



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

Annual General Meeting of Shareholders of Sistema JSFC, 25 June 2016,  
Moscow, 13.1 Mokhovaya Str.

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**Accounting reports of  
Sistema JSFC  
for 2015**

## **AUDITOR'S REPORT**

To the Shareholders and the Board of Directors of Sistema Joint-Stock Financial Corporation

We have audited the accompanying financial statements of Sistema Joint-Stock Financial Corporation, which comprise:

- Balance sheet as of 31 December 2015;
- Statement of financial results for 2015;
- Appendices to the balance sheet and statement of financial results:
  - Statement of changes in equity for 2015;
  - Statement of cash flows for 2015;
  - Notes to the financial statements.

### **Management's Responsibility for Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Russian accounting and financial reporting standards, and for the system of internal controls necessary for preparation of financial statements free of material misstatements, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on fair presentation of the financial statements based on our audit. We conducted our audit in accordance with federal rules (standards) of auditing. Those standards require that we comply with the ethical requirements, and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our judgment which is based on the assessment of the risk of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the system of internal controls relevant to the preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the system of internal control.

The audit also included evaluating the appropriateness of the accounting policies used and the reasonableness of the accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion on the fair presentation of the financial statements.

**Opinion**

In our opinion, the financial statements present fairly, in all material aspects, the financial position of Sistema Joint-Stock Financial Corporation as of 31 December 2015, the results of its financial performance and its cash flows for 2015 in accordance with the Russian accounting and financial reporting standards.

The Russian original signed by

Raikhman M.V., partner  
(certificate no. 01-00195 dated 14 January 2013)  
ZAO Deloitte and Touche CIS

30 March 2016  
Moscow, Russian Federation

The following financial statements were prepared for use in the Russian Federation in accordance with accounting principles and financial reporting practices generally accepted in the Russian Federation and are not intended to present the financial position and results of operations of the audited entity in accordance with accounting principles and practices generally accepted in any other jurisdiction.

Audited entity: Sistema JSFC

Certificate of State Registration No. 025.866.  
Issued by the Moscow Registration Chamber on 16 July 1993.

Primary state registration number (OGRN): 102770003891

Certificate of registration in the Unified State Register of Legal Entities: No. 102770003891,  
issued on 11 November 2002 by the Moscow Inter-District Inspectorate of the Russian Federal Tax Service No. 46.

Location 13/1 Mokhovaya St., Moscow, 125009 Russia.

Independent Auditor: ZAO "Deloitte & Touche CIS"

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Primary State Registration Number: 1027700425444

Certificate of registration in the Unified State Register № 77 004840299 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in «NP «Audit Chamber of Russia» (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

**Balance sheet**  
As of 31 December 2015

				OKUD form	<b>0710001</b>
			Date (day, month, year)	<b>31</b>	<b>12</b>
					<b>2015</b>
Organisation	<b>Open Joint-Stock Company SISTEMA JOINT-STOCK FINANCIAL</b>			OKPO	<b>27987276</b>
Taxpayer identification number	<b>CORPORATION</b>			INN	<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>
Measure unit:	thousand roubles			OKEI	<b>16</b>
Location (address)	<b>13/1 Mokhovaya St., Moscow, 125009 Russia</b>				<b>384</b>

Notes	Parameter	Code	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
	<b>ASSETS</b>				
	<b>I. NON-CURRENT ASSETS</b>				
	Intangible assets	1110	32 022	18 370	232
	Fixed assets	1150	1 732 950	2 504 601	2 566 668
	including:				
	Buildings	11501	1 345 513	2 001 503	2 102 696
	Other PP&E	11502	385 867	411 780	377 934
	PP&E construction	11503	1 570	91 318	86 038
4	Financial investments	1170	321 103 936	278 462 198	597 013 915
	including:				
4.1	Units	11701	8 528 143	1 619 881	11 685 433
4.2	Shares and stakes	11702	282 973 955	263 347 763	577 455 212
4.3	Debt securities	11703	11 848 444	6 000 000	393 295
4.4	Loans granted	11704	2 876 391	7 494 554	1 479 975
4.5	Bank deposits	11705	14,877,003	-	6 000 000
	Deferred tax assets	1180	4 043 370	13 802 753	2 776 413
	including:				
	Valuation provisions	11801	1 223 334	162 559	669 516
	Prepaid expenses	11802	2 760 240	13 586 811	2 056 306
	Other non-current assets	1190	237 769	-	-
	including:				
	Interest receivable	11901	237,769	-	-
	Total for section I	1100	327 150 047	294 787 923	602 357 228

<b>II. CURRENT ASSETS</b>					
	Inventories	1210	82 531	17 416	283 715
	including:				
	Materials	12101	18 996	8 660	10 690
	Goods shipped	12102	-	-	-
	Prepaid expenses	12103	63 535	8 756	273 025
	Input VAT	1220	5 172	4 635	19 970
	Accounts receivable	1230	6 676 802	5 112 563	3 743 163
	including:				
	Settlements with suppliers and contractors	12301	172 534	122 496	180 164
	Settlements with buyers and customers	12302	630 997	372 892	215 382
	Settlements in respect of taxes and levies	12303	162 471	984 470	1 144 310
	Settlements in respect of social insurance and social security	12304	8 751	8 159	2 350
	Settlements with staff in respect of payment for labour	12305	-	172	-
	Settlements with accountable persons	12306	7 874	9 507	9 165
	Settlements with staff in respect of other operations	12307	178	290	268
	Settlements with various debtors and creditors	12308	5 373 441	3 294 021	2 190 598
	Non-interest bearing notes	12309	926	926	926
	Settlements in respect of dividends and other income due	12310	319 630	319 630	-
4	Financial investments (excluding cash equivalents)	1240	72 344 516	42 759 353	52 578 318
	including:				
4.3	Debt securities	12401	2 034 569	613 295	7 534 878
4.4	Loans granted	12402	41 926 018	42 146 058	39 760 507
4.6	Rights acquired as a result of financial services provided	12403	-	-	612 933
4.5	Bank deposits	12404	28 383 929	-	4 670 000
	Cash and cash equivalents	1250	20 415 311	3 568 632	9 398 432
	including:				
	Available cash	12501	201	144	385
	Settlement accounts	12502	4 755 084	848 684	79 404
	Foreign currency accounts	12503	581 323	2 713 692	790 697
	Other special accounts	12504	4 623	6 112	6 186
	Transfers in transit	12505	-	-	6 760
4.5	Bank deposits	12506	15 074 080	-	8 515 000
	Other current assets	1260	12 491	4 662	3 054
	including:				
	VAT from advance payments	12601	15	2 036	2 937
	Total for section II	1200	99 536 823	51 467 261	66 026 652
	<b>Balance</b>	1600	<b>426 686 870</b>	<b>346 255 184</b>	<b>668 383 880</b>

