is 15%. The interest rate on dividends received from subsidiaries in which the Company has continuously held at least 50% over at least 365 calendar days, and the purchase price of which exceeded RUB 500 million, equals 0%. Tax rate on other types of income is 20%.

Deferred tax assets and income tax liabilities are shown using book value method, taking into account the timing differences between tax accounting and financial accounting (PBU 18/02). Excess income tax payments are not included in deferred tax assets (in the balance sheet they are recorded as Other Accounts Receivable).

**3. INVESTMENTS****3.1. Units of mutual funds**

Investments in units of mutual funds as of 31 December 2014, 2013 and 2012 are recorded as follows:

	(RUB thousand)		
	2014	31 December 2013	2012
Closed-end mutual fund "Creditny-1" managed by LLC Nadezhnoye Upravleniye	2,315,083	2,315,083	2,315,083
OMBF "Rezervny. Foreign Exchange Investments" managed by LLC DIK	-	7,041,000	-
OMBF "Rezervny" managed by LLC DIK	-	2,940,000	3,422,000
Less impairment allowance	(695,202)	(610,650)	-
<b>Total</b>	<b>1,619,881</b>	<b>11,685,433</b>	<b>5,737,083</b>

In 2014, the Company submitted for redemption all of its units in OMBF "Rezervny" and OMBF "Rezervny. Foreign Exchange Investments" managed by LLC DIK. Redemption of the units yielded a total of RUB 1,121,353,000 in income.

**3.2. Shares and equity interests**

Investments in the shares and equity interests of subsidiaries and affiliates as of 31 December 2014, 2013, 2012 are recorded as follows:

	(RUB thousand)		
	2014	31 December 2013	2012
MTS (Note 4)	128,496,822	225,202,120	180,195,027
TCF Projects Pte.Ltd	64,984,242	42,669,897	36,738,000
MTS Bank (i)	27,782,202	18,321,517	18,321,517
RTI	21,587,069	21,587,069	16,487,069
Sistema Shyam Teleservices Limited	19,357,845	19,357,845	19,357,845
Sistema Finance S.A.	10,825,964	10,825,964	10,825,964
LLC Sistema Telecom Assets	8,663,340	8,663,340	8,663,340
Leader-Invest (ii)	6,401,138	4,957,398	-
			(continued)
	2014	31 December 2013	2012
Business Nedvizhimost (iii)	6,305,941	3,217,230	-
SG-trans (iv)	5,866,633	2,455,394	22,786,955
SG-trading (iv, v)	4,924,701	6,419,143	-

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VAO Intourist	4,782,733	4,782,733	4,782,733
Detsky Mir	4,215,747	4,215,747	4,215,747
Targin (vi)	4,101,441	4,101,441	-
NIS (vii)	4,043,168	1,233,069	1,233,069
Mosdachrest	3,899,126	3,899,126	3,899,126
Ozon Holdings Limited (viii)	2,707,148	-	-
Sistema Mass Media (ix)	2,423,756	-	-
Medsi Group	1,630,589	1,630,589	1,630,589
Binnopharm	1,480,170	1,480,170	251,428
CJSC Komsomolsky (v)	1,383,268	-	-
East-West United Bank S.A.	1,120,481	282,081	282,081
Rangecroft Limited (x)	1,079,806	-	-
LLC Altay Resort	1,009,020	1,009,020	1,009,020
Sitronics-N	1,000,800	1,000,800	-
Detsky Mir retail assets	766,927	766,927	766,927
Technopark Sarov	142,203	142,203	142,203
Lobachevsky 120 (v)	111,173	-	-
Bashneft (xi)	-	223,713,395	198,411,426
UPC (xii)	-	6,204,610	-
Financial Alliance (iv)	-	3,411,050	3,411,050
LLC Stream (ix)	-	496,342	496,342
RussNeft (xiii)	-	-	605,432
Other	383,512	326,032	277,490
Less impairment allowance	<u>(78,129,202)</u>	<u>(44,917,040)</u>	<u>(44,917,040)</u>
<b>Total</b>	<b><u>263,347,763</u></b>	<b><u>577,455,212</u></b>	<b><u>489,873,340</u></b>

