

Sistema JSFC

NOTES TO THE ACCOUNTING (FINANCIAL) STATEMENTS for the year 2012

General information

Full company name:

Open Joint-Stock Company Sistema Joint-Stock Financial Corporation

Short company name: Sistema JSFC

Registered by the Moscow Registration Chamber on 16 July 1993 under No 025.866
Certificate of registration in the Unified State Register of Legal Entities No
1027700003891

Legal address: 125009, Moscow, 13/1 Mokhovaya St.

Actual address: 125009, Moscow, 13/1 Mokhovaya St.

The authorized capital of the company as of 31 December 2012 is RUR 868, 500 thousand and consists of 9, 650, 000 thousand ordinary shares with the nominal value of RUR 0.09.

The market capitalization of the issuer as of the end of Q4 2012 amounted to RUR 245,698,650 thousand. The market capitalization was estimated on the basis of the value of the issuer's shares on the Moscow stock exchange (www.micex.ru) as of **31 December 2012** – RUR 25.461.

In accordance with the decision of the Annual General Meeting of shareholders (Minutes No 2-12 of 02.07.12) a portion of net income of RUR 2, 702, 000 thousand was distributed as dividends in 2012. Dividends were paid in cash in the amount of RUR 0.28 per share totalling RUR 2, 702, 000 thousand within 60 days from the date of the approval of the decision by the Annual General Meeting of shareholders. The amount of dividend payout totalled RUR 2, 701, 786 thousand, the remainder of RUR 214 thousand was returned to the accounts of Sistema, since it was impossible to distribute dividends for the securities held on the accounts of nominee shareholders.

In 2012 Sistema JSFC conducted its operations in accordance with its Charter. The key types of operations were:

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

The headcount of Sistema JSFC as of 31 December 2012 amounted to 224 employees and with the outsourced contractors included the headcount amounted to 231 employees.

The executive governance bodies of the Company include the collective executive body represented by the Management Board and the sole executive body represented by the President.

Members of the Management Board of Sistema JSFC as of 31 December 2012:

- 1) Mikhail Shamolin, President, Chairman of the Management Board;
- 2) Anton Abugov, First Vice President;
- 3) Christopher Baxter, Senior Vice President;
- 4) Alexey Buyanov, Senior Vice President, Head of the Finance and Investment Function;
- 5) Elena Vitchak, Executive Vice President, Head of the HR Department;
- 6) Anna Goldin, Vice President, Head of the Legal Function;

- 7) Sergey Drozdov, Senior Vice President, Head of the Corporate Governance Function;
- 8) Felix Evtushenkov, First Vice President;
- 9) Leonid Monosov, Executive Vice President;
- 10) Andrey Terebenin, Vice President, Head of the Corporate Communications Function;
- 11) Kirill Tyurdenev, Executive Vice President;
- 12) Ali Uzdenov, Vice President;
- 13) Alexey Shavrov, Executive Vice President.

Control over the financial and business operations of the Company (internal audit) is ensured by the Auditing Commission which comprises 3 members:

- 1) N. Demeshkina
- 2) A. Krupkin
- 3) E. Kuznetsova.

Sistema JSFC is the largest public diversified financial corporation in Russia and the CIS serving over 100 million customers in such sectors as telecommunications, high-tech, oil and energy, petrochemicals, radio and aerospace, banking, retail, mass-media, tourism and healthcare services.

The Company will be focusing its attention on improving the structure of its assets in order to increase capitalization. New projects will be financed from the company's own funds and through alliances with partners. The increase in operating expenses related to the expansion of our business will be covered by dividends from subsidiaries.

As far as borrowed financing is concerned, the Company will continue the process of diversifying its debt instruments.

Sistema JSFC is actively using Russian and international capital markets to finance its business operations, which enables the Company to optimize the structure of financing sources. The Company is constantly expanding the geography of international investors and it is closely cooperating with the biggest rating agencies in order to maintain and improve its credit ratings.

In the reporting period the main income was generated due to the Company's shareholdings in its subsidiaries and affiliates including MTS. Given that MTS is one of the leading companies in the fast-growing and high-profit telecom market, by controlling MTS Sistema JSFC can control the distribution of income and the amount of dividends paid respectively.

There are no factors that could have a negative impact on the issuer's ability to sell its products (works, services) with the exception of force-majeure circumstances.

1. Basis of the report.

The financial statements of the Company have been compiled in conformity with the accounting and reporting rules of the Russian Federation set forth in the Federal Law 'On financial statements' of 6 December 2011, No 402-FZ, Regulation on financial accounting and reporting of the Russian Federation approved by the Directive of the Finance Ministry of the Russian Federation on 29 July 1998, No 34n, and Regulation on financial accounting 'Financial statements of a company' (PBU 4/99), approved by the Directive of the Finance Ministry of the Russian Federation on 6 July 1999, No43n.

The financial statements are presented in conformity with the accounting forms approved by the Directive of the Ministry of Finance of the Russian Federation on 2 July 2010, No 66n 'On the accounting forms of companies'.

2. Changes in authorized capital

There have been no changes in the company's authorized capital in the reporting period.

3. Information about the accounting policy

No assumptions deviating from those stipulated in clause 5 of Accounting Principles (PBU) 1/2008 were used when compiling the Company's financial statements.

In the course of the preparation of financial statements there was no uncertainty of any material nature about the events and conditions that might give reasons for doubting the applicability of the going concern assumption.

There have been no changes in the company's accounting policy in the reporting period.

According to the Accounting Policy and for the purpose of accounting in 2012 the cost of financial investments is recorded by FIFO method at their disposal. Before 2012 the financial investments were written off on the basis of the average cost method. Adjustments were made in the cost of East-West United Bank's shares that had been previously recognised as part of disposal of securities. The following adjustments were made in the balance sheet as of 31 December 2010 and 31 December 2011:

- Value of financial investments (p. 1,170) + RUR44, 983 thousand
- Undistributed earnings (p.1,370) + RUR 24, 872 thousand
- Deferred tax liabilities (p. 1,420) + RUR 20, 111 thousand

No material amendments were made in the Accounting Policy of the company in 2013.

4. Foreign currency assets and liabilities

When accounting for the operations conducted in foreign currencies the official RUR exchange rate valid on the date of the respective operation was applied. Foreign currency assets and liabilities reflected in the financial statements were calculated on the basis of the official RUR exchange rate:

Currency	CB rate as of 31.12.2011	CB rate as of 31.12.2012
1 US dollar	32.1961	30.3727
1 Euro	41.6714	40.2286
1 pound sterling	49.6335	48.9638
100 Indian rupee	60.4451	55.4297

Forex differences in operations with assets and liabilities that occurred during the year and on the reporting date are accounted for as other earnings and expenses.