Notes	Parameter	Code	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
	<b>LIABILITIES</b>				
	<b>III. CAPITAL AND RESERVES</b>				
	Authorised capital	1310	868 500	868 500	868 500
	Revaluation of non-current assets	1340	252 724	736 569	750 588
	including: Revaluation of PP&E	13401	252 724	736 569	750 588
	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	255 198 200	224 898 714	551 979 819
	Total for section III	1300	294 071 129	264 255 488	591 350 612
	<b>IV. LONG-TERM LIABILITIES</b>				
6	Long-term borrowings	1410	92 783 849	62 438 972	36 521 340
	including: Credits	14101	38 932 405	18 000 000	-
	Loans	14102	36 441 350	28 129 200	16 364 600
	Debt securities	14103	17 410 094	16 309 772	20 156 740
	Deferred tax liabilities	1420	34 545	38 315	39 009
	Total for section IV	1400	92 818 394	62 477 287	36 560 349
	<b>V. SHORT-TERM LIABILITIES</b>				
6	Borrowings	1510	30 287 706	15 024 318	30 492 097
	including: Credits	15101	2 000 000	10 200 000	-
	Loans	15102	-	-	9 369 836
	Interest on credits	15103	76 741	66 852	-
	Loan interests	15104	309 387	238 817	158 959
	Debt securities	15105	26 904 514	4 296 967	20 208 570
	Interest on debt securities	15106	997 064	221 682	754 732
	Accounts payable	1520	3 399 402	3 692 882	6 640 151
	including: Settlements with suppliers and contractors	15201	66 725	82 616	274 198
	Settlements with buyers and customers	15202	83	3 496	8 231
	Settlements in respect of taxes and levies	15203	23 288	23 397	26 661
	Settlements in respect of social insurance and social security	15204	19 506	343 423	4 853
	Settlements with staff in respect of payment for labour	15205	213	-	695
	Settlements with accountable persons	15206	1 230	1 489	1 129
	Dividends payable	15207	794	515	461
4.2 (iii)	Settlements with various debtors and creditors	15208	3 287 563	3 237 946	6 323 923
7	Contingent liabilities	1540	6 109 084	805 209	3 339 995
	Other liabilities	1550	1 155	-	676
	Total for section V	1500	39 797 347	19 522 409	40 472 919
	<b>BALANCE</b>	1700	<b>426 686 870</b>	<b>346 255 184</b>	<b>668 383 880</b>

CFO

(Signature)

**Vsevolod Rozanov**

(printed name)

Chief  
Accountant

(Signature)

**Irina Borisenkova**

(printed name)

30 March 2016

**Income Statement**  
for January - December 2015

Organisation	<b>Open Joint-Stock Company SISTEMA JOINT-STOCK FINANCIAL CORPORATION</b>	OKUD form	<b>0710002</b>		
Taxpayer identification number		Date (day, month, year)	<b>31</b>	<b>12</b>	<b>2015</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	<b>7703104630</b>		
Measure unit:	thousand roubles	OKVED	<b>65.23.1</b>		
		OKOPF / OKFS	<b>47</b>	<b>16</b>	
		OKEI	<b>384</b>		

Notes	Parameter	Code	for January - December 2015	for January - December 2014
	Revenue	2110	30 843 245	59 553 440
	including:			
	equity holdings in other companies;	21101	30 794 973	59 425 402
8	Cost of sales	2120	(19 675)	( 37 195)
	Gross income	2100	30 823 570	59 516 245
8	Management expenses	2220	(10 190 853)	(8 691 890)
	including:			
	Payroll and social security contributions	22201	(9 123 279)	(7 342 545)
	Profit from sales	2200	20 632 717	50 824 355
	Interest receivable	2320	8 908 439	3 349 784
6	Interest payable	2330	(9 073 920)	(5 829 656)
	Other incomes	2340	97 047 630	21 922 856
	including:			
	Income from sale of PP&E	23401	6 950	9 912
	Income from collection of receivables as a financial	23402	1 000	-
	Income from sale of securities	23403	2 539 003	20 017 831
4.7	Income from restored assessed reserves	23404	5 812 668	-
5	Revaluation of quoted financial investments	23405	14 823 902	-
	Sale (purchase) of foreign currency	23406	605 028	-
10	Recovery of losses by court order	23407	70 726 702	-
	Income received as difference in contribution to the authorised capital	23408	2 355 850	1 476 658
	Other expenses	2350	(71 367 743)	(387 064 514)
	including:			
	Expenses related to sale of PP&E	23501	(5 137)	( 5 128)
	Expenses related to collection of receivables as a financial service	23502	(1 813 500)	-
	Expenses related to sale of securities	23503	(6 313 175)	(18 896 368)
4.7	Expenses for creating provisions for impairment of financial investments	23504	(45 277 227)	(36 466 627)
	Forex differences	23505	( 402 026)	(6 184 121)
5	Revaluation of quoted financial investments	23506	-	(180 290 859)
10	Charity and financial support	23507	(6 520 578)	(3 870 261)
	Disposal of Bashneft shares following the court ruling	23508	-	(140 071 799)
10	Write-off of LLC Ural-Invest's debt following signing of a settlement agreement	23509	(9 127 157)	-
	Expenses incurred as difference in contribution to the authorised capital	23510	( 831 493)	-
	Earnings (loss) before tax	2300	46 147 123	(316 797 175)
9	Current income tax	2410	-	-
	including permanent tax (liabilities) assets	2421	(6 685 183)	(64 281 406)
9	Change in deferred tax liabilities	2430	3 770	694
9	Change in deferred tax assets	2450	(9 759 383)	11 026 340
	Other	2460	(1 930 282)	(1 431 964)
	including:			
9	Taxes payable in respect of dividends and other income due	24601	(1 930 282)	(1 333 954)
	Income tax (for previous years)	24602	-	( 98 010)
	<b>Net income / (loss)</b>	<b>2400</b>	<b>34 461 228</b>	<b>(307 202 105)</b>

Notes	Parameter	Code	for January - December 2015	for January - December 2014
	<b>FOR REFERENCE</b>			
	Gain/loss from revaluation of non-current assets not included in the net income for the period	2510	(483 845)	(14,019)
	Gross financial result for the period	2500	33 977 383	(307,216,124)
13	Basic earnings / (loss) per share (in roubles)	2900	3.6	(31.8)
13	Diluted earnings/ (loss) per share (in roubles)	2910	3.6	(31.8)

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

Chief  
Accountant

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

30 March 2016

**Statement of Changes in Equity**  
for January - December 2015

Organisation **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

**Open Joint-Stock Company /private ownership**

Measure unit: thousand roubles

OKUD form

Date (day, month, year)

OKPO

INN

OKVED

OKOPF / OKFS

OKEI

Codes		
0710003		
31	12	2015
27987276		
7703104630		
65.23.1		
47	16	
384		

Form 0710023 p.1

**1. Equity flows**

Parameter	Code	Authorised capital	Treasury stock	Additional capital	Reserve capital	Retained earnings	Total
Equity as of 31 December 2013	3100	868 500	-	38 458 868	43 425	551 979 819	591 350 612
for 2014							
Equity increase, total:	3210	-	-	-	-	-	-
Equity decrease, total:	3220	-	-	(14 019)	-	(327 081 105)	(327 095 124)
including:							
net loss	3221	X	X	X	X	(307 202 105)	(307 202 105)
revaluation of assets	3222	X	X	(14 019)	X	-	(14 019)
dividends	3227	X	X	X	X	(19 879 000)	(19 879 000)
Equity as of 31 December 2014	3200	868 500	-	38 444 849	43 425	224 898 714	264 255 488
for 2015							
Equity increase, total:	3310	-	-	-	-	34 834 986	34 834 986
including:							
net income	3311	X	X	X	X	34 834 986	34 834 986
Equity decrease, total:	3320	-	-	(483 845)	-	(4 535 500)	(5 019 345)
including:							
revaluation of assets	3322	X	X	(483 845)	X	-	( 483 845)
dividends	3327	X	X	X	X	(4 535 500)	(4 535 500)
Equity as of 31 December 2015	3300	868 500	-	37 961 004	43 425	255 198 200	294 071 129