- (i) In November 2014, the Company acquired 2,474,818 additionally issued ordinary shares of MTS Bank for RUB 9.5 billion.
- (ii) In 2014 and 2013, the Company acquired 1,951 and 6,699 additionally issued ordinary shares of Leader-Invest for RUB 1.4 billion and RUB 5 billion, accordingly.
- (iii) In December 2013, the Company purchased 51% of Business Nedvizhimost shares from MGTS Nedvizhimost for RUB 3.2 billion. In April 2014, the Company purchased 49% of Business Nedvizhimost shares from MGTS Nedvizhimost for RUB 3.1 billion.
- (iv) In April 2013, SG-trans was reorganised by spinning off SG-trading company that combined the assets related to the storage and selling of liquefied petroleum gas. In April 2013, the Company sold a 70% stake in SG-trans to Financial Alliance for RUB 12 billion. In July 2013, the Company sold a 15% stake in SG-trans to Unirail Holdings Limited for RUB 2.5 billion. As a result of the transactions involving disposal of SG-trans shares, the Company recognised RUB 0.6 billion gain from the sale of securities in 2013.
- In January 2014, OJSC SG-trans was reorganised by merger with CJSC Financial Alliance. As a result of the reorganisation, the authorised capital of SG-trans was increased. Ordinary shares of Financial Alliance, including those held by the Company, were converted into additional ordinary shares of SG-trans.
- (v) In July and October 2014, SG-trading was reorganised by spinning off CJSC Lobachevsky 120 and CJSC Komsomolsky. The authorised capitals of the spun-off entities were formed by reducing the authorised capital of SG-trading through conversion of a portion of its ordinary shares into the ordinary shares of the spun-off entities. As a result of the reorganisation, the Company obtained 100% of the shares of Lobachevsky 120 and Komsomolsky.
- (vi) In September 2013, the Company bought a 100% stake in Bashneft Service Assets from Bashneft for RUB 4.1 billion. In July 2014, Bashneft Service Assets was renamed to LLC Targin.
- (vii) In July 2014, the Company acquired 46,104 additionally issued shares of NIS for RUB 2.8 billion.
- (viii) In April 2014, the Company acquired a 10.8% share in Ozon Holding Limited, one of the major players in the Russian e-commerce market, for RUB 2.7 billion.
- (ix) In December 2014, the Company acquired 1,617,213,100 additionally issued ordinary shares of Sistema Mass Media, contributing a 55% stake in LLC Stream as consideration. After contribution of a stake in LLC Stream in the authorised capital of Sistema Mass Media, the Company recognised a gain in the amount of RUB 1.5 billion.

In December 2014, the Company acquired 368,819,673 additionally issued ordinary shares of Sistema Mass Media for RUB 0.45 billion.

- (x) In October 2014, the Company acquired 40% of the holding company Rangelcroft Limited, the owner of Concept Group assets, for RUB 1 billion. Concept Group is one of the top companies of the Russian fashion retail market by revenue growth rates.
- (xi) In September 2014, the General Prosecutor's Office of the Russian Federation filed a lawsuit with the Arbitration Court of Moscow for the Russian Federation to expropriate the shares of Bashneft then owned by the Company. The claim was based on allegations of illegal transfer of the property from the Russian Federation to the Republic of Bashkortostan in 1992-1993, which was done without appropriate approvals by federal authorities, rendering all subsequent transactions with the Bashneft shares null and void. On 7 November 2014, the court ruled for the ordinary and preference Bashneft shares then held by the Company to be transferred from the Company to the Russian Federation. The shares were disposed of in December 2014.
- (xii) In September 2013, the Company bought a 98% stake in United Petrochemical Company (UPC) from Bashneft for RUB 6.2 billion with a one-year deferral of payment. In September 2014, this transaction was canceled. All the ownership rights to UPC shares were returned to Bashneft.
- (xiii) In July 2013 the Company completed the sale of 49% of RussNeft shares to Bradinor Holdings Limited and Cromeld Management Limited for the total cash consideration of USD 1.2 billion (ca. RUB 40 billion at the rate set by the Russian Central Bank on the date of payment). As a result of the transactions related to selling RussNeft shares, the Company recognised RUB 39.1 billion income from the sale of securities in 2013.

### 3.3. Debt securities

Debt securities as of 31 December 2014, 2013 and 2012 are recorded as follows:

	Maturity	Interest rate	(RUB thousand)		
			31 December		
			2014	2013	2012
<i>In RUB:</i>					
LesInvest	ASNE 01.02.2022	13.0%	6,000,000	-	-
Mosdachtrest	ASNE 20.10.2015	11.0%	393,295	393,295	393,295
Mosdachtrest	ASNE 07.12.2014	8.0%	220,000	310,000	310,000
OJSC Sistema Finance			-	5,374,878	8,577,607
MTS Bank			-	1,650,000	-
LLC Sistema Telecom Assets			-	200,000	818,300
Other			353,774	353,774	353,774
Impairment allowance			(353,774)	(353,774)	(353,774)
<b>Total</b>			<b>6,613,295</b>	<b>7,928,173</b>	<b>10,099,202</b>
Long-term			6,000,000	393,295	393,295
Short-term			613,295	7,534,878	9,705,907
<b>Total</b>			<b>6,613,295</b>	<b>7,928,173</b>	<b>10,099,202</b>

Note: ASNE – after sight, but not earlier.

