



OPEN JOINT-STOCK COMPANY
JOINT-STOCK FINANCIAL CORPORATION
SISTEMA

Annual General Meeting of the Sistema JSFC shareholders, 28 June 2014,
Moscow, 13 Mokhovaya str., Room 101.

Accounting Reports of
Sistema JSFC
for 2013

Balance sheet
as of 31 December 2013

		OKUD form	0710001		
		Date (day, month, year)	31	12	2013
Company	Open Joint-Stock Company SISTEMA JOINT-STOCK FINANCIAL CORPORATION	OKPO	27987276		
Taxpayer identification number		INN	7703104630		
Type of economic activity	Investments in securities	OKVED	65.23.1		
Business entity type / form of ownership	OJSC / private	OKOPF / OKFS	47	16	
Measure unit:	thousand roubles	OKEI	384		
Location (address)	13/1 Mokhovaya St., 125009 Moscow				

Notes	Item	Code	as of 31 December 2013	as of 31 December 2012	as of 31 December 2011
	ASSETS				
	I. NON-CURRENT ASSETS				
	Intangible assets	1110	232	265	270
	including:				
	Trade marks	11101	232	265	231
	Property, Plant and Equipment	1150	2,566,668	2,402,706	3,847,750
	including:				
	Buildings	11501	2,102,696	1,759,631	3,644,716
	Other PP&E	11502	377,934	444,841	154,928
	Construction in progress	11503	86,038	198,234	48,106
4	Financial investments	1170	597,013,915	504,599,439	400,599,961
	including:				
4.1	Units	11701	11,685,433	5,737,083	3,325,083
4.2	Shares	11702	577,455,212	489,873,340	362,833,649
4.3	Debt securities	11703	393,295	393,295	2,830,207
4.4	Loans	11704	1,479,975	8,595,721	2,575,328
4.5	Bank deposits	11705	6,000,000	-	29,035,694
	Deferred tax assets	1180	2,776,413	4,218,673	2,201,852
	including:				
	Prepaid expenses	11801	2,056,306	2,531,171	1,903,656
	Contingency provisions	11802	669,516	765,544	289,374
	Other non-current assets	1190	-	-	60,125
	including:				
	Other prepaid expenses	11901	-	-	60,125
	Total for section I	1100	602,357,228	511,221,083	406,709,958
	II. CURRENT ASSETS				
	Inventories	1210	283,714	1,833,231	175,915
	including:				
	Materials	12101	10,690	4,739	8,167
	Goods shipped	12102	-	1,770,819	-
	Prepaid expenses	12103	273,025	57,673	167,748
	VAT on the purchased assets	1220	19,970	34,716	32,844
	including:				
	Input VAT from PP&E	12201	489	524	-
	Input VAT from inventories	12202	992	267	-
	Input VAT from services	12203	10,844	10,858	32,844
	VAT from construction of PP&E	12204	7,644	23,067	-

	Accounts receivable	1230	3,743,163	5,089,188	19,590,617
	including:				
	Settlements with suppliers and contractors	12301	180,164	137,524	273,647
	Settlements with buyers and customers	12302	215,382	198,906	1,060,587
	Settlements in respect of taxes and levies	12303	1,144,310	65,833	64,468
	Settlements in respect of social insurance and social security	12304	2,350	96	7,124
	Settlements with accountable persons	12305	9,165	970	1,395
	Settlements with staff in respect of other operations	12306	268	658	761
	Settlements with other suppliers and contractors	12307	2,190,598	3,326,116	3,553,231
	Non-interest bearing notes	12308	926	1,356,077	14,626,217
	Settlements in respect of dividends and other income due	12309	-	3,007	3,187
4	Financial investments (excluding cash equivalents)	1240	52,578,318	34,030,180	19,471,500
	including:				
4.3	Debt securities	12401	7,534,878	9,705,907	7,186,468
4.4	Loans granted	12402	39,760,507	18,691,074	2,748,492
4.7	Rights acquired as a result of financial services provided	12403	612,933	944,066	1,836,540
4.6	Deposit accounts	12404	4,670,000	4,689,134	7,700,000
	Cash and cash equivalents	1250	9,398,432	5,362,091	16,277,007
	including:				
	Cash in hand	12501	385	408	220
	Settlement accounts	12502	79,404	695,898	1,502,232
	Foreign currency accounts	12503	790,697	243,064	990,948
	Special bank accounts	12504	6,186	6,722	7,271
	Transactions in progress	12505	6,760	-	-
	Cash equivalents	12506	8,515,000	4,416,000	13,776,336
	Other current assets	1260	3,055	617,124	3,906
	including:				
	VAT from advance payments	12601	2,937	616,593	2,661
	VAT settlements in respect of tax agent functions	12602	-	530	1,243
	Total for section II	1200	66,026,652	46,966,530	55,551,789
	Balance	1600	668,383,880	558,187,613	462,261,747

Notes:	Indicator	Code	as of 31 December 2013	as of 31 December 2012	as of 31 December 2011
	LIABILITIES				
	III. CAPITAL AND RESERVES				
	Authorised capital	1310	868,500	868,500	868,500
	Revaluation of non-current assets	1340	2,084,101	1,827,670	1,784,471
	including:				
	Revaluation of PP&E	13401	2,084,101	1,827,670	1,784,471
	Additional capital (without revaluation)	1350	37,708,280	37,708,280	37,708,280
	Reserve capital	1360	43,425	43,425	43,425
	including:				
	Statutory reserves	13601	43,425	43,425	43,425
	Retained earnings	1370	550,646,306	426,016,763	366,054,296
	Total for section III	1300	591,350,612	466,464,638	406,458,972
	IV. LONG-TERM LIABILITIES				
5	Long-term borrowings	1410	36,521,340	41,719,372	20,394,775
	including:				
	Settlements in respect of long-term loans	14101	36,521,340	41,719,372	20,394,775
	Deferred tax liabilities	1420	39,009	96,717	41,082
	Total for section IV	1400	36,560,349	41,816,089	20,435,857
	V. SHORT-TERM LIABILITIES				
5	Borrowings	1510	30,492,097	33,309,851	33,725,077
	including:				
	Debt securities	15101	20,208,570	14,575,081	29,415,902
	Loans	15102	9,369,836	17,187,911	-
	Credits	15103	-	-	2,500,284
	Interest on debt securities	15104	754,732	1,406,421	1,783,463
	Interest on loans	15105	158,959	129,939	-
	Interest on credits	15106	-	10,500	25,428
	Accounts payable	1520	6,640,151	12,776,900	194,970
	including:				
	Settlements with suppliers and contractors	15201	274,198	69,258	110,176
	Settlements with buyers and customers	15202	8,231	4,024,813	2,171
	Settlements in respect of taxes and levies	15203	26,661	654,490	39,650
	Settlements in respect of social insurance and social security	15204	4,853	101	6,947
	Staff remuneration	15205	695	444	575
	Settlements with accountable persons	15206	1,129	526	658
	Dividends payable	15207	461	491	277
	Settlements with other suppliers and contractors	15208	6,323,923	8,026,777	34,517
6	Contingent liabilities	1540	3,339,995	3,820,135	1,446,871
	Other liabilities	1550	676	-	-
	Total for section V	1500	40,472,919	49,906,886	35,366,918
	BALANCE	1700	668,383,880	558,187,613	462,261,747