5. Short-term and long-term assets and liabilities

Assets and liabilities are estimated in the reporting on actual cost basis. Assets (liabilities) are recorded as short-term in the financial statements if the period of their turnover (settlement) does not exceed 12 months after the reporting date. All the other assets and liabilities are accounted for as long-term in the financial statements.

6. Intangible assets

Intangible assets include registered trademarks. Intangible assets are accounted for at the cost equal to the actual costs of acquisition. Intangible assets are amortized using a straight-line method.

6.1. Statement of movements of intangible assets

RUR '000

Indicator	Period	BoP		Change over the period						EoP		
		initial value	accumulated amortization and impairment losses	Entered	Retired		amortization charges	Impairment losses	Revaluation		initial value	accumulated amortization and impairment losses
					initial value	accumulated amortization and impairment losses			Initial value	Accumulated amortization		
Intangible assets - total	for 2012	352	(121)	63	-	-	(29)	-	-	-	415	(150)
	for 2011	290	(100)	62	-	-	(21)	-	-	-	352	(121)
including:												
Exclusive rights of the owner to trademark and servicemark	for 2012	352	(121)	63	-	-	(29)	-	-	-	415	(150)
	for 2011	290	(100)	62	-	-	(21)	-	-	-	352	(121)

7. Fixed assets (property, plant and equipment)

Fixed assets are recorded on the basis of actual purchasing costs.

Fixed assets (with the exception of buildings) are shown on the basis of their initial value with deduction of the amortization accumulated throughout the time of operation.

Amortization charges on fixed assets are calculated on the basis of a straight-line method throughout the expected useful life period. The useful life of fixed assets acquired before 01.01.02 is determined on the basis of amortization standards established in the 'Uniform rules of amortization charges for complete restoration of fixed assets in the Russian Federation' approved by the directive of the USSR Ministers Council on 22 October 1990, No 1072.

The useful life of fixed assets acquired after 01.01.02 is determined in accordance with Directive of the Government of 1 January 2002 No1 'On classification of fixed assets included in amortization groups' and the directive of the company's top manager.

Earnings and expenses from the disposal of fixed assets are recorded in the profit and loss account as part of other earnings and expenses.

Properties are recorded on the balance sheet at their current (replacement) value. Revaluation for 2012 was conducted and recorded on the balance sheet as of 31 December 2012 in the amount of RUR 53,222 thousand with the deduction of accumulated amortization revaluation (RUR10,024 thousand), for the total amount of RUR 43,198 thousand.

7.1. Statement of movements of fixed assets for 2011

RUR '000

Indicator	BoP	Change over the period	Revaluation	EoP
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	initial value	accumulated amortization	Entered	Retired		amortization charges	initial value	accumulated amortization	initial value	accumulated amortization
				initial value	accumulated amortization					
Fixed assets total:	5,363,453	-1,283,439	41,927	-8,032	6,479	-226,633	-125,712	31,601	5,271,636	-1,471,992
<i>including:</i>										
Transportation vehicles	41,660	-15,686	12,322	-1,564	990	-10,088			52,418	-24,784
Buildings	4,973,602	-1,074,998	1,849			-161,627	-125,712	31,601	4,849,739	-1,205,024
Computers and office appliances	157,634	-106,108	27,729	-2,060	1,826	-23,445			183,303	-127,727
Machines and equipment	6,554	-3,480		-629	603	-477			5,925	-3,354
Manufacturing and household equipment	65,144	-28,776	749	-1,799	1,779	-11,542			64,094	-38,539
Furniture	96,317	-43,305	576	-611	582	-16,905			96,282	-59,628
Other types of fixed assets	22,542	-11,086	-1,298	-1,369	699	-2,549			19,875	-12,936

For 2012

RUR '000

Indicator	BoP		Change over the period				Revaluation		EoP	
	initial value	accumulated amortization	Entered	Retired		amortization charges	initial value	accumulated amortization	initial value	accumulated amortization
				initial value	accumulated amortization					
Fixed assets total:	5,271,636	-1,471,992	377,555	-2,749,380	971,944	-241,109	53,222	-10,024	2,953,033	-751,181
<i>including:</i>										
Transportation vehicles	52,418	-24,784	23,021	-14,168	10,991	-14,303			61,271	-28,096
Buildings	4,849,739	-1,205,024		-2,729,451	958,632	-157,465	53,222	-10,024	2,173,510	-413,881
Computers and office appliances	183,303	-127,727	24,494	-1,200	1,154	-28,546			206,597	-155,119
Machines and equipment	5,925	-3,354	554	-839	838	-426			5,640	-2,942
Manufacturing and household equipment	64,094	-38,539	3,458	-3,622	284	-11,079			63,930	-49,334
Furniture	96,282	-59,628	23,851	-48	28	-18,759			120,085	-78,359
Other types of fixed assets	19,875	-12,936	302,177	-52	17	-10,531			322,000	-23,450

7.3. Information about leased property as of 31 December 2011

No.	Address of the leased property	Area (sq.m)	Landlord	Contract	Contract term
1	Moscow, 4 Pervaya Tverskaya Yamskaya St,	400.7	Moscow Property Department	01-00316/05 dtd 28.04.2005	indefinite term
2	Moscow, 10 Leontyevsky Pereulok	3026.6	GlavUpDK of RF Ministry of Foreign Affairs	07087900 dtd 24.11.2006	before 31.12.2011
3	Moscow, 11/8 Mokhovaya St	305.7	Administration Department of Moscow Mayor's Office	654-03-08 dtd 09.02.2009	indefinite term
4	Moscow, 17/9 Prechistenka St;	58.7	The Davydovs' Estate	615 dtd 01.10.2010	indefinite term
5	8 Sechenovsky Pereulok, bldg 4.	1,484.4	The Davydovs' Estate	616 dtd 01.10.2010	indefinite term
6	Moscow, 13/1 Mokhovaya St	313.7	Sistema Telecom Assets	164 dtd 01.08.2011	before 30.06.2012
7	Moscow, 17/9 Prechistenka St	592.0	The Davydovs' Estate	63 dtd 30.03.2011	before 29.02.2012
8	Moscow, 17/8 Prechistenka St, bldg. 5	307.4	The Davydovs' Estate	64 dtd 30.03.2011	before 29.02.2012

As of 31.12.2012

No.	Address of the leased property	Area (sq.m)	Landlord	Contract	Contract term
1	Moscow, 4 Pervaya Tverskaya Yamskaya St,	400.7	Moscow Property Department	01-00316/05 dtd 28.04.2005	indefinite term
2	Moscow, 11/8 Mokhovaya St	305.7	Administration Department of Moscow Mayor's Office	654-03-08 dtd 09.02.2009	indefinite term
3	Moscow, 17/9 Prechistenka St	58.7	The Davydovs' Estate	615 dtd 01.10.2010	indefinite term
4	8 Sechenovsky Pereulok, bldg 4.	1,484.4	The Davydovs' Estate	616 dtd 01.10.2010	indefinite term
5	Moscow, 13/1 Mokhovaya St	313.7	Sistema Telecom Assets	120 dtd 01.07.2012	before 31.05.2013
6	Moscow, 17/9 Prechistenka St	737.6	The Davydovs' Estate	43 dtd 01.03.2012	before 31.01.2013
7	Moscow, 17/8 Prechistenka St, bldg. 5	567.7	The Davydovs' Estate	42 dtd 01.03.2012	before 31.01.2013

8. Financial investments

8.1. Investments in shares

In accordance with the adopted strategy in 2012 Sistema invested cash and securities in the shares of its subsidiaries and affiliates.