**3.4. Loans granted**

Loans granted as of 31 December 2014, 2013 and 2012 are recorded as follows:

(RUB thousand)

	Maturity	Interest rate (31 December 2014)	31 December		
			2014	2013	2012
<i>In USD:</i>					
Sistema Holding Ltd.	on demand	0.5%	9,502,044	8,100,477	1,883,107
MTS Bank	27.03.2024	1.25%	2,255,309	-	-
Sistema Shyam Teleservices Limited			-	7,527,716	6,985,721
			<u>11,757,353</u>	<u>15,628,193</u>	<u>8,868,828</u>
<i>In RUB:</i>					
CLIPPERS FINANCE S.A.	on demand	4.5%	6,035,274	6,035,274	6,035,274
LesInvest	on demand	9.5%	6,000,000	-	-
NVision Group	30.11- 01.12.2014	12.2–13.0%	4,500,000	-	-
RTI Microelectronics	on demand	4.5%	3,553,854	3,792,852	-
Krasnodar Agro	31.12.2016	12.0%	3,397,087	-	-
Sitronics	on demand	4.5%	3,180,000	3,180,000	-
Sitronics-N	on demand	4.5%	3,000,000	3,000,000	-
NIIDAR	on demand	4.5%	2,727,000	1,000,000	-
MTS Bank	31.10.2021	1.25%	1,000,000	1,000,000	1,000,000
RTI Estate			-	2,610,157	2,265,000
RTI				-	5,038,246
Other			7,659,957	4,994,006	4,079,447
Impairment allowance			(3,169,913)	-	-
			<u>37,883,259</u>	<u>25,612,289</u>	<u>18,417,967</u>
<b>Total</b>			<b><u>49,640,612</u></b>	<b><u>41,240,482</u></b>	<b><u>27,286,795</u></b>
Long-term			7,494,554	1,479,975	8,595,721
Short-term			42,146,058	39,760,507	18,691,074
<b>Total</b>			<b><u>49,640,612</u></b>	<b><u>41,240,482</u></b>	<b><u>27,286,795</u></b>

**3.5. Bank deposits**

Bank deposits as of 31 December 2014, 2013 and 2012 are recorded as follows:

(RUB thousand)

	31 December		
	2014	2013	2012
VTB Bank	-	10,870,000	-
MTS Bank (subsidiary)	-	3,000,000	-
Rosselkhozbank	-	3,000,000	-
OJSC Gazprombank	-	1,815,000	7,605,134
Promsvyazbank	-	500,000	-
Deutsche Bank AG, London Branch	-	-	1,500,000
<b>Total</b>	<b>-</b>	<b><u>19,185,000</u></b>	<b><u>9,105,134</u></b>
Long-term	-	6,000,000	-
Short-term	-	4,670,000	4,689,134
Cash equivalents	-	8,515,000	4,416,000
<b>Total</b>	<b>-</b>	<b><u>19,185,000</u></b>	<b><u>9,105,134</u></b>

**3.6. Rights acquired as a result of rendering financial services**

Rights acquired as a result of rendering financial services as of 31 December 2014, 2013 and 2012 are recorded as follows:

	(RUB thousand)		
	2014	31 December 2013	2012
AlfaPlast	641,700	641,700	641,700
Geocom	613,800	613,800	613,800
ConsultMedia	558,000	558,000	558,000
Mosdachrest	-	612,933	944,066
Impairment allowance	(1,813,500)	(1,813,500)	(1,813,500)
<b>Total</b>	<b>-</b>	<b>612,933</b>	<b>944,066</b>

**3.7. Allowances for impairment of investments**

The data on allowances for impairment of investments, the amount of provisions made in 2014 and 2013, as well as the amounts of provisions used in 2014 and 2013 are recorded as follows:

	(RUB thousand)						
	As of 31 December 2012	Provisions created	Provisions used	As of 31 December 2013	Provisions created	Provisions used	As of 31 December 2014
<i>Units in mutual funds</i>							
Acquisition of CEIF Creditniy 1	-	610,650	-	610,650	84,552	-	695,202
	-	610,650	-	610,650	84,552	-	695,202
<i>Shares</i>							
Sistema Shyam Teleservices Limited	19,357,845	-	-	19,357,845	-	-	19,357,845
TCF Projects Pte. Ltd.	25,362,147	-	-	25,362,147	28,850,805	-	54,212,952
NIS	-	-	-	-	3,999,168	-	3,999,168
Other	197,048	-	-	197,048	362,189	-	559,237
	44,917,040	-	-	44,917,040	33,212,162	-	78,129,202
Loans granted	-	-	-	-	3,169,913	-	3,169,913
Debt securities	353,774	-	-	353,774	-	-	353,774
Rights acquired as a result of financial services provided	1,813,500	-	-	1,813,500	-	-	1,813,500
<b>Total</b>	<b>47,084,314</b>	<b>610,650</b>	<b>-</b>	<b>47,694,964</b>	<b>36,466,627</b>	<b>-</b>	<b>84,161,591</b>

In 2014 and 2013, the Company made allowances for impairment of some investments in shares and units due to a significant deviation of the estimated value of stakes held by the Company from their book value. The estimated value was determined based on the information on net assets of investment targets taking into account the estimated probability of return of investments.