Manager

(signature)

Vsevolod Rozanov

(printed name)

Chief
Accountant

(signature)

Irina Borisenkova

(printed name)

31 March 2014

Income Statement
for January - December 2013

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

Notes	Item	Code	For January - December 2013	For January - December 2012
	Revenue	2110	47,238,145	26,460,099
	including:			
	Equity holdings in other companies	21101	47,112,485	26,104,253
7	Cost of sales	2120	(33,653)	(110,645)
	including:			
	Rent of premises	21201	(31,790)	(105,983)
	Gross income	2100	47,204,492	26,349,454
7	Management expenses	2220	(11,181,911)	(6,234,486)
	including:			
	Staff remuneration	22201	(9,766,262)	(4,772,378)
	Other expenses	22202	(1,415,649)	(1,462,108)
	Income from sales	2200	36,022,581	20,114,968
	Interest receivable	2320	2,453,277	2,774,833
	Interest payable	2330	(4,805,748)	(4,575,040)
	Other income	2340	138,700,920	98,390,528
	including:			
	Income from revaluation of financial investments	23401	70,347,348	74,516,184
	Income from sale of securities	23402	64,564,168	23,403,416
	Income from sale of PP&E	23403	3,413,325	7,588
	Other	23404	376,079	463,340
	Other expenses	2350	(31,270,215)	(55,722,927)
	including:			
	Expenses related to sale of securities	23501	(24,304,361)	(23,128,968)
	Free financial aid	23502	(2,500,000)	(1,705,000)
	Expenses related to sale of PP&E	23503	(1,771,589)	(6,616)
	Currency differences	23504	(1,129,438)	(880,021)
	Expenses related to creating contingency provisions	23505	(622,313)	(28,866,645)
	Other	23506	(942,514)	(1,135,677)
	Income before tax	2300	141,100,815	60,982,362
8	Current income tax	2410	(4,631,797)	(2,386)
	including permanent tax liabilities (assets)	2421	(12,804,022)	(8,936,827)
8	Change in deferred tax liabilities	2430	57,708	(55,635)
8	Change in deferred tax assets	2450	(1,419,551)	2,016,821
	Other	2460	(1,213,632)	(276,695)
	including:			
8	Taxes payable in respect of dividends and other income due	24601	(1,185,694)	(276,674)
	Write-off: deferred tax assets and liabilities	24602	(22,709)	-
	Income tax carried forward	24602	(5,052)	-
	Fines and penalties for violation of tax and other laws	24603	(177)	(21)
	Net Income	2400	133,893,543	62,664,467

Notes	Item	Code	For January - December 2013	For January - December 2012
	FOR REFERENCE			
	Gain/loss from revaluation of non-current assets not included in the net income for the period	2510	256,431	43,198
	Gain/loss from other operations not included in the net income for the period	2520	-	-
	Gross financial result for the period		134,149,974	62,707,665
	Basic earnings per share	2900	13.9	6.5
	Diluted earnings per share	2910	13.9	6.5

Manager

(signature)**Vsevolod Rozanov**_____
(printed name)Chief
Accountant_____
(signature)**Irina Borisenkova**_____
(printed name)

31 March 2014

Statement of Changes in Equity
for January - December 2013

Company Open Joint-Stock Company SISTEMA JOINT-STOCK FINANCIAL CORPORATION

Taxpayer identification number _____

Type of economic activity Investments in securities

Business entity type / form of ownership OJSC / private

Measure unit: thousand roubles

Codes		
OKUD form 0710003		
Date (day, month, year)	31	12 2013
OKPO	27987276	
INN	7703104630	
OKVED	65.23.1	
OKOPF / OKFS	47	16
OKEI	384	

1. Movements in equity

Item	Code	Authorised capital	Treasury stock	Additional capital	Reserve capital	Retained earnings	Total
Equity as of 31 December 2011	3100	868,500	-	39,492,751	43,425	366,054,296	406,458,972
for 2012							
Equity increase, total:	3210	-	-	43,199	-	62,664,467	62,707,666
including:							
net income	3211	X	X	X	X	62,664,467	62,664,467
revaluation of assets	3212	X	X	43,199	X	-	43,199
Equity decrease, total:	3220	-	-	-	-	(2,702,000)	(2,702,000)
including:							
dividends	3227	X	X	X	X	(2,702,000)	(2,702,000)
Equity as of 31 December 2012	3200	868,500	-	39,535,950	43,425	426,016,763	466,464,638
for 2013							
Equity increase, total:	3310	-	-	256,431	-	133,893,543	134,149,974
including:							
net income	3311	X	X	X	X	133,893,543	133,893,543
revaluation of assets	3312	X	X	256,431	X	-	256,431
Equity decrease, total:	3320	-	-	-	-	(9,264,000)	(9,264,000)
including:							
dividends	3327	X	X	X	X	(9,264,000)	(9,264,000)
Equity as of 31 December 2013	3300	868,500	-	39,792,381	43,425	550,646,306	591,350,612

2. Adjustments resulting from changes in the accounting policy and correction of mistakes

Item	Code	As of 31 December 2011	Changes in equity in 2012		as of 31 December 2012
			in respect of net income (loss)	in respect of other factors	
Equity, total					
before adjustments	3400	425,816,817	88,026,614	(2,658,801)	511,184,630
adjustment resulting from:					
changes in the accounting policy	3410	(19,357,844)	(25,362,147)	-	(44,719,991)
adjusted value	3500	406,458,973	62,664,467	(2,658,801)	466,464,639
including:					
Retained earnings (uncovered loss)					
before adjustments	3401	385,412,141	88,026,614	(2,702,000)	470,736,755
adjustment resulting from:					
changes in the accounting policy	3411	(19,357,844)	(25,362,147)	-	(44,719,991)
adjusted value	3501	366,054,297	62,664,467	(2,702,000)	426,016,764
before adjustments	3402	-	-	-	-
adjustment resulting from:					
changes in the accounting policy	3412	-	-	-	-
adjusted value	3502	-	-	-	-

3. Net assets

Item	Code	as of 31 December 2013	As of 31 December 2012	As of 31 December 2011
Net assets	3600	591,350,612	466,464,638	406,458,972

Manager

(signature)

Vsevolod Rozanov

(printed name)

Chief
Accountant

(signature)

Irina Borisenkova

(printed name)