The book value of investments in shares (stakes) amounted to:

Issuer	RUR '000		
	as of 31.12.2010	as of 31.12.11	as of 31.12.2012
Total	420, 474, 737	385, 668, 641	540,527,462
including listed shares, total:	348, 344, 352	293, 138, 685	378, 622, 494
MTS	202, 336, 300	150, 352, 235	180, 195, 028
Hals Development	75,883	19,434	16,041
Sitronics	3, 119, 902	-	-
Bashneft	142, 797, 267	142, 489, 660	198, 411, 425
Moscow Stock Exchange	15,000	4,944	-
Shares held in trust	-	272,412	-

Total amount (net) of shares revaluation for the reporting period was RUR 74, 516, 184 thousand and is reflected on the profit and loss account, Form 2 as part of other earnings (expenses). The total amount (net) of shares revaluation for the previous year was RUR (53, 753, 314) thousand and is reflected on the profit and loss account, Form 2 as part of other earnings (expenses).

According to sub-clause 24, clause 1 of Article 251 of the Russian Tax Code, income received as positive (negative) difference in the course of revaluating securities at market value (and contributing them to the authorized capital of other companies) is not to be taken into account when determining the tax base for the purpose of income tax.

According to the swap agreement signed with OJSC NIS the Company made a contribution to OJSC NIS when increasing its authorized capital by issuing additional shares in the reporting period. The payment was made by non-monetary assets in the form of 51% of the authorized capital of M2M Telematics valued at RUR 899,963 thousand. The difference between the initial value of the stake and the reestimated value amounted to 288, 335 thousand.

Valuation method used for the retirement 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 Corporation under simple partnership agreement, loans and deposits in lending organizations are estimated at their initial acquisition value at retirement (cl. 26, 27 PBU 19/02).

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.

The financial investments whose current market value is to be determined at disposal are accounted for at the value of the last valuation performed (cl. 30 PBU 19/02).

8.2. The structure of long-term financial investments

Indicator	RUR '000	
	as of 31.12.11	as of 31.12.12
Long-term financial investments		
including:	390, 922, 112	549, 319, 430
- investments in shares (stakes):	385, 516, 576	540, 330, 415
- loans granted for the period exceeding 12 months	2, 575, 328	8, 595, 721
- promissory notes with maturity exceeding 12 months	2, 830, 207	393,295

Non-interest-bearing notes are accounted for as accounts receivable, p. 12310 of the Balance Sheet.

8.3. The structure of other non-current assets:

RUR '000

Indicator	as of 31.12.11	as of 31.12.12
Other non-current assets, including:	60,125	-
- deferred expenses with maturity exceeding 12 months	60,125	-

8.4. The structure of short-term financial investments

RUR '000

Indicator	as of 31.12.11	as of 31.12.12
Short-term financial investments, including:	62, 283, 530	38, 446, 180
Loans granted to other companies for the period of less than 12 months.	2, 748, 492	18, 691, 074
- promissory notes with maturity exceeding 12 months	7, 186, 468	9, 705, 907
Deposits	50, 512, 029	9, 105, 134
Other short-term investments	1, 836, 540	944,066

9. Long-term liabilities

RUR '000

Lender	as of 31.12.11	as of 31.12.12
Promissory notes issued, date of issuance - not earlier than 31.12.2013	894,735	873,567
Company's own bonds	39,000,040	25, 659, 454
Loans		15, 186, 350
Deferred tax liability	41,082	96,718
Total	39, 935, 857	41, 816, 089

All the liabilities related to debts and borrowings are being discharged on time.

Information about loans and borrowings

as of 31.12.2011.

Promissory notes issued (short-term)

RUR '000

Note No	Value	Type	Maturity date
Note No 0000025 dtd 17.03.10.+4.5%	27,089	Interest-bearing	after sight, but not before 17.03.11
Note No 0000027 dtd 29.03.10.+5 %	900,000	Interest-bearing	after sight, but not before 29.04.10
Note No 0000028 dtd 29.03.10.+5 %	900,000	Interest-bearing	after sight, but not before 29.04.10
Note No 0000029 dtd 29.03.10.+5 %	500,000	Interest-bearing	after sight, but not before 29.04.10
Note No 0000030 dtd 29.03.10.+5 %	500,000	Interest-bearing	after sight, but not before 29.04.10
Note No 0000031 dtd 29.03.10. +5.5 %	1, 000, 000	Interest-bearing	after sight, but not before 29.05.10
Note No 0000032 dtd 29.03.10.+5.5 %	1, 000, 000	Interest-bearing	after sight, but not before 29.05.10
Note No 0000033 dtd 29.03.10.+5.5 %	500,000	Interest-bearing	after sight, but not before 29.05.10
Note No 0000034 dtd 29.03.10.+5.5 %	500,000	Interest-bearing	after sight, but not before 29.05.10
Note No 0000035 dtd 29.03.10. +6 %	500,000	Interest-bearing	after sight, but not before 29.06.10
Note No 0000036 dtd 29.03.10.+6 %	500,000	Interest-bearing	after sight, but not before 29.06.10
Note No 0000037 dtd 29.03.10. +6 %	1,000,000	Interest-bearing	after sight, but not before 29.06.10
Note No 0000038 dtd 29.03.10.+6 %	1,000,000	Interest-bearing	after sight, but not before 29.06.10
Note No 0000063 dtd 20.09.11. after sight, but	450,000	Non-interest-	after sight, but not before

not before 24.09.12		bearing	24.09.12
Note No 0000070 dtd 14.12.10.+8.0 %	65,000	Interest-bearing	after sight, but not before 31.01.11
Note No 0000071 dtd 14.12.10.+8.0 %	46,696	Interest-bearing	after sight, but not before 28.02.11
Note No 0000133 dtd 07.06.11. after sight, but not before 05.12.12+8.0 %	100,000	Interest-bearing	after sight, but not before 05.12.12
Note No 0000134 dtd 07.06.11. after sight, but not before 05.12.12+8.0 %	100,000	Interest-bearing	after sight, but not before 05.12.12
Note No 0000135 dtd 07.06.11. after sight, but not before 05.12.12+8.0 %	100,000	Interest-bearing	after sight, but not before 05.12.12
Note No 0000136 dtd 07.06.11. after sight, but not before 05.12.12+8.0 %	100,000	Interest-bearing	after sight, but not before 05.12.12
Note No 0000137 dtd 07.06.11. after sight, but not before 05.12.12+8.0 %	50,000	Interest-bearing	after sight, but not before 05.12.12
Note No 0000138 dtd 07.06.11. after sight, but not before 05.12.12+8.0 %	77,116	Interest-bearing	after sight, but not before 05.12.12
Total	9,915,902		
Interest payable on short-term promissory notes	605,287		