#### 4. LISTED SECURITIES

The value of the Company's investments in shares that have a market value as of 31 December 2014, 2013 and 2012 is given below:

	Bashneft		MTS	(RUB thousand)
	ordinary	preference	ordinary	Other
<b>Balance as of 31 December 2012</b>				
Number of shares	108,047,962	5,871,654	636,224,752	n/a
Market price per share, RUB	1,764.10	1,329.10	283.23	n/a
	<b>190,607,410</b>	<b>7,804,016</b>	<b>180,195,027</b>	<b>16,041</b>
Revaluation	24,797,007	504,962	45,007,093	38,286
<b>Balance as of 31 December 2013</b>				
Number of shares	108,047,962	5,871,654	636,224,752	n/a
Market price per share, RUB	1,993.60	1,415.10	353.97	n/a
	<b>215,404,417</b>	<b>8,308,978</b>	<b>225,202,120</b>	<b>54,327</b>
Revaluation	(79,923,077)	(3,718,519)	(96,705,298)	56,035
Disposal	(135,481,340)	(4,590,459)	-	-
<b>Balance as of 31 December 2014</b>				
Number of shares	-	-	636,224,752	n/a
Market price per share, RUB	-	-	201.97	n/a
	<b>-</b>	<b>-</b>	<b>128,496,822</b>	<b>110,362</b>

In 2014, impairment of investments for which the market value was determined amounted to RUB 180,290,859,000. In 2013, impairment of investments for which the market value was determined amounted to RUB 70,347,348,000.

#### 5. BORROWINGS

The repayment terms of key types of borrowings as of 31 December 2014 are recorded as follows:

				(RUB thousand)
	up to 1 year	1-5 years	over 5 years	Total
Bond issues	3,846,967	15,599,679	-	19,446,646
Other borrowings	-	28,129,200	-	28,129,200
Promissory notes	450,000	710,093	-	1,160,093
Loans	10,200,000	18,000,000	-	28,200,000
<b>Total</b>	<b>14,496,967</b>	<b>62,438,972</b>	<b>-</b>	<b>76,935,939</b>

Outstanding bonds are recorded as follows:

	Maturity	31 December			(RUB thousand)
		2014	2013	2012	
Bonds No. 4-03-01669-A	02.11.2016	14,958,545	14,958,545	1,576,257	
Bonds No. 4-04-01669-A	15.03.2016	4,488,101	13,464,302	13,464,302	
Bonds No. 4-02-01669-A	-	-	10,618,896	10,618,895	
Bonds No. 4-01-01669-A	-	-	-	5,025,081	
<b>Total</b>		<b>19,446,646</b>	<b>39,041,743</b>	<b>30,684,535</b>	

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Indebtedness under other borrowings is recorded as follows:

	Maturity	(RUB thousand)		
		2014	31 December 2013	2012
Sistema International Funding S.A.	17.05.2019	28,129,200	16,364,600	15,186,350
CJSC Sistema Invest		-	9,369,836	-
SSA FUND (SINGAPORE) PTE LTD		-	-	17,187,911
<b>Total</b>		<b>28,129,200</b>	<b>25,734,436</b>	<b>32,374,261</b>

In May 2012, Sistema International Funding S.A., registered in compliance with the laws of Luxembourg, issued \$500 million worth of interest-bearing certified Eurobonds with maturity in 2019 and a coupon yield of 6.95% per annum.

Indebtedness under credit facilities is recorded as follows:

	Maturity	(RUB thousand)		
		2014	31 December 2013	2012
OJSC Sberbank of Russia	03.09.2017	12,000,000	-	-
OJSC Sberbank of Russia	10.04.2018	6,000,000	-	-
CJSC Raiffeisenbank	16.03.2015	5,700,000	-	-
OJSC Sberbank of Russia	01.06.2015	4,500,000	-	-
<b>Total</b>		<b>28,200,000</b>	<b>-</b>	<b>-</b>

With certain exclusions and restrictions, debt obligations include provisions that limit the ability of the Company and its subsidiaries to borrow funds, carry out a merger or consolidation with another entity or transfer its property and assets to another entity, to conduct certain types of reorganisation or make certain changes to the Company's shareholding structure. If the Company fails to comply with the obligations specified above within a certain time period, which is given to deliver a notice of breach of obligations and to take remedial action, the creditors have the right to demand immediate repayment of the debt. Also, the terms of cross non-compliance under other facility agreements of the Company and its subsidiaries are applied to the facility agreements. As of 31 December 2014, the Company fully abided by all obligations envisaged by the terms of bond issues, loan agreements and credit facility agreements.

Interest accrued on the borrowed funds in 2014 and 2013 totaled RUB 5,829,656,000 and RUB 4,805,748,000 respectively.