31 March 2014

Cash Flow Statement
for January - December 2013

		OKUD form	Codes		
		Date (day, month, year)	0710004		
			31	12	2013
Company	Open Joint-Stock Company SISTEMA JOINT-STOCK FINANCIAL CORPORATION	OKPO	27987276		
Taxpayer identification number		INN	7703104630		
Type of economic activity	Investments in securities	OKVED	65.23.1		
Business entity type / form of ownership	OJSC / private	OKOPF / OKFS	47	16	
Measure unit:	thousand roubles	OKEI	384		

Item	Code	For January - December 2013	For January - December 2012
Cash flow from operating activities			
Total cash in	4110	46,084,914	28,785,332
including:			
proceeds from sale of products, goods, works and	4111	64,785	1,088,004
dividends	4114	45,929,074	25,817,143
other receipts	4119	91,055	1,880,185
Total cash out	4120	(20,771,913)	(13,465,796)
including:			
payments to suppliers (contractors) for raw and consumable materials, works, and services	4121	(1,610,120)	(1,873,378)
remunerations to employees	4122	(8,102,932)	(1,895,565)
payments of interest on debts	4123	(5,227,162)	(4,961,337)
income tax payments	4124	(9,873)	(6,911)
other payments	4129	(5,821,826)	(4,728,605)
Net cash flow from operating activities	4100	25,313,001	15,319,536
Cash flow from investment activities			
Total cash in	4210	86,560,172	85,102,040
including:			
proceeds from sale of non-current assets (except for financial investments)	4211	7,523	4,030,351
proceeds from sale of shares in other companies	4212	58,120,148	1,088,984
proceeds from repayment of loans and sale of debt securities (rights to claim cash payments from other parties)	4213	19,207,110	16,227,460
dividends, interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	4214	2,010,882	2,810,616
other receipts	4219	7,214,509	60,944,629
Total cash out	4220	(89,766,707)	(131,949,138)
including:			
payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	4221	(5,425)	(215,209)
payments related to acquisition of shares in other companies	4222	(43,860,397)	(72,720,078)
payments related to acquisition of debt securities (rights to claim cash payments from other parties), provision of loans to other parties	4223	(28,160,424)	(33,016,725)
other payments	4229	(17,740,461)	(25,997,126)
Net cash flow from investment activities	4200	(3,206,535)	(46,847,098)

Indicator	Code	For January - December 2013	For January - December 2012
Cash flow from financial activities			
Total cash in	4310	24,600,946	46,255,879
including:			
receipt of loans and borrowings	4311	10,926,133	38,795,879
proceeds from issue of bonds, promissory notes, other debt securities, etc.	4314	13,674,574	7,460,000
other proceeds	4319	239	-
Total cash out	4320	(42,487,792)	(25,714,957)
including:			
dividends and other income distribution payments to owners (shareholders)	4322	(8,915,889)	(2,599,570)
payments (redemption) of promissory notes and other debt securities; repayment of loans	4323	(33,223,852)	(23,013,104)
other payments	4329	(348,051)	(102,283)
Net cash flow from financial activities	4300	(17,886,846)	20,540,922
Net cash flow for the reporting period	4400	4,219,620	(10,986,640)
Opening balance of cash and equivalents	4450	5,362,091	16,277,007
Closing balance of cash and equivalents	4500	9,398,432	5,362,091
Effect of changes in foreign exchange rates against the rouble	4490	(183,279)	71,724

Manager

(signature)

Vsevolod Rozanov

(printed name)

Chief
Accountant

(signature)

Irina Borisenkova

(printed name)

31 March 2014

NOTES TO THE FINANCIAL STATEMENTS OF SISTEMA JSFC FOR 2013

1. GENERAL INFORMATION

Open Joint-Stock Company 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 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:

- acquiring 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 2013 and 2012 was 217 and 195 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 Finance Ministry of the Russian Federation and by the regulatory authorities that have the right to issue accounting regulations in accordance with federal laws.

In 2013 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 on 27 December 2012.

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 Finance Ministry of Russia 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 Finance Ministry of the Russian Federation on 13 June 1995 with Order No 49.

The stocktaking of assets and liabilities was conducted as of 31 December 2013 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 that was conducted as of 1 November 2013.

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 2013, 2012, and 2011.

The accounting procedure for foreign currency assets and liabilities is provided for in Accounting Principle (PBU) 3/2006 "Accounting for foreign currency assets and liabilities". In accordance with Accounting Principle (PBU) 3/2006, foreign currency assets and liabilities should be converted in 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 in a compressed form.

2.5. Accounting for financial investments

The initial value of the financial 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 financial 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 financial investments at their current market value as of the reporting date and the previous valuation of financial investments is recorded as "Other income and expenses" in a compressed form.

Income and expenses related to the valuation of financial investments at current market value are recorded in the Income Statement as part of "Other income and expenses" in a compressed form.

Revaluation of the financial investments whose current market value may 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 financial investments for which it is not possible to determine their current market values shall be recorded in the accounts at their initial value.

Valuation method used for the disposal of financial investments:

- Financial 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 agreements, loans and deposits in lending organisations granted to other companies are estimated at their initial acquisition value at the time of disposal;
- Financial 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.
- Financial 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 signs of impairment of financial investments, an impairment audit is conducted and, if necessary, provisions (reserves) are made in the accounts for the impairment of financial investments in accordance with Accounting Principle (PBU) 19/02 "Accounting for financial investments". Provisions are made if the audit confirms that there is a steady and significant reduction in the value of financial investments, which drops below the financial benefit that the Company expects to receive from these financial investments.

2.6. Accounting for income

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

- income from standard operations;
- other income

The Company recognises the following types of profits as income from standard operations:

- equity holdings in other companies (organisations) resulting in generation of dividends;
- leasing for a consideration company assets for temporary use (temporary possession and use);
- providing guarantees for the liabilities of third parties to their creditors;

The Company recognises the following income as part of "Other income" account entry:

- revaluation of listed shares (together with the respective expenses in a compressed form);
- sale (purchase) of foreign currency (together with the respective expenses in a compressed form);
- foreign exchange differences (together with the respective expenses in a compressed form);
- payment of debt securities;
- sale of shares, stakes and equity units;
- sales of fixed assets, intangible assets and valuables;
- other operations.

Profits 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 financial investments, provided that the conditions set in Accounting Principle (PBU) 9/99 are met, are recognised as income 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 standard operations;
- other expenses.

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

- revaluation of listed shares (together with the respective profits in a compressed form);
- sale (purchase) of foreign currency (together with the respective profits in a compressed form);
- foreign exchange differences (together with the respective profits in a compressed form);
- sale of shares, stakes and equity units;
- sale, disposal and other write-offs of fixed assets and other assets not specified above, other than cash, goods or products;
- allocations to valuation reserves 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 the appraisal of 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 valuation reserves and estimated liabilities

Valuation reserves. The Company's accounts include charges for the following types of valuation reserves:

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

The following procedure is used for creating reserves:

Reserves for the impairment of financial 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 financial investments for which current market value is not determined and the audit of which confirms a steady fall in value below the value of economic benefits that the Company expects to receive from such financial investments. Depending on 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 reserves are created 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.