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

Parameter	Code	As of 31 December 2013	Changes in equity for 2014		As of 31 December 2014
			in respect of net income (loss)	in respect of other factors	
<b>Equity, total</b>					
before adjustments	3400	591 350 612	-	-	591 350 612
adjusted value	3500	591 350 612	-	-	591 350 612
including:					
Retained earnings (uncovered loss)					
before adjustments	3401	550 646 306	-	-	550 646 306
adjustment resulting from:					
correction of mistakes	3421	1 333 513	-	-	1 333 513
adjusted value	3501	551 979 819	-	-	551 979 819
additional capital					
before adjustments	3402	39 792 381	-	-	39 792 381
adjustment resulting from:					
correction of mistakes	3422	(1 333 513)	-	-	(1 333 513)
adjusted value	3502	38 458 868	-	-	38 458 868

**3. Net assets**

Parameter	Code	As of 31 December 2015	As of 31 December 2014	As of 31 December 2013
Net assets	3600	294 071 129	264 255 488	591 350 612

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(Signature)**Vsevolod Rozanov**

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(printed name)

Chief Accountant

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(Signature)**Irina Borisenkova**

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(printed name)

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30 March 2016

**Statement of Cash Flows**  
for January - December 2015

Organisation **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 **Open Joint-Stock Company /private ownership**  
 Measure unit: thousand roubles

OKUD form  
Date (day, month, year)

Codes		
0710004		
31	12	2015
27987276		
7703104630		
65.23.1		
47	16	
384		

OKPO  
INN  
OKVED  
OKOPF / OKFS  
OKEI

Parameter	Code	for January - December 2015	for January - December 2014
<b>Cash flow from operating activities</b>			
Total cash in	4110	29 689 335	58 362 500
including:			
proceeds from sale of products, goods, works and services	4111	55 124	97 754
dividends	4114	28 864 689	58 091 448
other receipts	4119	769 522	173 298
Total cash out	4120	(14 630 099)	(22 343 318)
including:			
payments to suppliers (contractors) for raw and consumable materials, works and services	4121	(1 392 636)	(1 925 858)
remuneration to employees	4122	(4 297 027)	(9 760 062)
payments of interest on loans	4123	(8 163 268)	(6 291 889)
income tax	4124	(3 652)	(187)
other payments	4129	(773 516)	(4 365 322)
Net cash flow from operating activities	4100	15 059 236	36 019 182
<b>Cash flow from investing activities</b>			
Total cash in	4210	71 526 934	77 104 967
including:			
proceeds from sale of non-current assets (except for financial investments)	4211	7 195	7 862
proceeds from sale of shares in other companies	4212	1 727 835	12 712 103
proceeds from repayment of loans and sale of debt securities (rights to claim cash payments from other parties)	4213	41 242 501	35 545 421
dividends, interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	4214	5 577 830	2 526 164
cash flows from bank deposits	4215	8 647 596	26 238 116
other receipts	4219	14 323 976	75 300
Total cash out	4220	(102 826 161)	(96 233 229)
including:			
payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	4221	(48 313)	(71 828)
payments related to acquisition of shares (stakes) in other companies	4222	(50 797 188)	(42 781 269)
payments related to acquisition of debt securities (rights to claim cash payments from other parties), provision of loans to other parties	4223	(39 118 888)	(37 955 014)
interest on debts included in the value of investment assets	4224	-	-
cash flows to bank deposits	4225	(12 621 896)	(15 424 960)
other payments	4229	(239 875)	(158)
Net cash flow from investing activities	4200	(31 299 227)	(19 128 262)



**NOTES TO THE FINANCIAL STATEMENTS OF SISTEMA JSFC FOR 2015**

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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 Moscow Exchange.

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 2015 and 2014 was 281 and 302 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, rules and regulations issued by the Ministry of Finance of the Russian Federation and by the regulatory authorities entitled to issue accounting regulations in accordance with federal laws.

In 2015 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-119/14 on 31 December 2014.

### **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 2015 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 2015.

### **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 the CB RF and valid as of 31 December 2015, 2014, and 2013.

The rules and procedures for accounting for foreign currency assets and liabilities are set out 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 must be converted to roubles as of:

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

Foreign exchange differences are presented in the Statement of financial results in "other income and expenses" on a net basis.

### **2.5. Accounting for investments**

The initial measurement of investments acquired for a consideration is recognised as the total amount of expenses incurred in the course of their acquisition less VAT and other recoverable taxes (unless otherwise required by Russian law governing taxes and duties).

Investments whose current market value may be reliably determined must be recorded in financial statements at their current market value and adjusted on a quarterly basis. The difference between current assessed market values of investments as of the reporting date and their previous values must be recognised as 'other gains and losses' on a net basis.

Such revaluation of investments whose current market value may be reliably measured must be performed on the last date of the reporting quarter. Should the last day of the quarter not be a business day, the revaluation must be performed on the last trading day in such quarter.

If securities of any issuer owned by the Company are traded on several stock exchanges, the Company shall determine their current market value based on the trading statistics of the New York Stock Exchange. If such securities are not listed on the New York Stock Exchange, the Company shall determine their current market value based on the trading statistics of the London Stock Exchange. If such securities are not listed on any international stock exchanges, the Company shall determine their current market value based on the trading statistics of the Moscow Exchange.

Investments whose current market value may not be reliably determined shall be presented in the financial statements at their historical value.

Valuation methods used for 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 issue-grade securities with no current market price determined are estimated on a FIFO basis at the time of 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. Revenue recognition**

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

- revenue from operating activities;
- other income.

The Company recognises the following types of income as revenue 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 income are recognised by the Company as "other income":

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

Income 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 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 a 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 respective gains);
- sale (purchase) of foreign currency (on a net basis with respective gains);
- foreign exchange differences (on a net basis with 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 liabilities under received 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 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 net assets method and factoring in the estimated probability of investment recovery.

**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 are neither settled within the timeframes stipulated in the respective agreement nor secured by any guarantees.

**Provisions.** The Company's accounts and financial statements 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 13%. 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, 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. ADJUSTMENT OF HISTORICAL VALUES**

In 2015 the Company became aware of having omitted to reflect a write-off of RUB 1,333,513 thousand in gains from a revaluation of a building at the time of sale in 2012 in the accounting records and financial statements for 2012.

In compliance with cl.9 of Accounting Standard (PBU) 22/2010, the Company performed the write-off in the period when the error was identified and reflected it in the financial statements retrospectively, as a result of which the historical values as of the beginning of the reporting period were adjusted as follows:

	(RUB thousand)		
	Values as of 31 December 2014 as if the error was never made		
	<u>Initial value</u>	<u>Adjusted value</u>	<u>Deviation</u>
<b>Balance sheet</b>			
Revaluation of PP&E	2,070,082	736,569	(1,333,513)
Retained earnings	223,565,201	224,898,714	<u>1,333,513</u>
<b>Total impact on equity</b>			<u><u>-</u></u>

	(RUB thousand)		
	Values as of 31 December 2013 as if the error was never made		
	<u>Initial value</u>	<u>Adjusted value</u>	<u>Deviation</u>
<b>Balance sheet</b>			
Revaluation of PP&E	2,084,101	750,588	(1,333,513)
Retained earnings	550,646,306	551,979,819	<u>1,333,513</u>
<b>Total impact on equity</b>			<u><u>-</u></u>

#### 4. INVESTMENTS

##### 4.1. Units in mutual funds

Investments in units in mutual funds as of 31 December 2015, 2014 and 2013 are presented as follows:

	(RUB thousand)		
	2015	31 December 2014	2013
Open-end mutual bonds fund ("OMBF") "Rezervny. Foreign Exchange Investments" managed by LLC Sistema Capital	4,036,314	-	7,041,000
OMBF "Rezervny" managed by LLC Sistema Capital	2,744,893	-	2,940,000
Closed-end mutual fund "Creditny-1" managed by LLC Nadezhnoye Upravleniye	2,315,083	2,315,083	2,315,083
Less impairment allowance	(568,147)	(695,202)	(610,650)
<b>Total</b>	<b>8,528,143</b>	<b>1,619,881</b>	<b>11,685,433</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.