**6. PROVISIONS**

Changes of provisions in 2014, 2013 and 2012 are presented as follows:

	(RUB thousand)		
	Payment of bonuses	Payment for unused annual leaves	Total
<b>Balance as of 31 December 2012</b>	<b>3,604,936</b>	<b>215,199</b>	<b>3,820,135</b>
Increase of provisions	2,385,366	1,074,990	3,460,356
Reversal of unused provisions	(112,922)	-	(112,922)
Use of provisions	(3,492,014)	(335,560)	(3,827,574)
<b>Balance as of 31 December 2013</b>	<b>2,385,366</b>	<b>954,629</b>	<b>3,339,995</b>
Increase of provisions	22,428	998,536	1,020,964
Reversal of unused provisions	-	-	-
Use of provisions	(2,385,366)	(1,170,384)	(3,555,750)
<b>Balance as of 31 December 2014</b>	<b>22,428</b>	<b>782,781</b>	<b>805,209</b>

**7. EXPENSES ON ORDINARY OPERATIONS**

Expenses on ordinary operations as per spending item in 2014 and 2013 are recorded as follows:

	2014	(RUB thousand) 2013
Payroll expenses	6,669,685	9,218,243
Social security charges	672,860	548,019
Depreciation	184,157	177,272
Cost of materials	24,952	26,675
Other expenses	1,177,431	1,245,355
<b>Total</b>	<b>8,729,085</b>	<b>11,215,564</b>

**8. INCOME TAX**

	2014	(RUB thousand) 2013
<b>(Loss)/Income before tax</b>	<b>(316,797,175)</b>	<b>141,100,815</b>
incl.		
dividends taxed at 0% rate	43,961,637	31,766,681
dividends taxed at 9% rate	15,783,395	15,345,804
<b>Theoretical (income)/ expense from/on income tax</b>	<b>(73,974,488)</b>	<b>19,983,356</b>
Permanent tax liabilities/ (assets)	64,281,406	(12,804,022)
Change in deferred tax assets	11,026,340	(1,419,551)
Change in deferred tax liabilities	695	57,708
Tax on income in form of dividends	1,333,954	1,185,694
<b>Current income tax</b>	<b>-</b>	<b>4,631,797</b>

For the purpose of income tax, the loss from the disposal of the Bashneft shares (see Note (xii) to clause 3.2) totaling RUB 39.3 billion is recognised by the Company as part of losses from ordinary business activity. The Company recognised a deferred tax asset of RUB 11.5 billion for the total amount of losses from ordinary business activity.

In view of the settlement agreement between the Company and Ural-Invest, according to which all the assets of Ural-Invest totaling ca. RUB 46.5 billion will be transferred to the Company (See

Note 15), the Company believes that there is a high probability of taxable profit being formed in the subsequent reporting periods, which will be reduced by a set-off against the tax loss of 2014.

## 9. BOARD OF DIRECTORS AND MANAGEMENT BOARD

Members of the Board of Directors in 2014:

Vladimir Evtushenkov	Chairman of the Board of Directors, Chairman of the Strategy Committee
Alexander Goncharuk	Deputy Chairman of the Board, Chairman of the Ethics and Internal Control Committee
Mikhail Shamolin	Member of the Board of Directors, Company President
Dmitry Zubov	Member of the Board of Directors
Sergey Boev	Member of the Board of Directors
Robert Kocharyan	Independent Director, Chairman of the Nomination, Remuneration and Corporate Governance Committee
Roger Munnings	Independent Director, Chairman of the Audit, Finance and Risks Committee
Brian Dickie	Independent Director
David Iakobachvili	Independent Director, Chairman of the Investor Relations and Dividend Policy Committee
Serge Tchuruk	Independent Director
Jeannot Krecké	Independent Director
Marc Holtzman	Independent Director
Peter Mandelson	Independent Director

Members of the Management Board in 2014:

Mikhail Shamolin	President
Felix Evtushenkov	First Vice President
Anton Abugov	First Vice President
Alexey Buyanov	First Vice President (until 25.06.2014)
Andrey Terebenin	Senior Vice President
Sergei Drozdov	Senior Vice President, Head of Corporate Governance Function
Christopher Baxter	Senior Vice President
Ali Uzdenov	Senior Vice President
Vsevolod Rozanov	Senior Vice President, Head of Finance and Investment Function
Leonid Monosov	Vice President
Elena Vitshak	Vice President, Head of HR Department
Oleg Mubarakshin	Vice President, Head of Legal Function
Michael Hecker	Vice President, Head of Strategy Function (from 01.02.2014)
Alexey Chupin	Vice President (until 21.05.2014)

The total sum of remuneration paid to the members of the Board of Directors and the Management Board in 2014 and 2013 is recorded as follows:

	<b>2014</b>	<b>(RUB thousand) 2013</b>
Short-term bonuses	3,347,391	2,480,009
Remuneration in the form of issuer's option plans and shares	675,854	2,524,512
<b>Total</b>	<b>4,023,245</b>	<b>5,004,522</b>

## 10. RELATED PARTIES

The Company's related parties are its subsidiaries and affiliates and also its key management.