Estimated liabilities. The Company's accounts include the following types of estimated liabilities:

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

2.10. Deferred income tax

In accordance with Accounting Principle (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 received in the form of accumulated coupon yields on government and municipal securities is 15%. Tax rate on other types of income is 20%.

Deferred tax assets and income tax liabilities are shown in the accounts using a 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 assets (in the balance sheet report it is included in "Other Accounts Receivable").

3. ADJUSTMENT OF COMPARATIVE INDICATORS

In 2013 the Company made a number of adjustments in its accounting policy and changed the classification of a number of items and operations in the balance sheet and in the income and cash flow statements, including:

- equity investments in subsidiaries and affiliates, that had been previously included in the "Units" account entry of the balance sheet, were moved to the "Shares" account entry as part of financial investments;
- deposits are included in current and non-current assets depending on the time left before contract payment date as of the reporting date;
- debts owed to the holders of the Company's bonds are recorded as part of short-term and long-term liabilities based on the payment schedule, and if bond holders have a right to irrevocable offers - based on the date of the nearest irrevocable offer;
- income and expenses from exchange rate differences, revaluation of listed shares and foreign currency purchase and sale operations are recorded in the income statement in a compressed form;
- based on the information that the Company has, the estimated value of the financial investments whose current market value is not determined, the method of net assets or discounted cash flows is used;
- in cash flow statement the received dividends are included in cash flows from operating activities, income from the sale of property is recorded as part of cash flows from the sale of fixed assets in investment activities, tax on dividend income paid to foreign companies is reflected in cash flows from financial activities.

These adjustments in the accounting policy and classification were reflected retrospectively, therefore, the comparable indicators of the accounting statements as of the start of the reporting year were adjusted for the purpose of comparability with the indicators as of 31 December 2013 as follows:

Notes	Data as of 31 December 2012 and full year 2012 subject to the accounting policy of the reporting year, RUB thousand		
	Initial value	Adjusted value	Deviation
Balance sheet			
Units (financial investments)	19 330 107	5 737 083	(13 593 024)
Shares (financial investments)	521 000 308	489 873 340	(31 126 968)
Deposits (financial investments)	9 105 134	4 689 134	(4 416 000)
Cash equivalents (cash and cash equivalents)	-	4 416 000	4 416 000
Total effect on net assets			<u>(44 719 992)</u>
Income Statement			
Other income	168 304 649	98 390 528	(69 914 121)
incl.			
Income related to the revaluation of financial investments	110 030 237	74 516 184	(35 514 052)
Income related to the deviation of forex selling (purchasing) rate from the official rate	24 037 135	79 628	(23 957 507)
Forex differences	10 442 562	-	(10 442 562)
Other expenses	(100 274 901)	(55 722 927)	44 551 974
incl.			
Expenses related to the revaluation of financial investments	(35 514 052)	-	35 514 052
Expenses related to the deviation of forex selling (purchasing) rate from the official rate	(23 957 506)	-	23 957 506
Forex differences	(11 353 229)	(910 667)	10 442 562
Expenses related to valuation reserves	(3 504 499)	(28 866 645)	(25 362 146)
Total effect on net income			<u>(25 362 147)</u>
Cash flow statement			
Proceeds from sale of products, goods, works and services (current operations)	5 116 524	1 088 004	(4 028 520)
Proceeds from sale of non-current assets (except for financial investments) (current operations)	1 831	4 030 351	4 028 520
Proceeds from dividends (current operations)	-	25 817 143	25 817 143
Proceeds from dividends, interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies (investment operations)	28 627 759	2 810 616	(25 817 143)
Payments: income tax (current operations)	(109 194)	(6 911)	102 283
Other payments (financial operations)	-	(102 283)	(102 283)
Total effect on net cash flow			<u>-</u>

Data as of 31 December 2011 subject to the accounting policy of the reporting year, RUB thousand

	<u>Initial value</u>	<u>Adjusted value</u>	<u>Deviation</u>
Balance sheet			
Units (financial investments)	12 613 322	3 325 083	(9 288 239)
Shares (financial investments)	372 903 255	362 833 649	(10 069 606)
Deposits (long-term financial investments)	-	29 035 694	29 035 694
Deposits (short-term financial investments)	50 512 030	7 700 000	(42 812 030)
Cash equivalents (cash and cash equivalents)	-	13 776 336	13 776 336
Settlements of long-term loans	(39 894 775)	(20 394 775)	19 500 000
Debt securities	(9 915 902)	(29 415 902)	(19 500 000)
Total effect on net assets			<u>(19 357 845)</u>

4. FINANCIAL INVESTMENTS

4.1. Units

Financial investments in equity units of investment funds as of 31 December 2013, 2012 and 2011 are recorded as follows:

	<i>(RUB thousand)</i>		
	<u>2013</u>	<u>31 December 2012</u>	<u>2011</u>
OMBF "Rezervny. Foreign Exchange Investments" managed by LLC DIK	7 041 000	-	-
OMBF "Rezervny" managed by LLC DIK	2 940 000	3 422 000	1 010 000
Closed-end mutual fund "Creditny 1" managed by LLC Nadezhnoye Upravleniye	2 315 083	2 315 083	2 315 083
Net of impairment provisions	(610 650)	-	-
Total	<u>11 685 433</u>	<u>5 737 083</u>	<u>3 325 083</u>

4.2. Shares

Financial investments in the shares and equity stakes of subsidiaries and affiliates as of 31 December 2013, 2012, 2011 are recorded as follows:

	<i>(RUB thousand)</i>		
	<u>2013</u>	<u>31 December 2012</u>	<u>2011</u>
MTS	225 202 120	180 195 027	150 352 235
Bashneft (i)	223 713 395	198 411 425	142 489 660
TCF Projects Pte.Ltd	42 669 897	36 738 000	-
RTI	21 587 069	16 487 069	16 487 069
Sistema Shyam Teleservices Limited	19 357 845	19 357 845	19 357 845
MTS Bank	18 321 517	18 321 517	17 322 063
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
SG-trading (ii)	6 419 143	-	-
UPC (iii)	6 204 610	-	-
Leader Invest	4 957 398	-	-
VAO Intourist	4 782 733	4 782 733	4 782 733
Detsky Mir Center	4 215 747	4 215 747	4 215 747
Bashneft Service Assets (iv)	4 101 441	-	-
Mosdachrest	3 899 126	3 899 126	1 082 000
Financial Alliance (v)	3 411 050	3 411 050	-

(continued)