In 2015 LLC DIK was renamed into LLC Sistema Capital.

In 2015 the Company acquired stakes in OMBF "Rezervny" and OMBF "Rezervny. Foreign Exchange Investments" managed by LLC Sistema Capital.

##### 4.2. Shares and equity interests

Investments in the shares and equity interests of subsidiaries and affiliates as of 31 December 2015, 2014, 2013 are presented as follows:

	(RUB thousand)		
	2015	31 December 2014	2013
MTS (Note 5)	143,282,613	128,496,822	225,202,120
TCF Projects Pte.Ltd (i)	69,176,591	64,984,242	42,669,897
MTS Bank (ii)	27,782,202	27,782,202	18,321,517
Sistema Shyam Teleservices Limited	19,357,845	19,357,845	19,357,845
RTI	19,169,283	21,587,069	21,587,069
Medsii Group (iii)	14,714,916	1,630,589	1,630,589
FCD Projects Pte.Ltd (i)	10,872,328	-	-
Sistema Finance S.A.	10,825,964	10,825,964	10,825,964
Business Nedvizhimost (iv)	9,943,938	6,305,941	3,217,230
Steppe Agro Holding (v)	8,900,030	30	-
Sistema Telecom Assets	8,663,340	8,663,340	8,663,340
Leader-Invest	6,401,138	6,401,138	4,957,398
SG-trans (vi)	5,866,633	5,866,633	2,455,394
SG-trading	4,924,701	4,924,701	6,419,143
VAO Intourist	4,782,733	4,782,733	4,782,733
Targin	4,101,441	4,101,441	4,101,441
Mosdachtrest	3,899,126	3,899,126	3,899,126
Kronstadt Group (vii)	3,726,724	-	-
Detsky Mir	3,290,391	4,215,747	4,215,747
Ozon Holdings Limited (viii)	2,707,148	2,707,148	-
Sistema Mass Media (ix)	2,423,756	2,423,756	-
Ecu Gest Holding S.A.	2,129,596	5,322	5,322
NIS (x)	-	4,043,168	1,233,069
Bashneft (Note 10)	-	-	223,713,395
UPC (xi)	-	-	6,204,610
Other	12,838,206	8,472,008	8,909,303

Less impairment allowance	<u>(116,806,688)</u>	<u>(78,129,202)</u>	<u>(44,917,040)</u>
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<b>Total</b>	<b><u>282,973,955</u></b>	<b><u>263,347,763</u></b>	<b><u>577,455,212</u></b>
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- (i) In 2014-2015 the Company continued financing Sistema Shyam Teleservices Limited through investments in TCF Projects Pte.Ltd и FCD Projects Pte.Ltd.
- (ii) In November 2014, the Company acquired 2,474,818 additionally issued ordinary shares in MTS Bank for RUB 9.5 billion.
- (iii) In Q4 2015 the Company acquired 25.02% and 24.98% in Medsi Group for RUB 6.1 billion (50% to be paid out on a year's installment plan) and RUB 7 billion, respectively, which increased the Company's equity interest in Medsi Group to 100%.
- (iv) In April 2014, the Company purchased 49% in Business Nedvizhimost from MGTS Nedvizhimost for RUB 3.1 billion, thus bringing its equity holding up to 100%.  
In June 2015 the Company acquired 46,827 additionally issued ordinary shares in Business Nedvizhimost for a consideration of buildings and 100% of equity in Detsky Mir Retail Assets. As a result of the contribution of property/title to the authorised capital of Business Nedvizhimost the Company recognised RUB 2.2 billion in gains, reported in line 23408 "Excess of contractual value of equity holding over its book value" of the Statement of financial results for 2015.
- (v) In December 2015 the Company acquired 222,500 additionally issued ordinary shares in JSC Steppe Agro Holding (previous name JSC Krasnodar Agro) for RUB 8.9 billion.
- (vi) 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.
- (vii) In November 2015 the Company acquired 74.04% in LLC Kronshtadt Group for a consideration of property titles (shares and promissory notes issued by JSC Kronshtadt Group acquired in 2015) with a total worth of RUB 3.7 billion.
- (viii) In April 2014 the Company acquired 10.8% 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. As a result of the contribution of the equity interest in LLC Stream to the authorised capital of OJSC Sistema Mass Media the Company recognised RUB 1.5 billion in gains, reported in line 23408 "Excess of contractual value of equity holding over its book value" of the Statement of financial results for 2014.  
In December 2014 the Company acquired 368,819,673 additionally issued ordinary shares in Sistema Mass Media for RUB 0.45 billion.
- (x) In July 2014 the Company acquired 46,104 additionally issued shares of NIS for RUB 2.8 billion. In January 2015 the Company's entire equity interest in PJSC NIS was sold to PJSC MGTS for RUB 44 million. The sale had no impact on the net income for 2015, as the Company had accrued an allowance for the impairment of NIS' equity in 2014.
- (xi) 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.

**4.3. Debt securities**

Debt securities as of 31 December 2015, 2014 and 2013 are presented as follows:

	Maturity	Interest rate	(RUB thousand)		
			31 December		
			2015	2014	2013
<b>In RUB:</b>					
LesInvest	ASNE 01.02.2022	13.0%	6,000,000	6,000,000	-
RTI Microelectronics	ASNE 20.10.2015	10.0%	3,018,712	-	-
Bonds issued by Uralsib Leasing Company	21.03.2019	10.25%	2,999,250	-	-
Promissory notes issued by Bank National Factoring Company	22.01.2016	10.97-11.07%	1,867,539	-	-
NPK NIIDAR	ASNE 01.01.2020	10.0%	1,278,682	-	-
Mosdachtrest			-	613,295	703,295
Sistema Finance			-	-	5,374,878
MTS Bank			-	-	1,650,000
Sistema Telecom Assets			-	-	200,000
Other			520,804	353,774	353,774
Impairment allowance			(1,801,974)	(353,774)	(353,774)
<b>Total</b>			<b>13,883,013</b>	<b>6,613,295</b>	<b>7,928,173</b>
Long-term			11,848,444	6,000,000	393,295
Short-term			2,034,569	613,295	7,534,878
<b>Total</b>			<b>13,883,013</b>	<b>6,613,295</b>	<b>7,928,173</b>

Note: ASNE means "after sight, but not earlier"

**4.4. Loans granted**

Loans granted as of 31 December 2015, 2014 and 2013 are presented as follows:

	Maturity	Interest rate (31 December 2015)	(RUB thousand)		
			31 December		
			2015	2014	2013
<b>In USD:</b>					
Sistema Holding Ltd.	OD	0.50%	18,796,448	9,502,044	8,100,477
MTS Bank	27.03.2024	1.25%	2,630,008	2,255,309	-
Sistema Shyam Teleservices Limited			-	-	7,527,716
			21,426,456	11,757,353	15,628,193
<b>In RUB:</b>					
Sitronics	OD	4.50%	5,848,293	3,180,000	3,180,000
LesInvest	OD	9.50%	4,836,000	6,000,000	-
Steppe Agro Holding	OD	13.00%	3,274,560	-	-
Sistema Finance	OD	10.50%	2,140,000	-	-
Mosdachtrest	OD	13.00%	1,600,000	-	-
MTS Bank	31.10.2021	1.25%	1,000,000	1,000,000	1,000,000
RTI Microelectronics	OD	4.50%	548,084	3,553,854	3,792,852
CLIPPERS FINANCE S.A.			-	6,035,274	6,035,274
NVision Group			-	4,500,000	-
Steppe Agro Holding			-	3,397,087	-
Sitronics-N			-	3,000,000	3,000,000
NPK NIIDAR			-	2,727,000	1,000,000
RTI Estate			-	-	2,610,157
Other			7,669,203	7,659,957	4,994,006
Impairment allowance			(3,540,187)	(3,169,913)	-
			23,375,953	37,883,259	25,612,289

Maturity	Interest rate (31 December 2015)	31 December		
		2015	2014	2013
<b>Total</b>		<b>44,802,409</b>	<b>49,640,612</b>	<b>41,240,482</b>
Long-term		2,876,391	7,494,554	1,479,975
Short-term		41,926,018	42,146,058	39,760,507
<b>Total</b>		<b>44,802,409</b>	<b>49,640,612</b>	<b>41,240,482</b>

Note: OD means "on demand".

#### 4.5. Bank deposits

Bank deposits as of 31 December 2015, 2014 and 2013 are presented as follows:

	31 December		
	2015	2014	2013
(RUB thousand)			
<b>In USD:</b>			
Sberbank	20,188,508	-	-
BINBANK	4,810,258	-	-
Bank VTB	2,186,481	-	-
	27,185,247	-	-
<b>In RUB:</b>			
Bank VTB	16,476,770	-	10,870,000
Ufa branch of Bank Uralsib	4,037,327	-	-
Bank Otkritie	3,265,157	-	-
Absolut Bank	2,500,000	-	-
Urals Bank of Reconstruction and Development	1,984,108	-	-
Petrocommerce branch of Bank Otkritie	1,100,000	-	-
Vneshprombank	909,153	-	-
MTS Bank (subsidiary)	-	-	3,000,000
Rosselkhozbank	-	-	3,000,000
Gazprombank	-	-	1,815,000
Other	1,786,403	-	500,000
Impairment allowance	(909,153)	-	-
	31,149,765	-	19,185,000
<b>Total</b>	<b>58,335,012</b>	<b>-</b>	<b>19,185,000</b>
Long-term	14,877,003	-	6,000,000
Short-term	28,383,929	-	4,670,000
Cash equivalents	15,074,080	-	8,515,000
<b>Total</b>	<b>58,335,012</b>	<b>-</b>	<b>19,185,000</b>

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

Rights acquired as a result of rendering financial services as of 31 December 2015, 2014 and 2013 are presented as follows:

	(RUB thousand)		
	31 December		
	2015	2014	2013
AlfaPlast	-	641,700	641,700
Geocom	-	613,800	613,800
ConsultMedia	-	558,000	558,000
Mosdachtrest	-	-	612,933
Impairment allowance	-	(1,813,500)	(1,813,500)
<b>Total</b>	<b>-</b>	<b>-</b>	<b>612,933</b>

**4.7. Allowance for impairment of investments**

The data on allowances for impairment of investments, the amount of allowances made in 2015 and 2014, as well as the amounts of allowances used in 2015 and 2014 are presented as follows:

	(RUB thousand)						
	As of 31 December 2013	Allowance created	Allowance used	As of 31 December 2014	Allowance created	Allowance used	As of 31 December 2015
<b>Units in mutual funds</b>							
CEIF Creditniy 1	610,650	84,552	-	695,202	(127,055)	-	568,147
	<b>610,650</b>	<b>84,552</b>	<b>-</b>	<b>695,202</b>	<b>(127,055)</b>	<b>-</b>	<b>568,147</b>
<b>Shares and equity interests</b>							
Sistema Shyam							
Teleservices Limited	19,357,845	-	-	19,357,845	-	-	19,357,845
TCF Projects Pte. Ltd	25,362,147	28,850,805	-	54,212,952	14,781,432	-	68,994,384
FCD Projects Pte. Ltd	-	-	-	-	10,872,328	-	10,872,328
MTS Bank	-	-	-	-	11,945,362	-	11,945,362
SG-trading	-	-	-	-	4,042,159	-	4,042,159
NIS	-	3,999,168	-	3,999,168	-	(3 999 168)	-
Other	197,048	362,189	-	559,237	1,035,373	-	1,594,610
	<b>44,917,040</b>	<b>33,212,162</b>	<b>-</b>	<b>78,129,202</b>	<b>42,676,654</b>	<b>(3,999,168)</b>	<b>116,806,688</b>
Loans granted	-	3,169,913	-	3,169,913	370,274	-	3,540,187
Debt securities	353,774	-	-	353,774	1,448,200	-	1,801,974
Rights acquired as a result of rendering financial services	1,813,500	-	-	1,813,500	-	(1 813 500)	-
Deposits	-	-	-	-	909,153	-	909,153
<b>Total</b>	<b>47,694,964</b>	<b>36,466,627</b>	<b>-</b>	<b>84,161,591</b>	<b>45,277,227</b>	<b>(5,812,668)</b>	<b>123,626,150</b>

In 2015 and 2014, the Company made allowances for impairment of some investments in shares and units in mutual funds 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.

## 5. LISTED SECURITIES

The value of the Company's investments in shares that have a market value as of 31 December 2015, 2014 and 2013 is presented as follows:

	(RUB thousand)			
	MTS ordinary	Bashneft ordinary      preference		Other
<b>Balance as of 31 December 2013</b>				
Number of shares	636,224,752	108,047,962	5,871,654	n/a
Market price per share, RUB	353.97	1,993.60	1,415.10	n/a
	<b>225,202,120</b>	<b>215,404,417</b>	<b>8,308,978</b>	<b>54,327</b>
Revaluation	(96,705,298)	(79,923,077)	(3,718,519)	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>128,496,822</b>	<b>-</b>	<b>-</b>	<b>110,362</b>
Revaluation	14,785,791	-	-	38,111
Disposal	-	-	-	-
<b>Balance as of 31 December 2015</b>				
Number of shares	636,224,752	-	-	n/a
Market price per share, RUB	225.21	-	-	n/a
	<b>143,282,613</b>	<b>-</b>	<b>-</b>	<b>148,473</b>

In 2015, gain on revaluation of listed securities amounted to RUB 14,823,902 thousand. In 2014, loss on revaluation of listed securities amounted to RUB 180,290,859 thousand.