### 10.1. Related party transactions

	<b>2014</b>	<b>(RUB thousand) 2013</b>
<b>Loan interest repaid</b>		
Sistema Invest	317,034	20,023

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Bashneft	225,918	439,294
MGTS Nedvizhimost	125,993	-
<b>Total</b>	<b>668,945</b>	<b>459,317</b>

<b>Interest income</b>	<b>2014</b>	<b>(RUB thousand) 2013</b>
LesInvest	355,576	-
Sistema Finance	168,793	171,756
RTI Microelectronics	164,658	43,020
Sitronics	143,100	112,563
Mosdachtrest	141,637	188,543
Sitronics-N	135,000	34,027
RTI Estate	126,553	102,667
Leader-Invest	63,093	39,906
Krasnodar Agro	55,855	-
NIS	54,170	5,747
Sistema Shyam Teleservices Limited	49,314	-
Sistema Holding Ltd.	47,169	-
NVision Group	46,282	-
MTS Bank	44,265	36,519
Sistema Telecom Assets	3,551	28,849
RTI	-	214,710
Moscow Business Incubator	-	81,596
Sistema Mass Media	-	11,025
Other	69,438	32,801
<b>Total</b>	<b>1,668,454</b>	<b>1,103,729</b>

<b>Sale of goods, works and services</b>	<b>2014</b>	<b>(RUB thousand) 2013</b>
Business Nedvizhimost	19,497	3,304
MGTS Nedvizhimost	5,928	3,810
NVision Group	-	14,456
Region	-	4,427
Mosdachtrest	-	1,510
Other	1,312	1,543
<b>Total</b>	<b>26,737</b>	<b>29,050</b>

<b>Dividends received</b>	<b>2014</b>	<b>(RUB thousand) 2013</b>
OJSC Bashneft	24,037,039	25,404,074
Sistema Invest	17,000,000	5,869,500
MTS	15,778,374	12,609,975
Detsky Mir	1,834,038	-
LLC Sistema Telecom Assets	-	2,899,994
Other	775,951	327,132
<b>Total</b>	<b>59,425,402</b>	<b>47,110,675</b>

<b>Sale of other property</b>	<b>Type of earnings</b>	<b>2014</b>	<b>(RUB thousand) 2013</b>
DIK	sale of shares, interests and stakes	12,702,353	3,846,962
LesInvest	sale of fixed assets	4,700	-
CJSC Financial Alliance	sale of shares, interests and stakes	-	12,000,000
Bashneft	sale of fixed assets and inventories	-	3,410,004

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Other	sale of fixed assets and inventories	-	1,597
<b>Total</b>		<b>12,707,053</b>	<b>19,258,563</b>

**10.2. Accounts receivable**

	(RUB thousand)		
	31 December		
	2014	2013	2012
<b>Sale of goods, work, services, property rights</b>			
RTI Microelectronics	78,037	45,399	-
Binnopharm	8,216	8,216	8,216
Business Nedvizhimost	6,464	-	-
Geocom	5,549	5,549	5,549
RTI Systems Concern	-	9,150	9,150
Sitronics	-	-	42,131
Ecu Gest Holding S.A.	-	-	3,007
Other	932	973	1,005
<b>Purchase of goods, work, services, property rights</b>			
Sitronics	227,284	227,284	227,307
Sistema Telecom Assets	104,227	-	-
Binnopharm	43,198	34,398	1,263,140
Leader-Invest	30,575	29,555	23,925
Krasnodar Agro	12,818	-	-
Detsky Mir	12,811	-	-
Sistema Mass Media	6,771	-	-
Business Nedvizhimost	5,829	-	-
Other	24,087	10,553	6,219
<b>Issuing non-interest-bearing loans and promissory notes</b>			
The Davydovs' Estate Region	167,313	167,313	177,313
Cottagestroy-17	60,842	60,842	60,842
Medsj Holding	53,698	53,698	53,698
Medsj Fitness	20,053	20,053	20,053
Other	-	-	6,228
	1,585	1,585	1,585
<b>Interest on issued loans and notes received</b>			
LesInvest	355,576	-	-
Mosdachtrest	324,539	452,823	395,178
Geocom	303,127	303,127	303,127
RTI Microelectronics	243,822	79,165	-
Sitronics-N	210,945	75,945	-
Sitronics	177,601	34,501	-
Sistema Holding Ltd.	133,832	-	-
Leader Invest	90,607	-	-
NIIDAR	86,484	-	-
Krasnodar Agro	55,855	-	-
MTS Bank	47,311	144,902	291,422
NVision Group	46,282	-	-
Altay Resort	31,622	-	-
Sistema Finance	30,608	151,406	59,515
RTI Estate	-	119,933	17,266
Sistema Telecom Assets	-	32,523	106,999
RTI	-	-	96,432
Sistema Mass-Media	-	-	417,241
Other	50,849	517,103	173,991
<b>Dividends receivable</b>			
RTI	319,630	-	-