	31 December		
	2013	2012	2011
Business Nedvizhimost (vi)	3 217 230	-	-
SG-trans (ii)	2 455 394	22 786 955	-
Medsi Group	1 630 589	1 630 589	1 630 589
Binnopharm	1 480 170	251 428	251 428
NIS	1 233 069	1 233 069	485 416
Altay Resort	1 009 020	1 009 020	-
Sitronics-N	1 000 800	-	-
Detsky Mir retail assets	766 927	766 927	766 927
LLC Stream	496 342	496 342	-
East-West United Bank S.A.	282 081	282 081	282 081
Technopark Sarov	142 203	142 203	142 203
RussNeft (vii)	-	605 432	605 432
Dalcombank	-	-	999 454
M2M Telematics	-	-	611 628
OJSC Donskoye	-	-	476 490
Other	326 032	277 491	558 238
Net of impairment provisions	(44 917 040)	(44 917 040)	(19 554 893)
Total	577 455 212	489 873 340	362 833 649

- (i) In November 2012 the Company acquired 3,751,844 ordinary shares and 2,131,226 preference shares of Bashneft, which accounts for 2.6% of the authorised capital of the subsidiary. Total acquisition costs amounted to RUB 9.4bn.
- (ii) In November 2012 the Company acquired 100% of SG-trans, an independent operator in transportation of liquefied gas (LG), for RUB 22.8bn. In April 2013 SG-trans was reorganised by spinning off SG-trading company that combined non-core 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 12bn. In July 2013 the Company sold a 15% stake in SG-trans to Unirail Holdings Limited for RUB 2.5bn. As a result of the transactions related to selling SG-trans shares, the Company recognised RUB 0.6bn income from the sale of securities in 2013.
- (iii) In September 2013 the Company bought a 98% stake in United Petrochemical Company (UPC) from Bashneft for RUB 6.2bn.
- (iv) In September 2013 the Company bought a 100% stake in Bashneft Service Assets from Bashneft for RUB 4.1bn.
- (v) In December 2012 Sistema acquired a 50% stake in LLC Financial Alliance, a railway operator, from Bashneft for RUB 3.4bn. The company was later reorganised into a closed joint-stock company.
- (vi) In December 2013 the Company purchased 51% of Business Nedvizhimost shares from MGTS Nedvizhimost for RUB 3.2bn. Business Nedvizhimost owns 76 properties with the total area of 178,000 sq m, which had been used by MGTS as automated telephone stations prior to the launch of GPON technology.
- (vii) 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 1.2bn (ca. 40bn roubles at the rate of the central Bank of Russia on the date of payment). As a result of the transactions related to selling RussNeft shares, the Company recognised RUB 39.1bn income from the sale of securities in 2013.

4.3. Debt securities

Debt securities as of 31 December 2013, 2012 and 2011 are recorded as follows:

(RUB thousand)

	Maturity	Interest rate процента	31 December		
			2013	2012	2011
OJSC Sistema Finance	AS	2.5%	5 374 878	8 577 607	-
MTS Bank	17.02.2014	7.0%	1 650 000	-	-
Mosdachtrest	ASNE				
	20.10.2015	11.0%	393 295	393 295	393 295
Mosdachtrest	07.12.2014	8.0%	310 000	310 000	-
LLC Sistema Telecom Assets	24.05.2014	4.5%	200 000	818 300	1 000 000
Mosdachtrest	10.03.2013	11.0%	-	-	1 208 612
OJSC Sistema Telecom	ASNE				
Assets	21.05.2010	4.5%	-	-	918 300
Mosdachtrest	ASNE				
	07.12.2013	8.0%	-	-	310 000
Debt securities under trust management			-	-	6 105 168
Other			353 774	353 774	353 774
Impairment reserves			(353 774)	(353 774)	(272 474)
Total			7 928 173	10 099 202	10 016 675
Long-term			393 295	393 295	2 830 207
Short-term			7 534 878	9 705 907	7 186 468
Total			7 928 173	10 099 202	10 016 675

NB: AS - after sight, ASNE - after sight but not earlier than

4.4. Loans granted

Loans granted as of 31 December 2013, 2012 and 2011 are recorded as follows:

(RUB thousand)

	Maturity repayment	Interest rate (31 December 2013)	31 December		
			2013	2012	2011
Sistema Holding Ltd.	OD	0.5%	8 100 477	1 883 107	-
Sistema Shyam Teleservices Limited	03.12.2014	2.7%	7 527 716	6 985 721	-
SISTEMA FINANCE S.A.	OD	4.5%	6 035 274	6 035 274	-
OJSC RTI Microelectronics	OD	4.5%	3 792 852	-	-
Sitronics	OD	4.5%	3 180 000	-	-
Sitronics-N	OD	4.5%	3 000 000	-	-
OJSC RTI Estate	OD	4.5%	2 610 157	2 265 000	-
RTI			-	5 038 246	133 000
Other			6 994 006	5 079 447	5 190 820
Total			41 240 482	27 286 795	5 323 820
Long-term			1 479 975	8 595 721	2 575 328
Short-term			39 760 507	18 691 074	2 748 492
Total			41 240 482	27 286 795	5 323 820

NB: OD - on demand.

4.5. Bank deposits

Bank deposits as of 31 December 2013, 2012 and 2011 are recorded as follows:

	<i>(RUB thousand)</i>		
	2013	31 December 2012	2011
VTB Bank	10 870 000	-	7 405 103
MTS Bank (subsidiary)	3 000 000	-	6 000 000
Rosselkhozbank	3 000 000	-	7 000 000
Promsvyazbank	500 000	-	900 000
OJSC Gazprombank	1 815 000	7 605 134	7 112 591
Deutsche Bank AG, London Branch	-	1 500 000	1 500 000
The Royal Bank of Scotland N.V.	-	-	9 272 477
ING BANK N.V.	-	-	2 771 859
NOMOS-BANK	-	-	2 000 000
GLOBEX BANK	-	-	1 500 000
Transcreditbank	-	-	1 800 000
AK BARS BANK	-	-	1 500 000
BANK ZENIT	-	-	500 000
Other	-	-	1 250 000
Total	19 185 000	9 105 134	50 512 030
Long-term	6 000 000	-	29 035 694
Short-term	4 670 000	4 689 134	7 700 000
Cash equivalents	8 515 000	4 416 000	13 776 336
Total	19 185 000	9 105 134	50 512 030

4.6. Rights acquired as a result of financial services provided

Rights acquired as a result of financial services provided as of 31 December 2013, 2012 and 2011 are recorded as follows:

	<i>(RUB thousand)</i>		
	2013	31 December 2012	2011
AlfaPlast	641 700	641 700	649 853
Geocom (subsidiary)	613 800	613 800	621 598
ConsultMedia	558 000	558 000	565 089
Mosdachtrest (subsidiary)	612 933	944 066	-
Impairment reserves	(1 813 500)	(1 813 500)	-
Total	612 933	944 066	1 836 540

4.7. Reserves for impairment of financial investments

The data on reserves for impairment of financial investments, the amounts of reserves made in 2013 and 2012, as well as the amounts of reserves used in 2013 and 2012 are recorded as follows:

	<i>(RUB thousand)</i>						
	As of 31 December 2011	Reserves created	Reserves used	As of 31 December 2012	Reserves created	Reserves used	As of 31 December 2013
Units							
Acquisition of CEIF Creditniy 1	-	-	-	-	610 650	-	610 650
	-	-	-	-	610 650	-	610 650
Shares							
Sistema Shyam Teleservices Limited	19 357 845	-	-	19 357 845	-	-	19 357 845
TCF Projects Pte. Ltd	-	25 362 147	-	25 362 147	-	-	25 362 147
Other	197 048	-	-	197 048	-	-	197 048
	19 554 893	25 362 147	-	44,917,040	-	-	44,917,040
Debt securities							
Greenwald International, LLC	-	81 300	-	81 300	-	-	81 300
Sistemniy Proyekt, CJSC	272 474	-	-	272 474	-	-	272 474
	272 474	81 300	-	353 774	-	-	353 774
Rights acquired as a result of financial services provided							
AlfaPlast	-	641 700	-	641 700	-	-	641 700
LLC Geocom	-	613 800	-	613 800	-	-	613 800
ConsultMedia	-	558 000	-	558 000	-	-	558 000
	-	1 813 500	-	1 813 500	-	-	1 813 500
Total	19 827 367	27 256 947	-	47 084 314	610 650	-	47 694 964

In 2013 reserves were created for the impairment of investments in equity units of closed-end mutual investment fund "Credintiy 1" managed by LLC Nadezhnoye Upravleniye due to a significant deviation of the estimated value of units owned by the Company from the carrying value. The total estimated value of the units was determined on the basis of the value of one unit specified in the notes on the value of the fund's net assets.

As a result of the litigation initiated in 2011 or earlier, on 2 February 2012 the Supreme Court of India passed the decision prescribing to revoke the licences for the provision of telecom services in 21 telecom circles previously issued by the Indian Government to Sistema Shyam Teleservices Limited (SSTL). In 2012 and at the start of 2013 the implications of the court decision remained uncertain due to the postponement of the new auction and doubts regarding the starting price of new licences and frequency spectrum. Following the negative impact of these events, as of 31 December 2011 and 2012, the Company created reserves for the impairment of financial investments in SSTL and TCF Projects Pte Ltd. On 11 March 2013, SSTL took part in the auction and was granted frequency spectrum in the eight most economically efficient circles of India, and after the spectrum was received the company started implementing a new development strategy focused on data business. Based on the findings of an impairment audit conducted by the Company as of 31 December 2013 the management came to the conclusion that no further reduction in the estimated value of the respective financial investments took place in 2013.

5. FLOW OF LISTED SECURITIES

The value of the Company's investments in shares that have a determined market value as of 31 December 2013, 2012 and 2011 is given below:

	Bashneft		MTS	(RUB thousand)
	ordinary	preference	ordinary	Other
Balance 31 December 2011				
Number of shares	104 296 118	2 376 404	636 224 752	n/a
Market price per share, RUB	1 341,80	1 071,00	236,32	n/a
	139 944 531	2 545 129	150 352 235	296 790
Reorganisation	-	1 917 337	-	-
Revaluation	43 856 500	724 404	29 842 792	92 488
Purchase	6 806 379	2 617 146	-	-
Retirement	-	-	-	(373 237)
Balance 31 December 2012				
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
	190 607 410	7 804 016	180 195 027	16 041
Revaluation	24 797 007	504 962	45 007 093	38 286
Purchase of	-	-	-	-
Retirement	-	-	-	-
Balance 31 December 2013				
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
	215 404 417	8 308 978	225 202 120	54 327

The final appraisal of financial investments that have a determined market value in 2013 and 2012 was RUB 70 347 348 000 and RUB 74 516 184 000, respectively.

6. BORROWINGS

The remaining terms of key types of borrowings as of 31 December 2013 are recorded as follows:

	up to 1 year	1-5 years	over 5 years	(RUB thousand)
				Total
Bond issues	19 595 097	19 446 646	-	39 041 743
Other borrowings	9 369 836	-	16 364 600	25 734 436
Promissory notes	613 473	710 094	-	1 323 567
Credit facilities	-	-	-	-
Total	29 578 406	20 156 740	16 364 600	66 099 746

Outstanding bonds are recorded as follows:

	Maturity date	31 December		
		2013	2012	2011
Bonds No. 4-03-01669-A	02.11.2016	14 958 545	1 576 257	8 141 660
Bonds No. 4-04-01669-A	15.03.2016	13 464 302	13 464 302	13 500 045
Bonds No. 4-02-01669-A	12.08.2014	10 618 896	10 618 895	11 358 340
Bonds No. 4-01-01669-A	07.03.2013	-	5 025 081	5 999 995
Total		39 041 743	30 684 535	39 000 040

Indebtedness under other borrowings is recorded as follows:

	Date of repayment	<i>(RUB thousand)</i>		
		2013	31 December 2012	2011
Sistema International Funding S.A.	17.05.2019	16 364 600	15 186 350	-
CJSC Sistema Invest (subsidiary)	18.06.2014	9 369 836	-	-
SSA FUND (SINGAPORE) PTE LTD	OD	-	17 187 911	-
Total		25 734 436	32 374 261	-

NB: OD - on demand.

In May 2012, Sistema International Funding S.A., registered in compliance with the laws of Luxembourg, issued \$500 m worth of interest-bearing certified Eurobonds with maturity in 2019 and a coupon yield of 6.9% annually.

Indebtedness under credit facilities is recorded as follows:

	Deadline repayment	<i>(RUB thos.)</i>		
		2013	31 December 2012	2011
EBRD	21.07.2012	-	-	2 500 284
Total		-	-	2 500 284

With certain exclusions and restrictions, debt obligations include provisions that limit the ability of the Company and its subsidiaries to borrow funds, carry out 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 the Company's shareholding structure.

In case 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 2013, the Company fully abided by all obligations envisaged by the terms of bond issues, loan agreements and facility agreements.

Interest charged on the borrowed funds in 2013 and 2012 totalled RUB 4 805 748 000 and RUB 4 575 040 000, respectively.