Promissory notes issued (long-term)

RUR '000

Note No	Value	Type	Maturity date
Note № 0000018 dtd 20.11.09	78,581	Non-interest-bearing	after sight, but not before 20.11.17
Note № 0000019 dtd 20.11.09	1,473	Non-interest-bearing	after sight, but not before 20.11.17
Note № 0000020 dtd 20.11.09	6,144	Non-interest-bearing	after sight, but not before 20.11.17
Note № 0000021 dtd 20.11.09	5,439	Non-interest-bearing	after sight, but not before 20.11.17
Note № 0000022 dtd 20.11.09	21,167	Non-interest-bearing	after sight, but not before 20.11.17
Note № 0000023 dtd 20.11.09	618,457	Non-interest-bearing	after sight, but not before 20.11.17
Note No 0000024 dtd 03.12.09. after sight, but not before 03.12.14	163,473	Non-interest-bearing	after sight, but not before 20.11.17
Total	894,735		

Interest payable on long-term promissory notes

0

Bonds issued (long-term)

RUR '000

Issue No	Value	Type	Maturity date
Bonds, reg. No4-01-01669-A dtd 21.02.08. Issue date 13.03.08/ Maturity-07.03.13/+9.45% (I,II coupon)+19% (III,IV coupon)+9,45% (V-IX coupon)	5,999,995	Interest-bearing	07.03.2013
Bonds, reg. No4-02-01669-A dtd 03.02.09. Issue date 18.08.09/Maturity-12.08.14/+14.75% (I-V coupon)	11,358,340	Interest-bearing	12.08.2014
Bonds, reg. No4-03-01669-A dtd 27.10.2009 Issue date 03.12.09/ Maturity -02.11.16/+12.5% (I-VII coupon)	8,141,660	Interest-bearing	02.11.2016
Bonds, reg. No4-04-01669-A dtd 27.01.11. Issue date 22.03.11/Maturity -15.03.2016/+7.65%	13,500,045	Interest-bearing	15.03.2016
Total	39,000,040		

Interest payable on bonds	1,178,176		
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Loans received (short-term)**As of 31.12.11**

RUR '000

Lender	Agreement No	Maturity date	Amount in '000 USD	Amount in RUR RUR '000
EBRD	Loan Agreement dtd 21.07.09/Repayment date - 21.07.2012/LIBOR3 mnt+7.3%/From 15.06.10 LIBOR3 mnt+5.2% /Liability arising on 22.07.09	21.07.2012	60,000	2,500,284

Total**2, 500, 284****As of 31.12.2012****Promissory notes issued (short-term)**

RUR '000

Note No	Value	Type	Maturity date
Note No 0000027 dtd 29.03.10.	900,000	Interest-bearing	after sight, but not before 29.04.10
Note No 0000028 dtd 29.03.10.	900,000	Interest-bearing	after sight, but not before 29.04.10
Note No 0000029 dtd 29.03.10.	500,000	Interest-bearing	after sight, but not before 29.04.10
Note No 0000030 dtd 29.03.10.	500,000	Interest-bearing	after sight, but not before 29.04.10
Note No 0000031 dtd 29.03.10.	1,000,000	Interest-bearing	after sight, but not before 29.05.10
Note No 0000032 dtd 29.03.10.	1,000,000	Interest-bearing	after sight, but not before 29.05.10
Note No 0000033 dtd 29.03.10.	500,000	Interest-bearing	after sight, but not before 29.05.10
Note No 0000034 dtd 29.03.10.	500,000	Interest-bearing	after sight, but not before 29.05.10
Note No 0000035 dtd 29.03.10.	500,000	Interest-bearing	after sight, but not before 29.06.10
Note No 0000036 dtd 29.03.10.	500,000	Interest-bearing	after sight, but not before 29.06.10
Note No 0000037 dtd 29.03.10.	1,000,000	Interest-bearing	after sight, but not before 29.06.10
Note No 0000038 dtd 29.03.10.	1,000,000	Interest-bearing	after sight, but not before 29.06.10
Note No 0000063 dtd 20.09.11.	450,000	Non-interest-bearing	after sight, but not before 24.09.12
Note No 0000134 dtd 07.06.11.	100,000	Interest-bearing	after sight, but not before 05.12.12
Note No 0000135 dtd 07.06.11.	100,000	Interest-bearing	after sight, but not before 05.12.12
Note No 0000136 dtd 07.06.11.	100,000	Interest-bearing	after sight, but not before 05.05.12

Total**9, 550, 000**

Interest payable on short-term promissory notes

607,447

Bonds issued (short-term)

RUR '000

Issue No	Value	Type	Maturity date
Bonds, reg. No4-01-01669-A dtd 21.02.08. Issue date 13.03.08/ Maturity-07.03.13/+9.45% (I,II coupon)+19%(III,IV coupon)+9,75% (V-IX	5,025,081	Interest-bearing	07.03.2013

coupon)
Interest payable on bonds

798,974

Total short-term securities

14,575,081

Total interest payable

1,406,421

Promissory notes issued (long-term)

RUR '000

Note No	Value	Type	Maturity date
Note № 0000018 dtd 20.11.09	78,581	Non-interest-bearing	after sight, but not before 20.11.17
Note № 0000019 dtd 20.11.09	1,473	Non-interest-bearing	after sight, but not before 20.11.17
Note № 0000020 dtd 20.11.09	6,144	Non-interest-bearing	after sight, but not before 20.11.17
Note № 0000021 dtd 20.11.09	5,439	Non-interest-bearing	after sight, but not before 20.11.17
Note № 0000023 dtd 20.11.09	618,457	Non-interest-bearing	after sight, but not before 20.11.17
Note No 0000024 dtd 03.12.09.	163,473	Non-interest-bearing	after sight, but not before 03.12.14
Total	873,567		

Bonds issued (long-term)