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	31 December		
	2014	2013	2012
<b>Bad debt allowance</b>	(591,379)	(591,379)	(591,714)
<b>Total</b>	<b>2,787,600</b>	<b>1,994,617</b>	<b>3,178,825</b>

**10.3. Accounts payable**

	31 December			(RUB thousand)
	2014	2013	2012	
<b>Purchase of goods, work, services, property rights</b>				
MGTS Nedvizhimost	3,214,463	-	-	
MTS	5,915	-	3,352	
Altay Resort	1,207	-	8,251	
NVision Group	254	-	-	
Sistema Invest	-	186,888	-	
Other	143	4,457	4,446	
<b>Sale of goods, works and services</b>				
LesInvest	256	-	-	
MGTS Nedvizhimost	-	2,230	-	
Other	117	759	2,796	
<b>Interest on loans received</b>				
Sistema Invest	-	20,023	-	
<b>Total</b>	<b>3,222,355</b>	<b>214,357</b>	<b>18,845</b>	

**10.4. Investments**

Information on investments in debt securities and loans to related parties is given in Notes 3.3 and 3.4.

**10.5. Cash flows with related parties**

	<b>2014</b>	<b>(RUB thousand) 2013</b>
<b>Cash flows from operating activities</b>		
Proceeds from sale of products, goods, works and services	79,835	40,134
Proceeds in form of dividends	58,091,448	45,928,183
Other proceeds from operating activities	1,596	-
Payment for goods, works and services	(599,406)	(604,785)
Payment of interest on debts	(652,153)	(569,836)
Other payments for operating activities	(3,844,660)	(2,500,000)
<b>Cash flows from investment activities</b>		
Proceeds from sale of fixed assets and other property	4,700	1,554
Proceeds from sale of shares (participation interests) in other companies	12,711,503	15,846,962
Proceeds from repayment of issued loans and sale of debt securities	33,937,561	17,646,871
Received interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	1,574,202	1,172,557
Cash proceeds from bank deposits	3,000,000	-
Other proceeds from investment activities	-	1,241,742
Payments related to acquisition of shares (participation interests) in other companies	(38,917,258)	(43,850,959)
Payments for acquisition of debt securities, issue of loans to other entities	(31,307,221)	(26,432,606)
Cash transfers to bank deposit	-	(3,000,000)
<b>Cash flows from financing activities</b>		
Borrowing	-	9,369,836
Repayment of borrowed funds	(9,533,309)	(8,800,000)
Payment of dividends and other income distribution to owners (shareholders)	(13,218,175)	(6,448,656)
<b>Total</b>	<b>11,328,663</b>	<b>(959,003)</b>

**11. BASIC AND DILUTED (LOSS)/INCOME**

Basic and diluted income for 2014 and 2013 totaled:

	<b>2014</b>	<b>2013</b>
Basic and diluted (loss)/income, RUB thousand	(307,202,105)	133,893,543
Weighted average number of ordinary shares in circulation	9,650,000,000	9,650,000,000
<b>Basic and diluted (loss)/income per share, RUB</b>	<b>(31.8)</b>	<b>13.9</b>

**12. DERIVATIVES**

The Company has signed an option agreement with the Russian Federal State Property Management Agency on selling the Agency's 17.14% stake in Sistema Shyam Teleservices Limited to the Company within one year, starting from 2016, at the higher of \$777 million or the market value on the given date, determined by an independent appraiser.

The Company has signed option agreements with Rusnano, which give Rusnano the right to sell its stake in NIIME and Micron to the Company from 31 October 2016 till 1 November 2017 at RUB 8.1 billion. The Company has the right to purchase Rusnano's stake before 1 November 2017 for RUB 6.1 billion plus 7.63% annually.

**13. CONTINGENT LIABILITIES**

**Operating environment** – In March 2014, the USA and the EU imposed several sets of sanctions on certain Russian officials, businessmen and organisations. The slump of oil prices in 2014 and early 2015 destabilised the economic situation in Russia, the main market of operations for the Company and its subsidiaries and affiliates: the rouble depreciated, interest rates on loans went up after the Russian Central Bank significantly raised the key rate, GDP fell

as expected, along with the price of shares traded on the Russian stock exchanges. International rating agencies reduced the long-term sovereign currency rating of Russia with a negative outlook. Neither the Company, nor its subsidiaries and affiliates were included in the current sanction list of the USA and the European Union. However, there is a high degree of uncertainty about the time of potential introduction and the scale of new economic and trade sanctions. The economic and political uncertainty may also have a negative impact on the Company's operating results and dividends.

The Company and its subsidiaries and affiliates generates most of their revenues in roubles. The Company's operating results shown in the accounts are therefore exposed to considerable fluctuations of USD/RUB exchange rate, while in 2014, rouble depreciated against USD by 42%, and was on average 17% cheaper than in 2013. Taking into account that most of revenues of the Company and its subsidiaries and affiliates are generated in Russian roubles, the Company is exposed to the exchange rate risk in respect of payments in foreign currencies.