7. ESTIMATED LIABILITIES

Flow of estimated liabilities in 2011, 2012 and 2013 is recorded as follows:

	<i>(RUB thousand)</i>		
	<u>Payment of bonuses</u>	<u>Payment for unused leaves</u>	<u>Total</u>
Balance as of 31 December 2011	593 387	853 484	1 446 871
Increase of reserves	3 604 936	-	3 604 936
Restoration of unused reserves	(7 585)	(222 415)	(230 000)
Use of reserves	<u>(585 802)</u>	<u>(415 870)</u>	<u>(1 001 672)</u>
Balance as of 31 December 2012	3 604 936	215 199	3 820 135
Increase of reserves	2 385 366	1 074 990	3 460 356
Restoration of unused reserves	(112 922)	-	(112 922)
Use of reserves	<u>(3 492 014)</u>	<u>(335 560)</u>	<u>(3 827 574)</u>
Balance as of 31 December 2013	<u>2 385 366</u>	<u>954 629</u>	<u>3 339 995</u>

8. EXPENSES ON ORDINARY BUSINESS

Expenses on ordinary business as per spending item in 2013 and 2012 are recorded as follows:

	<i>(RUB thousand)</i>	
	<u>2013</u>	<u>2012</u>
Payroll expenses	9 218 243	4 641 450
Welfare charges	548 019	130 928
Depreciation/Amortisation	177 272	252 930
Cost of materials	31 070	43 429
Other expenses	<u>1 240 960</u>	<u>1 276 394</u>
Total	<u>11 215 564</u>	<u>6 345 131</u>

9. INCOME TAX

	<i>(RUB thousand)</i>	
	<u>2013</u>	<u>2012</u>
Income before tax	141 100 815	60 982 362
incl.		
dividends taxed at 0% rate	31 766 681	15 424 291
dividends taxed at 9% rate	15 345 804	10 373 541
dividends taxed at 20% rate	<u>-</u>	<u>306 421</u>
Contingent expenses on income tax	19 983 356	7 254 701
Permanent tax assets	(12 804 022)	(8 936 827)
Change in deferred tax assets	(1 419 551)	2 016 821
Change in deferred tax liabilities	57 708	(55 635)
Tax on income in form of dividends	<u>1 185 694</u>	<u>276 674</u>
Current income tax	<u>4 631 797</u>	<u>2 386</u>

10. BOARD OF DIRECTORS AND MANAGEMENT BOARD

As of 31 December 2013, the Board of Directors comprised:

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

As of 31 December 2013, the Management Board comprised:

Mikhail Shamolin	President
Felix Evtushenkov	First Vice President
Anton Abugov	First Vice President
Alexey Buyanov	First Vice President
Andrey Terebenin	Vice President, Head of Corporate Communications Function
Sergey Drozdov	Senior Vice President, Head of Corporate Governance Function
Leonid Monosov	Vice President
Elena Vitshak	Executive Vice President, Head of the HR Department
Christopher Baxter	Senior Vice President
Ali Uzdenov	Senior Vice President
Vsevolod Rozanov	Senior Vice President, Head of Finance and Investment Function
Alexey Chupin	Vice President
Oleg Mubarakshin	Vice President, Head of Legal Function

The total sum of remuneration paid to the members of the Board of Directors and the Management Board in 2013 and 2012 is recorded as follows:

	2013	(RUB thousand) 2012
Short-term bonuses	1 922 402	1 515 768
Remuneration in form of issuer's option plans and shares	<u>2 376 542</u>	<u>366 330</u>
Total	<u>4 298 944</u>	<u>1 882 098</u>

11. RELATED PARTIES

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

11.1. Related party transactions

	2013	(RUB thousand) 2012
Interest paid on loans taken		
CJSC Sistema Invest	20 023	-
Total	20 023	-
Revenue from loan interest		
OJSC RTI	214 710	96 159
OJSC Mosdachtrest	188 543	187 997
OJSC Sistema Finance	171 756	59 534
OJSC Sitronics	112 563	-
OJSC RTI Estate	102 667	17 266
OJSC Moscow Business Incubator	81 596	-
CJSC RTI Microelectronics	43 020	-
CJSC Leader Invest	39 906	-
OJSC MTS Bank	36 519	26 325
OJSC Sitronics-N	34 027	-
LLC Sistema Telecom Assets	28 849	70 348
OJSC Sistema Mass-Media	11 025	114 978
LLC MC Sistema-Venture Capital	-	29 428
Other	38 548	38 020
Total	1 103 729	640 055
Sale of goods, works and services		
CJSC NVision Group	14 456	-
CJSC Region	4 427	4 859
CJSC MGTS Nedvizhimost	3 810	-
CJSC Business Nedvizhimost	3 304	-
OJSC Mosdachtrest	1 510	-
OJSC Bashneft	-	197 854
OJSC VAO Intourist	-	10 235
OJSC MTS Bank	-	8 260
Other	1 543	8 716
Total	29 050	229 924
Dividends received		
OJSC Bashneft	25 404 074	10 560 580
OJSC MTS	12 609 975	9 358 866
OJSC Sistema-Invest;	5 869 500	1 963 000
LLC Sistema Telecom Assets	2 899 994	2 899 994
OJSC RussNeft	-	1 310 639
Other	327 132	-
Total	47 110 675	26 093 079

Sale of other property	Type of earnings	(RUB thousand)	
		2013	2012
CJSC Financial Alliance	sale of shares, interests and stakes	12 000 000	-
LLC DIK	sale of shares, interests and stakes	3 846 962	-
OJSC Bashneft	sale of fixed assets and inventories	3 410 004	4 000
LLC Sistema Telecom Assets	sale of shares, interests and stakes	-	229 500
Other	sale of fixed assets and inventories	1 597	1 455
Total		19 258 563	234 955

11.2. Accounts receivable

	(RUB thousand)		
	2013 years	31 December 2012 years	2011 years
Sale of goods, work, services, property rights			
CJSC RTI Microelectronics	45 399	-	-
OJSC RTI Systems Concern	9 150	9 150	9 150
CJSC Binnopharm	8 216	8 216	8 216
LLC Geocom	5 549	5 549	5 549
OJCS Sitronics	-	42 131	606 377
Ecu Gest Holding S.A.	-	3 007	3 187
OJSC Detsky Mir - Centre	-	-	215 226
OJSC Sistema Mass-Media	-	-	13 927
OJSC VAO Intourist	-	-	12 203
Other	973	1 005	1 382
Purchase of goods, work, services, property rights			
OJCS Sitronics	227 284	227 307	227 307
CJSC Binnopharm	34 398	1 263 140	-
CJSC Leader Invest	29 555	23 925	25 809
OJSC MTS Bank	13 862	4 910	9 313
Other	10 363	4 629	6 236
Issuing non-interest-bearing loans and promissory notes			
LLC The Davydovs' Estate	167 313	177 313	182 313
CJSC Region	60 842	60 842	64 584
OJSC Medsi Holding	20 053	20 053	20 053
CJSC Cottagestroy-17	53 698	53 698	53 698
CJSC Medsi Fitness	-	6 228	6 228
OJSC Sistema Finance	-	-	11 077 607
CJSC Binnopharm	-	-	1 008 791
CJSC Landshaft	-	-	567 667
Other	1 585	1 585	11 185
Interest on issued loans and notes received			
OJSC Mosdachtrest	452 823	395 178	275 702
LLC Geocom	303 127	303 127	291 555
OJSC Sistema Finance	151 406	59 515	390
OJSC MTS Bank	144 902	291 422	44 477
OJSC RTI Estate	119 933	17 266	-
OJSC RTI Microelectronics	79 165	-	-
OJSC Sitronics-N	75 945	-	-
OJSC Sitronics	34 501	-	-
LLC Sistema Telecom Assets	32 523	106 999	131 232
OJSC RTI	-	96 432	273
OJSC Sistema Mass-Media	-	417 241	302 262
Other	517 103	173 991	30 488
Provisions for bad debt	(591 379)	(591 714)	(26 939)
Total	2 008 289	3 182 145	15 185 448