RUR '000

Issue No	Value	Type	Maturity date
Bonds, reg. No4-02-01669-A dtd 03.02.09. Issue date 18.08.09/Maturity-12.08.14/+14.75% (I-VI coupon) 8.35% (VII-X coupon)	10,618,895	Interest-bearing	12.08.2014
Bonds, reg. No4-03-01669-A dtd 27.10.2009 Issue date 03.12.09/ Maturity -24.11.16/+12.5% (I-VI coupon). 8.75% (VII-XIV coupon)	1,576,257	Interest-bearing	02.11.2016
Bonds, reg. No4-04-01669-A dtd 27.01.11. Issue date 22.03.11/Maturity -15.03.2016/+7.65%	13,464,303	Interest-bearing	15.03.2016
Total	25,659,455		

Total short-term securities

26,533,022

interest

0

Loans and borrowings obtained (short-term)

RUR '000

Lender	Agreement No	Maturity date	Amount
SSA FUND (SINGAPORE) PTE.LTD	Loan agreement No 272 dtd 26.12.12	Maturity - on demand	17,187,911 (565, 900 ths.USD)

Total

17, 187, 911

Interest payable

140,439

Loans and borrowings obtained (long-term)

RUR '000

Lender	Agreement No	Maturity date	Amount
Sistema International Funding S.A.	Loan Agreement dtd 17.05.2012.	Maturity – 17.05.2019	15,186,350 (500, 000 ths.USD)

Total

15, 186, 350

10. Inventory

The value of inventories is recorded at the price paid.

When inventories are issued to operations or otherwise disposed of, their value is recorded at average cost. Average cost for each item of inventory is determined within the group of tangible assets.

10.1. Inventory availability and movement

RUR '000

Indicator	Period	BoP		Change over the period		EoP
		cost	receipts and expenses	disposed		
				cost		
Inventory - total	for 2011	21,674	255,070	-100,829	175,915	
	for 2012	175,915	1,964,980	-307,665	1,833,231	
including: Raw materials and other valuables	for 2011	876	48,571	-41,280	8,167	
	for 2012	8,167	48,273	-51,702	4,739	
Goods shipped	for 2011					
	for 2012		1,770,819		1,770,819	
Prepaid expenses (for the items shown in the Inventory Section of the balance sheet statement)	for 2011	20,798	206,499	-59,549	167,748	
	for 2012	167,748	145,888	-255,963	57,673	

Goods shipped as of 31.12.2012 include the residual value of the building transferred to Bashneft under the Purchase Agreement dated 21.12.2012. Revenue from the sale of the building in the amount of RUR 4,023,800,000 incl. VAT will be recognised in 2013 under Other Income at the date of state registration of title for the buyer of the building. Accrued additional capital from revaluation of the building in the amount of RUR 1,324,774,000 will be also recognised in retained earnings in January 2013.

11. Earnings

For the purposes of accounting statements for 2012 the Corporation shall recognise the following as Earnings from ordinary business:

- participatory interest in the business of other companies (organisations) potentially yielding dividends;
- leasing for a consideration its assets for temporary use (temporary possession and use) under a lease agreement;
- providing surety for others to their creditors;
- rendering services under agency agreements (commission agreements, engagement agreements, etc.);
- rendering information and consultancy services;
- other activities.

Other earnings:

- transfers of securities (other property) to trust management under agreements with trust managers;
- operations with securities;
- execution of currency exchange transactions (forward deals);
- sale of property, plant and equipment, securities and other assets other than products, goods or cash (except foreign currencies);
- making cash available for use;
- income of prior years recognised in the reporting year;
- other operations.

Should the business environment change during a reporting period, earnings from other business operations can be recognised as earnings from ordinary business activities.

Revenues shall be recognised in money terms in the amount equal to the receipts of cash or other property and (or) the amount of receivables.

RUR '000				
Type of earnings	2011	%	2012	%
Revenue:	29,208,979	100	26,460,099	100
Equity holdings	28,658,070	98	26,104,253	99
Other revenues	550,909	2	355,846	1
Interest receivable	2,799,878	100	2,774,833	100
Other earnings, incl:	116,447,056	100	168,304,649	100
Revaluation of listed stock	59,373,428	51	110,030,237	65
Purchase and sale of shares, stakes, repayment of FMFS securities held in trust	18,842,915	16	8,485,655	5
Repayment of promissory notes	16,750,977	14	14,917,761	9
Earnings from sale/purchase of foreign currencies	3,362,520	3	24,037,135	14
Currency differences	4,669,420	4	10,442,562	6
Other earnings, incl:	13,447,796	12	391,299	1
<i>difference in securities value on contribution into authorised capital</i>	<i>13,017,306</i>		<i>288,335</i>	

12. Expenses on ordinary business

General expenses were set off against sales of goods (works and services) in full. Expenses include holiday allowances and bonuses accrued from reserve provisions in 2012 and payable in 2013.

Aggregate utility costs for the year 2012 equaled RUR 19,660,000, incl. VAT.

12.1. Operating expenses

Indicator	RUR '000	
	for 2011	for 2012
Cost of materials	3,034	31,649
Payroll expenses	7,268,878	4,641,573
Welfare charges	148,239	130,805
Depreciation/Amortisation	230,748	252,930
Other expenses, incl:	1,212,178	1,288,174
<i>information & consultancy services</i>	<i>208,915</i>	<i>282,033</i>
<i>outsourcing</i>	<i>135,275</i>	<i>90,144</i>
<i>building maintenance</i>	<i>230,364</i>	<i>237,325</i>
<i>business meetings</i>	<i>123,920</i>	<i>119,108</i>
<i>taxes</i>	<i>88,417</i>	<i>83,373</i>
<i>car maintenance</i>	<i>66,308</i>	<i>47,251</i>
<i>entertainment expenses</i>	<i>56,058</i>	<i>27,873</i>
<i>software</i>	<i>31,837</i>	<i>101,929</i>
<i>other</i>	<i>271,084</i>	<i>299,138</i>
Total	8,863,077	6,345,131

13. Prepaid expenses

Expenses incurred by Sistema in the reporting year but relating to future reporting periods are recognised as prepaid expenses. Such expenses are written off to the intended use based

on a straight-line method during the periods to which they are related or in line with the management instructions.

14. Accounts receivable

	RUR '000	
Types of accounts receivable	as of 31.12.11	as of 31.12.12
Long-term		
Non-interest bearing notes		
Total long-term accounts receivable		
Short-term		
Settlements with buyers and customers	1,060,587	198,906
Non-interest bearing notes	14,626,217	1,356,077
Other accounts receivable	3,903,813	3,599,014
Total short-term accounts receivable	19,590,617	5,089,188
Total accounts receivable	19,590,617	5,089,188

15. Provisions

The indebtedness of buyers and customers was determined on the basis of the agreements executed by and between Sistema JSFC and the buyers (customers).