## 6. BORROWINGS

The repayment terms of key types of borrowings as of 31 December 2015 are presented as follows:

	(RUB thousand)			Total
	up to 1 year	1-5 years	over 5 years	
Bond issues	26,454,514	10,000,000	6,700,000	43,154,514
Other borrowings	-	36,441,350	-	36,441,350
Promissory notes	450,000	710,094	-	1,160,094
Bank loans	2,000,000	32,099,652	6,832,753	40,932,405
<b>Total</b>	<b>28,904,514</b>	<b>79,251,096</b>	<b>13,532,753</b>	<b>121,688,363</b>

Outstanding bonds are presented as follows:

	Maturity	(RUB thousand)		
		31 December		
		2015	2014	2013
Bonds No. 4-03-01669-A	24.11.2016	14,958,545	14,958,545	14,958,545
Bonds No. 4B02-01-01669-A	18.08.2016*	10,000,000	-	-
Bonds No. 4B02-03-01669-A-001P	12.03.2018	10,000,000	-	-
Bonds No. 4B02-01-01669-A-001P	30.09.2025	5,000,000	-	-
Bonds No. 4B02-02-01669-A-001P	31.10.2025	1,700,000	-	-
Bonds No. 4-04-01669-A	15.03.2016	1,495,969	4,488,101	13,464,302
Bonds No. 4-02-01669-A		-	-	10,618,896
<b>Total</b>		<b>43,154,514</b>	<b>19,446,646</b>	<b>39,041,743</b>

\* date of irrevocable offer

Other outstanding borrowings are presented as follows:

	Maturity	(RUB thousand)		
		31 December		
		2015	2014	2013
Sistema International Funding S.A.	17.05.2019	36,441,350	28,129,200	16,364,600
Sistema Invest		-	-	9,369,836
<b>Total</b>		<b>36,441,350</b>	<b>28,129,200</b>	<b>25,734,436</b>

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

Outstanding bank loans are presented as follows:

	Maturity	(RUB thousand)		
		31 December		
		2015	2014	2013
Bank VTB	07.09.2018	12,000,000	-	-
Sberbank	03.09.2017	12,000,000	12,000,000	-
Sberbank	10.04.2018	4,000,000	6,000,000	-
Sberbank	10.04.2016	2,000,000	-	-
China Development Bank	15.11.2021*	10,932,405	-	-
Raiffeisenbank		-	5,700,000	-
Sberbank		-	4,500,000	-
<b>Total</b>		<b>40,932,405</b>	<b>28,200,000</b>	<b>-</b>

\* scheduled final maturity

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 Company's shareholding structure. In case the Company fails to comply with the obligations specified above within the time period provided for the filing of a notification of breach of obligations and remediation of such breaches, creditors are entitled to demand immediate repayment of their loans. Besides, loan agreements are subject to cross-default clauses of other loan agreements held by the Company and its subsidiaries. As of 31 December 2015, the Company is in full compliance with the terms and requirements of outstanding bonds, loan agreements, and facility agreements.

Interest accrued on borrowings in 2015 and 2014 totalled RUB 8,879,635,000 and RUB 5,477,745,000, respectively.

As of 31 December 2015, the Company has access to RUB 37.6 in committed credit lines available for utilisation for purposes declared in loan applications.

## 7. PROVISIONS

Changes of provisions in 2015 and 2014 are presented as follows:

	(RUB thousand)		
	Payment of bonuses	Payment for unused annual leaves	Total
<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
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>
Increase of provisions	4,963,469	771,898	5,735,367
Use of provisions	(22,428)	(409,064)	(431,492)
<b>Balance as of 31 December 2015</b>	<b>4,963,469</b>	<b>1,145,615</b>	<b>6,109,084</b>

## 8. EXPENSES ON ORDINARY OPERATIONS

Expenses on ordinary operations broken down by cost items in 2015 and 2014 are presented as follows:

	2015	2014
Payroll expenses	7,833,003	6,669,685
Social security charges	1,290,276	672,860
Depreciation	177,683	175,310
Cost of materials	23,365	33,799
Other expenses	886,201	1,177,431
<b>Total</b>	<b>10,210,528</b>	<b>8,729,085</b>

## 9. INCOME TAX

	2015	2014
<b>Income / (Loss) before tax</b>	<b>46,147,123</b>	<b>(316,797,175)</b>
incl.		
dividends taxed at 0%	14,779,149	43,961,637
dividends taxed at 13% (2014: 9%)	16,015,824	15,783,395
<b>Theoretical expense/(income) on/(from) income tax</b>	<b>5,000,172</b>	<b>(73,974,488)</b>
Permanent tax liabilities/ (assets)	6,685,183	64,281,406
Change in deferred tax assets	(9,759,383)	11,026,340
Change in deferred tax liabilities	3,770	694
Tax on income in form of dividends	1,930,282	1,333,954
<b>Current income tax</b>	<b>-</b>	<b>-</b>

For the purpose of income tax, the Company reports the loss of RUB 39.3 billion on disposal of shares in Bashneft (see Note 10) as losses from operating activities in 2014. As of 31 December 2014, the Company recognised a deferred tax asset of RUB 11.5 billion with regard to the losses from operating activities as stated above.

On 16 February 2015, the Arbitration Court of Moscow upheld the Company's lawsuit against LLC Ural-Invest and ruled to charge RUB 70.7 billion from the defendant in favour of Sistema

JSFC. The Company recognized income for the purposes of calculating income tax, thus made it possible to utilise (offset) the major part of the tax losses from operating activities incurred in 2014.

#### 10. SETTLEMENT WITH LLC URAL-INVEST

In September 2014, the Prosecutor General 's Office of the Russian Federation filed a lawsuit with the Arbitration Court of Moscow for the Russian Federation to seeking the transfer of the shares of Bashneft then owned by the Company. The claim asserted that the transfer of the property from the Russian Federation to the Republic of Bashkortostan in 1992-1993 had been unlawful, as no requisite consent had been obtained from the federal authorities, and therefore all subsequent transactions with Bashneft shares should be considered 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 transferred in December 2014.

In December 2014 the Company filed a lawsuit with the Moscow Court of Arbitration against LLC Ural-Invest, the successor of the counterparties from whom the Company had bought shares of Bashneft, seeking recovery of losses caused by the transfer of shares in Bashneft of RUB 70.7 billion. The Court upheld the Company's lawsuit in April 2015.

In March 2015 Sistema and Ural-Invest signed a settlement agreement, later approved by the court. Pursuant to the agreement, all assets held by LLC Ural Invest, including cash and financial instruments of RUB 48.5 billion, were handed over to the Company, who proceeded to contribute RUB 4.6 billion of the funds received to Ural Charity Fund.

In April 2015 the Company received an additional RUB 12.9 billion in cash and financial instruments.

In the Company's Balance sheet deposits and debt securities received under the settlement agreement are recorded as long- and short-term investments, including interest charged as of the date of transfer of the relevant titles and still outstanding as of the reporting date.

The following gains and losses are recognized in the Statement of financial results:

- other gains of RUB 70,727 million as a result of upholding of the Company's lawsuit against Ural-Invest seeking recovery of losses by the Arbitration Court (line 23407);
- other losses of RUB 9,127 million which represent the difference between the loss to be recovered to the Company pursuant to the decision of the Arbitration Court and the value of assets received under the settlement agreement (line 23509);
- other losses of RUB 6,521 million as a result of the transfer of assets to Ural Charity Fund (line 23507);

The Statement of Cash Flows (SCF) presented the following cash flows:

- The receipt of the title to cash and deposits with maturity up to 92 days (cash equivalents) was recognized in line 4219 "Other receipts /Investment activities" in the amount of RUB 14,323 million. The recovery of these cash equivalents is not presented in the SCF according to Accounting Standard (PBU) 23/2011;
- The receipt of title to long- and short-term deposits is not presented in the SCF according to Accounting Standard (PBU) 23/2011. The recovery of these deposits is presented in line 4215 "Cash flows from bank deposits /Investment activities".