11.3. Accounts payable

	<i>(RUB thousand)</i>		
	31 December		
	2013	2012	2011
Purchase of goods, work, services, property rights			
OJSC Bashneft	6 287 223	7 987 414	-
CJSC Sistema Invest	186 888	-	-
LLC Altay Resort	-	8 251	6 921
OJSC MTS	-	3 352	3 035
LLC Sistema Telecom Assets	-	-	55 047
OJSC VAO Intourist	-	-	8 305
Other	4 457	4 446	37
Sale of goods, works and services			
CJSC MGTS Nedvizhimost	2 230	-	-
OJSC Bashneft	-	11 057	8 367
Other	759	2 796	2 098
Other sales (fixed assets)			
OJSC Bashneft	-	4 023 800	-
Interest on loans received			
CJSC Sistema Invest	20 023	-	-
Total	6,501,580	12,041,116	83,810

11.4. Financial investments

Information on investments in debt securities and loans to related parties is given in Notes 4.3 and 4.4.

11.5. Cash flows with related parties

	<i>(RUB thousand)</i>	
	2013	2012
Cash flows from operating activities		
Proceeds from sale of products, goods, works and services	40 134	1 030 729
Proceeds in form of dividends	45 928 183	25 817 143
Payment for goods, works and services	(604 785)	(672 023)
Payment of interest on debts	(569 836)	-
Other payments for current operations	(2 500 000)	(1 749 972)
Cash flows from investment activities		
Proceeds from sale of fixed assets and other property	1 554	4 028 520
Proceeds from sale of shares (participation interests) in other companies	15 846 962	229 500
Proceeds from repayment of issued loans and sale of debt securities	17 646 871	15 291 604
Received interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	1 172 557	380 344
Other proceeds from investment activities	1 241 742	-
Payments related to acquisition of shares (participation interests) in other companies	(43 850 959)	(40 076 922)
Payments for acquisition of debt securities, issue of loans to other entities	(26 432 606)	(32 643 170)
Cash flows from financial activities		
Borrowing	9 369 836	7 460 000
Repayment of borrowed funds	(8 800 000)	-
Payment of dividends and other income distribution to owners (shareholders)	(267 657)	-
Total	8 221 996	(14 868 973)

12. BASE AND DILUTED EARNINGS

Base and diluted earnings for 2013 and 2012 totalled:

	<u>2013</u>	<u>(RUB thousand)</u> <u>2012</u>
Base and diluted earnings, RUB thousand	133 893 543	62 664 467
Weighted average number of ordinary shares in circulation	<u>9 650 000 000</u>	<u>9 650 000 000</u>
Base and diluted earnings per share, RUB	13.9	6.5

13. FINANCIAL DERIVATIVES

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

The Company has signed option agreements with OJSC Rosnano, which give Rosnano the right to sell its stake in LLC Sitronics-Nano to the Company from 31 October 2016 till 1 November 2017 at RUB 8.1 bn. The Company has the right to purchase Rosnano's stake before 1 November 2017 for RUB 6.1 bn plus 7.63% annually.

14. CONTINGENT LIABILITIES

The operating environment - emerging markets, including Russia, are prone to economic, political, social, legal and legislative risks that are different from the risks on better developed markets. As has happened earlier, expected or actual financial difficulties of emerging economies or a higher level of expected investment risks in these countries may affect the Russian economy and investment climate.

Laws regulating business operations in Russia continue changing rapidly. Tax, currency and customs legislation can be interpreted differently, and there are other legal and fiscal problems that companies in Russia encounter. Russia's future development will to a large extent depend on the government's economic, tax and fiscal policies, adopted laws and regulations and changes in the political situation in the country.

Since Russia produces and exports large volumes of oil and gas, the Russian economy is especially sensitive to changes in global oil and gas prices, which in 2013 and 2012 fluctuated significantly.

Guarantees - As of 31 December 2013, the Company acted as the guarantor on loans of the following companies:

	<u>(RUB thousand)</u> <u>Sum of loan</u>
Sistema Shyam Teleservices Limited	22 753 922
CJSC Sistema Invest and ECU GEST HOLDING	22 500 000
CJSC Sistema-Invenchur	12 178 398
OJSC Navigation-Information Systems	1 650 000
Kapali Overseas Corp.	954 056
OJSC RTI	900 000
OJSC Detsky Mir Center	<u>272 506</u>
Total	<u><u>61 208 882</u></u>

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 audited by a number of agencies that have the right to levy heavy 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 audit the correctness of tax assessment and payment within three years after the reporting year. As of 31 December 2013, the tax returns of the Company and its subsidiaries in Russia for the previous three years can be audited by tax authorities.

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 arrive at a different conclusion and levy additional taxes. As of 31 December 2013 and 2012, 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.

15. RISK MANAGEMENT POLICY

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

16. EVENTS AFTER THE REPORTING DATE

Payment of a coupon yield on Series 02 bonds - On 11 February 2014, the Company paid a coupon yield on Series 02 bonds for the ninth coupon period from 13 August 2013 till 11 February 2014. The total sum payable is RUB 671.3 m (RUB 41.64 per bond).

Acquisition of shares of TCF Projects Pte Ltd - On 24 February 2014, the Company acquired 41.5 m ordinary shares of TCF Projects Pte Ltd to an aggregate sum of \$33 m. The Company's equity holding in TCF Projects Pte Ltd did not change and totals 100%.

Acquisition of units in the Rezervny investment fund - On 25 February 2014, the Company additionally acquired 27.6 m units of the open mutual investment fund Rezervny.

Issuing a loan to CJSC Promtorgtsentr - On 5 March 2014, the Company issued a RUB 940 m short-term loan to CJSC Promtorgtsentr at a fixed rate.

Issuing loans to OJSC NIS - In the first quarter of 2014, the Company issued short-term loans to OJSC NIS to an aggregate sum of RUB 2 bn. The loans were issued at a fixed rate for three months.

Payment of a coupon yield on Series 04 bonds - On 18 March 2014, the Company paid a coupon yield on Series 04 bonds for the sixth coupon period from 17 September 2013 till 18 March 2014. The total sum payable is RUB 515 m (RUB 26.41 per bond).

Partial redemption of Series 04 bonds - On 18 March 2014, 19.5 m of Series 04 bonds were redeemed (15.385% of the issue's par value).

Appointment of the President - On 18 March 2014, the Board of Directors appointed Mikhail Shamolin President of the Company with a three-year term of office pursuant to the Company's Charter.

Senior Vice President,
Head of the Finance and Investment Function

V. Rozanov

Chief Accountant

I. Borisenkova

31 March 2014