Total short-term liabilities of buyers and customers, including the accrued provisions for bad debts as of 31.12.12, amounts to RUR 198,906,000, comprising:

Provisions for bad debts:

	RUR '000
Aktiv Management	253
Agreement UD-12/12 dd. 31.12.08	253
Alfaplast	5,802
Surety Agreement №1441-1/05 dd. 20.04.05	5,802
Basic	21,144
Surety Agreement № 1367-4/04 dd. 02.12.04	21,144
Delta Telecom, ZAO	49,686
Surety Agreement №P-9212/25 dd. 27.09.2007	19,543
Surety Agreement №P-9307/19 dd. 27.09.2007	17,250
Surety Agreement №P-9352/14 dd. 27.09.2007	12,893
Doblest Otechestva	766
Agreement № UD-07-08/4 dd. 01.07.08	766
ConsultMedia	5,045
Surety Agreement № 1439-1/05 dd. 20.04.05	5,045
Moscow Mobile Communications	47,450
Surety Agreement №P-9198/12 dd. 27.09.2007	5,036
Surety Agreement №P-9340/13 dd. 27.09.2007	42,414
Olympic Sistema	2,801
Surety Agreement № 1374-4/04 dd. 28.12.2004	2,801
Rubicon Nord	10,450
Surety Agreement № 1294-4/04 dd. 02.12.04	10,450
Sistema Venture	1,698
Surety Agreement №1612-1/05 dd. 01.11.2005	1,698
Sistemny Proekt	31,933
Surety Agreement №1387-1/04 dd. 10.01.2005	31,933
Total provisions for accounts receivable	177,028
Medsi Fitness (Previously – until 11.05.2012 Centre of Sports Programmes; previously – KSRFKiS ANO)	6,228
Note 2636198 dd. 07.02.07 at sight. Issued by Medsi Fitness /31-12-10	6,228
New Sports Company and the TNV company	2,155

Note 0001-05 dd. 03.08.05 at sight. Issued by the New Sports Company and the TNV company/31-12-10	2,155
National newspaper Rossiya	215,331
promissory note	215,331
Olympic Sistema	211,807
promissory note	211,807
Olympic House	375
Note 008 dd. 29.05.06. at sight. Issued by Olympic House/31-12-10	375
Sistema Venture	25,231
promissory note	25,231
Sistema International Investment Grupp	659
Note № 01 dd. 12.11.08 at sight. Issued by Sistema International Investment Grupp/31-12-11	659
Sistemny Proekt	272,474
Note JV № 053 dd. 30.06.09, at sight but not earlier than 30.06.10+10.2%- ;Contract of exchange of notes dd. 30.06.09- Interest receivable	272,474
TOTAL PROVISIONS FOR PROMISSORY NOTES	815,560
Alfaplast	641,700
Loan agreement № 1441-4/05 dd. 20.04.05/Claim assignment agreement № C-03/08 dd. 31.10.08 from JSCB MBRR /+15%/Effective till 15.01.09	641,700
Geocom	613,800
Loan agreement № 1440-4/05 dd. 20.04.05/Claim assignment agreement № C-02/08 dd. 31.10.08 from JSCB MBRR /+15%/Effective till 15.01.09	613,800
ConsultMedia	558,000
Loan agreement № 1439-4/05 dd. 20.04.05/Claim assignment agreement № C-01/08 dd. 31.10.08 from JSCB MBRR /+15%/Effective till 15.01.09	558,000
TOTAL PROVISIONS FOR ASSIGNMENT AGREEMENTS	1,813,500
Alfaplast	316,905
Loan agreement № 1441-4/05 dd. 20.04.05/Claim assignment agreement № C-03/08 dd. 31.10.08 from JSCB MBRR /+15%/Deadline-15.01.09	316,905
Binnopharm	34,364
BioCity Project	34,364
Geocom	303,127
Loan agreement № 1440-4/05 dd. 20.04.05/Claim assignment agreement № C-02/08 dd. 31.10.08 from JSCB MBRR /+15%/Deadline-15.01.09	303,127
ConsultMedia	275,570
Loan agreement № 1439-4/05 dd. 20.04.05/Claim assignment agreement № C-01/08 dd. 31.10.08 from JSCB MBRR /+15%/Deadline-15.01.09	275,570
Medsi Holding	20,053
~Loan Agreement № 14-05/MX dd. 14.05.04 /Deadline - 01.12.05 DS № 1 - up to 30.12.09/31-12-11	20,053
Meridian	4,049
Claim settlement	4,049
Moscow school of hairdressers and cosmetologists	5,095
Lease agreement 3/SG-04/A dd. 15.03.04	5,095
Greenwald International, LLC (~before 02.07.2012. Interregional Center Nezavisimost, LLC)	81,381
Note MC № 0100027 dd. 30.11.11./issued by Greenwald, LLC. Previously "Interregional Center Nezavisimost, Interest from 01.12.11 to 30.11.12 /Cntr.№ 232 notes dd. 30.11.11.	81,381
Sistema Venture	10,972
Loan agreement № 12-07/CB dd. 12.07.04/Deadline-12.07.06. under Amendment dd. 26.007.2006 deadline - 12.07.2011/31-12-11	10,972
Sistemny Proekt	55,585
Note JV № 053 dd. 30.06.09, at sight but not earlier than 30.06.10+10.2%- ;Contract of exchange of notes dd. 30.06.09- Interest receivable	55,585
Sitronics from 02.08.06~Conc. Sitr. from 21.11.05 ~KNC	227,284

TOTAL PROVISIONS FOR ACCOUNT 76	1,253,083
TOTAL PROVISIONS	4,059,171

16. Contingent liabilities

RUR
'000

Indicator	Balance BoP	Recognised	Repaid	Written off as excess	Balance EoP
Contingent liabilities - total	1,446,871	3,604,936	-1,001,673	-230,000	3,820,134
including:					
Holiday pay	853,484		-415,870	-222,415	215,199
Holiday allowance	774,483		(377,367)	(201,836)	195,280
Holiday insurance premium	77,452		(37,748)	(20,176)	19,528
Holiday injuries allowance	1,549		(755)	(403)	391
Bonuses	593,387	3,604,936	-585,802	-7,585	3,604,935
insurance premium annual bonus 2011	43,667	-	(43,457)	(210)	-
injuries annual bonus 2011	873	-	(869)	(4)	-
insurance premium bonus for Q4 2011	10,179	-	(9,856)	(323)	-
insurance bonus for Q4 2011	204	-	(197)	(6)	-
provisions for annual bonus 2011	436,672	-	(432,860)	(3,812)	-
provisions for bonus for Q4 2011	101,791	-	(98,563)	(3,228)	-
provisions for annual bonus 2012	-	787,300	-	-	787,300
insurance premium annual bonus 2012	-	78,730	-	-	78,730
injuries annual bonus 2012	-	1,575	-	-	1,575
provisions for LTIP bonus 2012	-	835,249	-	-	835,249
injuries LTIP bonus 2012	-	1,670	-	-	1,670
insurance premium LTIP bonus 2012	-	83,525	-	-	83,525
provisions additional bonus 2012	-	1,648,718	-	-	1,648,718
injuries additional bonus 2012	-	3,297	-	-	3,297
insurance premium additional bonus 2012	-	164,872	-	-	164,872

17. Additional capital

Changes in additional capital related to recognition of real property revaluation:

Period	Initial value	Depreciation	Total
Running total as of 01.01.2010			1,615,793
For 2010	358,665	(95,877)	262,788
For 2011	(132,722)	38,612	(94,110)
For 2012	53,222	(10,024)	43,198
Total as of 31.12.2012			1,827,670

18. Reserve capital

Reserve capital is intended to cover the losses that have not been specified, but may occur. In line with the company's charter the reserve capital is formed from net income until it reaches 5% of the authorised capital. Reserve capital has been formed in full. No accruals to reserve capital were made in 2012.