**11. BOARD OF DIRECTORS AND MANAGEMENT BOARD**

## Members of the Board of Directors in 2015:

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 (until 27 June 2015)
Sergey Boev	Member of the Board of Directors
Brian Dickie	Independent Director
Andrey Dubovskov	Member of the Board of Directors (since 27 June 2015)
Felix Evtushenkov	Member of the Board of Directors, First Vice President, Investment Portfolio Manager (since 27 June 2015)
Dmitry Zubov	Member of the Board of Directors
Patrick Clanwilliam	Independent director (since 27 June 2015)
Robert Kocharyan	Independent director, Chairman of the Nomination, Remuneration and Corporate Governance Committee
Jeannot Krecké	Independent Director
Peter Mandelson	Independent Director
Roger Munnings	Independent director, Chairman of the Audit, Finance and Risks Committee
Marc Holtzman	Independent director (until 27 June 2015)
Serge Tchuruk	Independent director (until 27 June 2015)
Mikhail Shamolin	Member of the Board of Directors, Company President
David Iakobachvili	Independent director, Chairman of the Investor Relations and Dividend Policy Committee

## Members of the Management Board in 2015:

Mikhail Shamolin	President, Chairman of the Management Board, executive member of the Board of Directors
Felix Evtushenkov	Member of the Board of Directors, First Vice President, Investment Portfolio Manager
Anton Abugov	First Vice President (until 25 June 2015)
Sergei Drozdov	Senior Vice President, Head of Corporate Governance Function (until 11 December 2015)
Christopher Baxter	Senior Vice President, Investment Portfolio Manager (until 27 June 2015)
Vsevolod Rozanov	Senior Vice President, Head of Finance and Investment Function
Oleg Mubarakshin	Senior Vice President, Head of Legal Function
Andrey Terebenin	Senior Vice President, Investment Portfolio Manager (until 13 September 2015)
Ali Uzdenov	Senior Vice President, Investment Portfolio Manager
Nikolay Vasilkov	Vice President, Head of Strategy Function (since 08 February 2015)
Valentin Korchunov	Vice President, Investment Portfolio Manager (since 11 December 2015)
Leonid Monosov	Vice President, Investment Portfolio Manager
Elena Vitshak	Vice President, Head of HR Department
Alexander Gorbunov	Vice President, Telecom Assets Manager (since 11 December 2015)
Michael Hecker	Vice President, Head of Strategy Function (until 10 February 2015)
Mikhail Cherny	Vice President, Investment Portfolio Manager (since 11 December 2015)
Evgeny Chuikov	Vice President, Head of Corporate Communications Function (since 13 September 2015)
Sergey Shishkin	Vice President, Head of Corporate Governance Function (since 11 December 2015)
Vladimir Shukshin	Vice President, Head of Security and IT Department (since 13 September 2015)

The total sum of remuneration paid to the members of the Board of Directors and Management Board for 2015 and 2014 (including compulsory retirement and health insurance contributions) is presented as follows:

	<b>2015</b>	<b>(RUB thousand) 2014</b>
Short-term bonuses	3 747 687	3,347,391
Remuneration in the form of issuer's option plans and shares	929,796	675,854
<b>Total</b>	<b>4,677,483</b>	<b>4,023,245</b>

## 12. RELATED PARTIES

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

### 12.1. Related party transactions

<b>Interest expenses</b>	<b>2015</b>	<b>(RUB thousand) 2014</b>
MGTS Nedvizhimost	106,616	125,993
Sistema Invest	-	317,034
Bashneft	-	225,918
<b>Total</b>	<b>106,616</b>	<b>668,945</b>

<b>Interest income</b>	<b>2015</b>	<b>(RUB thousand) 2014</b>
LesInvest	1,346,819	355,576
Sistema Finance	511,100	168,793
NVision Group	495,516	46,282
Steppe Agro Holding	426,651	55,855
NPK NIIDAR	317,702	144,060
Sitronics	197,324	143,100
RTI Microelectronics	185,299	164,658
Mosdachtrest	130,389	141,637
Leader-Invest	127,880	63,093
Rangecroft Limited	100,895	12,992
Kronshtadt Group	72,368	-
Sitronics-N	66,925	135,000
Sistema Holding Ltd.	59,210	47,169
Business Nedvizhimost	57,295	-
MTS Bank	40,622	44,265
NIS	2,380	54,170
Sistema Shyam Teleservices Limited	-	49,314
Other	358,633	42,490
<b>Total</b>	<b>4,497,008</b>	<b>1,668,454</b>

<b>Sale of goods, works and services</b>	<b>2015</b>	<b>(RUB thousand) 2014</b>
LP Management	8,252	-
Business Nedvizhimost	7,675	19,497
STA-Capital	2,948	-
Sistema Capital	2,137	-
MGTS Nedvizhimost	-	5,928
Other	1,388	1,312
<b>Total</b>	<b>22,400</b>	<b>26,737</b>

**UNOFFICIAL TRANSLATION**

<b>Dividends received</b>	<b>(RUB thousand)</b>	
	<b>2015</b>	<b>2014</b>
PJSC MTS	16,013,777	15,778,374
Sistema Invest	12,000,040	17,000,000
Detsky Mir	2,202,319	1,834,038
Bashneft	-	24,037,039
Other	576,790	775,951
<b>Total</b>	<b>30,792,926</b>	<b>59,425,402</b>

<b>Sale of other property</b>	<b>Type of earnings</b>	<b>(RUB thousand)</b>	
		<b>2015</b>	<b>2014</b>
Sistema Capital	sale of shares, interests and stakes	1,683,835	12,702,353
LesInvest	sale of fixed assets	-	4,700
Other	sale of shares, interests and stakes	44,000	-
<b>Total</b>		<b>1,727,835</b>	<b>12,707,053</b>

**12.2. Accounts receivable**

	<b>(RUB thousand)</b>		
	<b>31 December</b>		
	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>Sale of goods, work, services, property rights</b>			
RTI Microelectronics	101,097	78,037	45,399
Binnopharm	8,216	8,216	8,216
Geocom	5,549	5,549	5,549
Business Nedvizhimost	-	6,464	-
RTI Systems Concern	-	-	9,150
Other	1,796	932	973
<b>Purchase of goods, work, services, property rights</b>			
Sitronics	227,284	227,284	227,284
Sistema Telecom Assets	119,606	104,227	-
Binnopharm	43,198	43,198	34,398
VAO Intourist	19,405	155	155
Steppe Agro Holding	15,370	12,818	-
Detsky Mir	12,811	12,811	-
Medsii Fitness	7,500	-	-
Sistema Mass Media	6,771	6,771	-
Leader-Invest	1,285	30,575	29,555
Business Nedvizhimost	-	5,829	-
Other	10,147	23,932	10,398
<b>Issuing non-interest-bearing loans and promissory notes</b>			
Davydovs' Estate	157,313	167,313	167,313
Region	60,842	60,842	60,842
Cottagestroy-17	53,698	53,698	53,698
Medsii Holding	20,053	20,053	20,053
Other	1,585	1,585	1,585

## UNOFFICIAL TRANSLATION

	31 December		
	2015	2014	2013
<b>Interest on issued loans and notes received</b>			
LesInvest	1,565,404	355,576	-
Sitronics	652,711	177,601	34,501
Sistema Holding Ltd.	242,182	133,832	38,306
RTI Microelectronics	210,409	243,822	79,165
Mosdachtrest	71,446	324,539	452,823
MTS Bank	59,956	47,311	144,902
Altay Resort	53,109	31,622	10,292
Leader-Invest	52,537	90,607	27,514
Sistema Finance	29,601	30,608	151,406
Binnopharm	27,322	24,270	18,202
NPK NIIDAR	18,217	86,484	12,822
Steppe Agro Holding (previous name Krasnodar Agro)	2,333	55,855	-
Geocom	-	303,127	303,127
Sitronics-N	-	210,945	75,945
RTI Estate	-	-	119,933
Sistema Telecom Assets	-	-	32,523
Other	145,034	72,861	409,967
<b>Dividends receivable</b>			
RTI	319,630	319,630	-
<b>Bad debt allowance</b>	<u>(287,595)</u>	<u>(591,379)</u>	<u>(591,379)</u>
<b>Total</b>	<u><b>4,035,822</b></u>	<u><b>2,787,600</b></u>	<u><b>1,994,617</b></u>