In 2014, deterioration of the political situation in Ukraine, the second largest operating market for the Company and its subsidiaries and affiliates led to a general destabilisation, an economic downturn and a military conflict in the East of the country. These trends also caused the weakening of the country's macroeconomic position, which resulted in the downgrading of the credit rating, a significant depreciation of the national currency and inflation growth. In 2014, the Ukrainian Parliament passed a bill permitting sanctions against the countries, individuals and legal entities that, in the government's opinion, pose a threat to national interests, national security, sovereignty and territorial integrity of the country. According to a Decree issued by the National Bank of Ukraine, Ukrainian companies are not allowed to pay dividends to foreign investors. These circumstances, in conjunction with the ongoing political and economic instability in Ukraine, could have an adverse impact on the Company's operations, including its financial standing and the amount of dividends received.

**Guarantees** - As of 31 December 2014, the Company acted as guarantor for the loans of the following companies:

	<b>(RUB thousand)</b>
	<b>Sum of loan</b>
Sistema Shyam Teleservices Limited	38,343,471
Sistema Invest and ECU GEST HOLDING	22,500,000
Kapali Overseas Corp.	1,639,932
NVision Group	1,527,000
RTI	955,688
Detsky Mir Center	272,506
<b>Total</b>	<b>65,238,597</b>

**Taxation** - At present, Russia has a number of laws that set forth taxes payable to the federal budget and to regional budgets. Such taxes include the VAT, the income tax, some turnover taxes and payroll taxes. Laws regulating these taxes have been in place for a short period of time compared to developed market economies; therefore, the practice of applying these taxes by tax authorities is often either non-existent or inconsistent. Consequently, there are few precedents of judgments in tax disputes. The correctness of tax assessment and payment in tax returns and other issues of compliance with regulations (e.g. customs and currency control requirements) can be inspected by a number of authorities that have the right to impose extremely severe fines and charge and collect penalties and interest. The above factors may create greater tax risks in Russia than those existing in countries with better developed taxation systems.

As a rule, the Russian tax legislation allows tax authorities to inspect the correctness of tax calculation and payment within three years after the reporting year. In 2014, the tax authorities completed on-site tax audit of the Company in the period from 01 January 2012 through 31 December 2013. The inspection revealed immaterial additional taxation that was fully paid up.

With regard to revenue and expenses arising from settlements between the Company's subsidiaries, transfer pricing rules may be applicable. The Company's management believes that its tax liabilities have been calculated in full compliance with the requirements of applicable laws related to transfer pricing. However, there is a risk that tax authorities will take a different view and impose additional taxes. As of 31 December 2014 and 2013, the Company did not show provisions for such additional liabilities in its financial statements.

**Other** - From time to time, in the process of the Company's ordinary business, courts receive lawsuits and claims against the Company and its subsidiaries. Some of them are typical for countries with developing economies, changing fiscal regimes and regulations where the Company conducts its business. The Company's management believes that the outcome of such court proceedings will not have a material negative impact on the Company's financial situation, performance or liquidity.

#### 14. RISK MANAGEMENT POLICY

Information about business risks and the Company's risk management policy is disclosed in the quarterly Issuer's Report.

#### 15. EVENTS AFTER THE REPORTING DATE

*Acquisition of shares of Intellect Telecom:* On 21 and 22 January 2015 the Company acquired 100% of the ordinary shares of Intellect Telecom for a consideration of RUB 674 million from MGTS and Sitronics.

*Disposal of NIS shares:* On 22 January 2015 the Company sold its stake in NIS for a total of RUB 44 million to MGTS. The 4 billion loss resulting from the disposal of NIS shares by the Company was allocated to reduction of allowance for impairment of investments.

*Bond placement:* On 19 February 2015 the Company completed the placement of documentary interest-bearing unconvertible bonds series BO-01 with a nominal value of RUB 1,000 each for the total amount of RUB 10 billion at the coupon rate of 17% p.a.

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*The Company's claim to Ural-Invest:* On 16 February 2015 the Arbitration Court of Moscow upheld the Company's lawsuit against Ural-Invest and ruled to recover the losses from the defendant to the benefit of the Company in the amount of RUB 70.7 billion. On 19 March 2015 the Company and Ural-Invest signed a settlement agreement at the stage of execution of the said ruling of the Arbitration Court of Moscow. Under the terms of the settlement agreement Ural-Invest is to transfer to the Company all its monetary assets totaling ca. RUB 46.5 billion. According to the Settlement Agreement, the Company shall contribute a part of the funds received totaling RUB 4.6 billion into the charitable projects of URAL Fund affiliated with Ural-Invest.

*Partial redemption of Series 04 bonds:* On 17 March 2015, 19.5 million worth of Series 04 bonds were redeemed (15.385% of the issue's par value).

CFO

Vsevolod Rozanov

Chief Accountant

Irina Borisenkova

27 March 2015