19. Structure of accounting profits before tax:

RUR '000

Description	2012	2012
Income from sales, total, incl.	20,345,902	20,114,968
dividends receive with taxes	28,658,070	26,104,253
Interest payable, less interest receivable	(2,898,940)	(1,800,207)
Income/Losses from other operations, total	(32,589,604)	68,029,748
including:		

- revaluation of listed stock	(53,753,314)	74,516,184
- income from sale of shares, promissory notes	11,947,776	278,292
- currency differences (net)	519,508	(910,487)
- other income/expenses	8,696,426	(5,854,241)
Income/ Loss before tax	(15,142,642)	86,344,509
Income tax in the form of dividends, other	(751,179)	(276,694)
Current income tax	(6,379)	(2,386)
Deferred tax assets	2,075,788	2,016,821
Deferred tax liability	218,766	(55,635)
Net income	(13,605,646)	88,026,615

20. Income tax

For tax purposes, Sistema JSFC recognises revenue on shipment basis.

Income tax is calculated in compliance with the Russian Tax Code. The income tax rate for core business equals 20%. For income in the form of % (ACI) from government and municipal securities it is 15% (this form relates to the income received from transfer of cash under trust management). The tax rate on dividends received from Russian legal entities in 2012 equals 9%. The tax rate on dividends received from foreign legal entities equals 15%.

Deferred tax assets and income tax liabilities are shown using book value method, taking into account the temporary differences between tax accounting and financial accounting (PBU 18/02). The excess payment amount of income tax is not included in deferred assets (in the balance sheet report it is included in Other Accounts Receivable).

Difference between financial and tax accounting

No	Description	RUR '000	
		2011	2012
1	Contingent income (expense) from/on income tax	8,101,184	(12,327,131)
2	Permanent tax liabilities (assets)	(6,564,026)	14,009,257
3	Deferred tax assets	2,075,788	2,016,821
4	Deferred tax liability	218,766	(55,635)
5	Tax on income in the form of dividends, other	(751,179)	(276,694)
6	Current income tax	(6,379)	(2,386)

21. Earnings per share

Basic earnings per share reflect the portion of profits in the reporting period payable to the holders of ordinary shares. They are calculated as a ratio of basic earnings over the reported period to the average weighted number of ordinary shares circulating during the reported year. (Basic earnings equal net income):

No	Indicator	RUR '000	
		2011	2012
1	Basic earnings in the reporting period	-	88,026,615
2	Average weighted number of ordinary shares, thous.	9,650,000	9,650,000
3	Basic earnings per share, RUR	-	9

22. Information about related parties

Sistema JSFC is a public company and publishes quarterly Issuer's Reports (in line with the rules of FSFM - Federal Service for Financial Markets) which contains a full list of affiliated persons. The full list of related parties as of 31.12.2012 is published in the List of Affiliated Persons Section on the Internet at <http://www.sistema.ru/info/sistema>

Settlements with related parties

RUR '000

Operation description	Total	Related parties	Other
2010			
Revenues from suretyship provision	382,061	369,963	12,098
Revenues from lease of assets	112,801	109,055	3,746
Sales of other services, goods and products, incl.	1,306,293	1,306,293	-
<i>Mosdachtrest</i>	1,148,732	1,148,732	-
Purchase of other services	344,892	212,027	132,865
Purchase of goods and other assets	2,921	2,174	747
Interest on loans receivable	682,398	470,527	211,871
Interest on loans payable	270,817	270,817	-
Interest on promissory notes receivable	382,008	246,218	135,790
Interest on deed of assignment receivable	220,706	128,114	92,592
Dividends receivable	41,401,535	41,390,465	11,070
<i>Bashneft</i>	22,843,921	22,843,921	-
<i>MTS</i>	9,797,861	9,797,861	-
Interest-bearing loans, incl.	15,836,320	8,682,534	7,153,786
<i>Sistema Shyam Teleservices Limited</i>	7,009,687	7,009,687	-

In 2010 the prices for related party transactions were set on arm's length terms.

RUR '000

Operation description	Total	Related parties	Other
2011			
Revenues from suretyship provision	292,701	243,726	48,975
Revenues from lease of assets	353,759	211,656	142,103
Sales of other services, goods and products	1,581	485	1,097
Purchase of other services	4,139,681	2,169,437	1,970,244
Purchase of goods and other assets	112,528	4,167	108,361
Interest on loans receivable	677,368	649,702	27,666
Interest on promissory notes receivable	245,926	232,137	13,789
Interest on bonds receivable	326,022	326,022	0
Interest on deed of assignment receivable	404,966	132,941	272,025
Dividends receivable	28,658,070	28,651,899	6,171
<i>Bashneft</i>	14,002,902	14,002,902	0
<i>MTS</i>	9,250,708	9,250,708	0
<i>Sistema Invest</i>	4,044,444	4,044,444	0
Interest-bearing loans, incl.	7,649,761	7,437,761	212,000
<i>Sistema Shyam Teleservices Limited</i>	1,424,390	1,424,390	0
Sale of promissory notes and bonds	0	0	0

In 2011 the prices for related party transactions were set on arm's length terms.