**12.3. Accounts payable**

	31 December		
	2015	2014	2013
(RUB thousand)			
<b>Purchase of goods, work, services, property rights</b>			
Sistema-Invest	12,822	-	186,888
Business Nedvizhimost	10,154	-	-
MTS	3,393	5,915	-
Altay Resort	1,207	1,207	-
MGTS Nedvizhimost	-	3,214,463	-
Other	849	397	4,457
<b>Sale of goods, works and services</b>	-	373	2,989
<b>Interest on loans received</b>			
Sistema Invest	-	-	20,023
<b>Total</b>	<u><b>28,425</b></u>	<u><b>3,222,355</b></u>	<u><b>214,357</b></u>

**12.4. Investments**

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

**12.5. Cash flows with related parties**

	<u>2015</u>	<u>(RUB thousand)</u> <u>2014</u>
<b>Cash flows from operating activities</b>		
Proceeds from sale of products, goods, works and services	49,700	79,835
Proceeds in form of dividends	28 862 908	58,091,448
Other proceeds from operating activities	10,000	1,596
Payment for goods, works and services	(343,530)	(599,406)
Payment of interest on debts	(232,608)	(652,153)
Other payments for operating activities	(4,499)	(3,844,660)
<b>Cash flows from investment activities</b>		
Proceeds from sale of fixed assets and other property	-	4,700
Proceeds from sale of shares (participation interests) in other companies	1,727,835	12,711,503
Proceeds from repayment of issued loans and sale of debt securities	40,511,821	33,937,561
Received interest on investments in debt securities and loans, and similar proceeds from shareholding in other companies	3,776,289	1,574,202
Cash proceeds from bank deposits	-	3,000,000
Other proceeds from investment activities	116	-
Payments related to acquisition, creation, modernisation, reconstruction and preparation for use of non-current assets	(4,899)	-
Payments related to acquisition of shares (participation interests) in other companies	(45,056,422)	(38,917,258)
Payments for acquisition of debt securities, issue of loans to other entities	(38,518,888)	(31,307,221)
<b>Cash flows from financing activities</b>		
Repayment of borrowed funds	-	(9,533,309)
Payment of dividends and other income distribution to owners (shareholders)	(3,014,687)	(13,218,175)
<b>Total</b>	<u><b>(12,236,864)</b></u>	<u><b>11,328,663</b></u>

**13. BASIC AND DILUTED EARNINGS/(LOSS)**

Basic and diluted income for 2015 and 2014 totalled:

	<u>2015</u>	<u>2014</u>
Basic and diluted income/(loss), RUB thousand	34,461,228	(307,202,105)
Weighted average number of ordinary shares in circulation	<u>9,650,000,000</u>	<u>9,650,000,000</u>
<b>Basic and diluted earnings/(loss) per share, RUB</b>	<b>3.6</b>	<b>(31.8)</b>

#### 14. DERIVATIVES

The Company signed an option agreement with the Russian Federal State Property Management Agency on sale of the Agency's 14% stake in Sistema Shyam Teleservices Limited to the Company within one year, starting from March 2016, for USD 777 million or the current market value as determined by an independent appraiser, whichever is higher.

The Company signed option agreements with Rusnano, pursuant to which Rusnano is entitled to sell its equity interest in NIIME & Mikron to the Company between 31 October 2016 and 01 November 2017 for RUB 8.1 billion, and the Company is entitled to purchase this equity interest at any time before 01 November 2017 for RUB 6.1 billion plus 7.63% per annum.

#### 15. CONTINGENT LIABILITIES

**Operating environment:** In March 2014, the USA and the EU imposed several sets of sanctions on certain Russian officials, businessmen and organisations.

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 generate major part of their revenues in roubles. The Company's operating results shown in the financial statements are therefore exposed to considerable fluctuations of USD/RUB exchange rate, while in 2015, rouble depreciated against USD by 23%, and was on average 37% cheaper than in 2014. Taking into account that most 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 a weakening of the country's macroeconomic position, which resulted in a downgrading of the national credit rating, significant depreciation of the national currency, and inflation growth. In 2014, the Ukrainian Parliament passed a bill permitting sanctions against 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. The decree was extended for several times and currently acts till June 2016. These circumstances in conjunction with the ongoing political and economic instability in Ukraine may have an adverse impact on the Company's operations, including its financial standing and the amount of dividends received.

**Guarantees:** As of 31 December 2015, 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	31,123,399
Sistema Invest and ECU GEST HOLDING	22,500,000
RTI	4,297,395
DM-FINANCE	3,000,000
Detsky Mir	2,725,509
Kapali Overseas Corp.	2,124,531
RTI Systems Concern	(1,029,938)
<b>Total</b>	<b><u>66,800,772</u></b>

**Taxation:** Russian business law is still rapidly changing. The way the Company's management interprets such law as applied to the Company's activities may be challenged by relevant regional and federal authorities. The Russian tax authorities are lately increasingly rigid in interpreting law, which means that tax assessment approaches that have never been challenged before may be challenged in the course of future tax audits. As a rule, tax authorities have access to financial documents for three years preceding the reporting year, although in some cases such audits may cover longer periods. The Company's management believes that it has provided adequately for tax liabilities based on its interpretations of tax legislation. However, tax authorities may have different interpretations, and the effects on the financial statements could be significant.

In 2014 amendments were introduced into the Russian tax legislation in respect of taxation of profit of controlled foreign companies. According to these changes, the 2015 undistributed profits of the Group's foreign subsidiaries, if recognized as controlled foreign companies, may result in an increase of the tax base of the controlling entities in 2016. The Company is now formulating a tax planning strategy with respect to its foreign subsidiaries.

**Other:** In the ordinary course of business, the Company is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving regulatory environments in which the Company and its subsidiaries operate. The Company's management believes that the outcome of such court proceedings will not have a material negative impact on the Company's financial position, financial performance or liquidity.

## 16. RISK MANAGEMENT POLICY

The Company's business risks and risk management policy are disclosed in the quarterly Issuer's Report.

**17. SUBSEQUENT EVENTS**

*Revocation of licence from Vneshprombank:* Vneshprombank had its banking licence revoked on 21 January 2016 by order of the Bank of Russia No.OD-141. This fact caused the Company to accrue an allowance of RUB 909 million for the deposit in the bank.

*Acquisition of shares of MTS Bank:* On 11 February 2016, the Company acquired 2,641,957 additionally issued ordinary shares in MTS Bank for RUB 3.7 billion.

*Coupon distributions:* On 17 February, 9 March, and 11 March 2016 the company distributed RUB 848 million, 57 million, and 317 million of interest (coupons) on its series BO-01, 04, and 001P-03 bonds, respectively.

*Redemption of Series 04 bonds:* On 15 March 2016, the Company redeemed 19.5 million of Series 04 bonds (15.385% of the principal value issued).

CFO

Vsevolod Rozanov

Chief Accountant

Irina Borisenkova

30 March 2016