RUR '000

Operation description	Total	Related parties	Other
2012			
Revenues from suretyship provision	31,081	31,081	
Revenues from lease of assets	324,765	269,887	54,878
Sales of other services, goods and products	9,167	4,002	5,165
Purchase of other services	3,221,444	2,631,920	589,524
Purchase of goods and other assets	257,860	64,322	193,538

Interest on loans receivable	542,852	425,768	117,084
Interest on promissory notes receivable	197,320	197,246	74
Interest on bonds receivable	305,655	305,655	0
Interest on deed of assignment receivable	130,811	119,663	11,148
Dividends receivable	26,104,253	26,104,253	
	<i>Bashneft</i>	<i>10,560,580</i>	<i>10,560,580</i>
	<i>MTS</i>	<i>9,358,866</i>	<i>9,358,866</i>
	<i>Sistema Invest</i>	<i>1,963,000</i>	<i>1,963,000</i>
	<i>Sistema Telecom Assets</i>	<i>2,899,994</i>	<i>2,899,994</i>
	<i>RussNeft</i>	<i>1,310,639</i>	<i>1,310,639</i>
Loans granted, incl.	34,755,155	28,710,381	6,044,774
	<i>Sistema Shyam Teleservices Limited</i>	<i>7,009,687</i>	<i>7,009,687</i>
	<i>Sistema Finance Investments</i>	<i>1,000,000</i>	<i>1,000,000</i>
	<i>Sistema Holdings Ltd.</i>	<i>8,219,720</i>	<i>8,219,720</i>
	<i>SISTEMA FINANCE S.A.</i>	<i>6,035,274</i>	<i>0</i>
	<i>RTI</i>	<i>7,198,515</i>	<i>7,198,515</i>
	<i>RTI Estate</i>	<i>2,265,000</i>	<i>2,265,000</i>
	<i>Sistema Mass Media</i>	<i>746,612</i>	<i>746,612</i>
	<i>Mosdachrest</i>	<i>546,822</i>	<i>546,822</i>
	<i>MTS Bank</i>	<i>500,000</i>	<i>500,000</i>

In 2012 the prices for related party transactions were set on arm's length terms.

RUR '000

Description	Total	Related parties	Other
as of 31 December 2010			
Accounts receivable	27,961,504	26,304,554	1,656,950
Loans granted (incl. interest), incl.	15,684,436	15,358,868	325,568
	<i>Sistema Shyam Teleservices Limited</i>	<i>7,009,687</i>	<i>7,009,687</i>
	<i>Hurdsfied Corporation</i>	<i>4,821,687</i>	<i>4,821,687</i>
Accounts payable	494,932	90,954	403,978
Promissory notes received, incl.	33,338,853	32,625,784	713,069
	<i>Sistema Inventure</i>	<i>11,979,367</i>	<i>11,979,367</i>
	<i>Sistema Finance Investments</i>	<i>10,547,921</i>	<i>10,547,921</i>
	<i>Sistema Telecom Assets</i>	<i>3,018,300</i>	<i>3,018,300</i>
	<i>Sitronics Management</i>	<i>1,778,732</i>	<i>1,778,732</i>
	<i>PromTorgCentre</i>	<i>1,121,653</i>	<i>1,121,653</i>
Securities provided	78,099,615		78,099,615
As of 31.12.2011			
Accounts receivable	19,590,617	18,970,244	620,373
Loans granted (incl. interest), incl.	5,323,820	5,323,820	
	<i>MTS Bank</i>	<i>1,000,000</i>	<i>1,000,000</i>
	<i>Sistema-venture capital</i>	<i>1,056,861</i>	<i>1,056,861</i>
Accounts payable	194,970	107,154	87,816
Promissory notes received, incl.	17,627,432	16,801,671	825,760
	<i>Sistema Finance Investments</i>	<i>11,077,607</i>	<i>11,077,607</i>
	<i>Sistema Telecom Assets</i>	<i>1,918,300</i>	<i>1,918,300</i>
	<i>PromTorgCentre</i>	<i>1,121,653</i>	<i>1,121,653</i>
Securities provided	103,761,142		103,761,142
as of 31/12/2012			
Accounts receivable	5,089,188	3,900,780	1,188,408

Loans granted, incl.		27,286,795	21,242,021	6,044,774
	<i>CLIPPERS FINANCE S.A.</i>	6,035,274		6,035,274
	<i>Sistema Shyam Teleservices Limited</i>	6,985,721	6,985,721	
	<i>Sistema Finance Investments</i>	1,000,000	1,000,000	
	<i>Sistema Holdings Ltd.</i>	1,883,107	1,883,107	
	<i>RTI</i>	5,038,246	5,038,246	
	<i>RTI Estate</i>	2,265,000	2,265,000	
	<i>Sistema Mass-media</i>	746,612	746,612	
	<i>Mosdachrest</i>	546,822	546,822	
	<i>MTS Bank</i>	1,500,000	1,500,000	
Accounts payable		12,776,900	12,764,633	17,267
Promissory notes received, incl.		11,399,613	11,315,783	83,830
	<i>Sistema Finance Investments</i>	8,577,607	8,577,607	
	<i>PromTorgCentre</i>	1,121,653	1,121,653	
Securities provided		110,897,549		110,897,549

23. Contingent liabilities

Sistema JSFC acted as Surety for third parties, mostly its subsidiaries.

Securities for liabilities and payments granted as of 31.12.11

RUR '000			
Creditor	Borrower	Contract	Amount
ING BANK N.V., AMSTERDAM		Contract w/n dd. 11.10.2010/Letter of credit ING BANK N.V.	4,231,157
China Development Bank	Sistema Shyam Teleservices Limited	Guarantee dd. 23.12.2009 for Sistema Shyam Teleservices Limited (ceiling USD255,000,000) Effective till 23.12.2017	8,060,881
BANK OF CHINA LTD,SHENZHEN BRANCH	Sistema Shyam Teleservices Limited	Bank Security dd. 20.08.2009 / Effective till 29.06.2017	2,240,440
BANK OF CHINA LTD,SHENZHEN BRANCH		Surety Deed dd. 18.12.2009/ Effective till 18.12.2017	393,221
BANK OF CHINA LTD,SHENZHEN BRANCH		Surety Deed dd. 18.12.2009/ Effective till 18.12.2017	501,205
BANK OF CHINA LTD,SHENZHEN BRANCH		Surety Deed dd. 18.12.2009/ Effective till 18.12.2017	1,379,871
Central Bank of India (INR)	Sistema Shyam Teleservices Limited	Corporate Guarantee Agr. No.169 dd. 24.03.2012/ Effective till 24.03.2012	3,022,255
Goldman Sachs International	Intourist	Surety Deed dd. 09.06.2011 / Surety under a forward deal with CB for the shares of Thomas Cook Group	2,253,727
ICICI BANK LTD	Sistema Shyam Teleservices Limited	Corporate Guarantee Agr. No.640 dd. 13.12.2012/ Effective till 13.12.2011	637,738
SBI (STATE BANK OF INDIA (INR)	Sistema Shyam Teleservices Limited	Guarantee Agr. dd. 18.10.10 No. 584/ Effective till 11.01.2012	7,857,863
SBICAP TRUSTEE COMPANY LTD	Sistema Shyam Teleservices Limited	Guarantee Agr. No. 480 dd. 09.07.2012/ Effective till 04.02.2012	7,857,863
Gazprombank (Switzerland) Ltd.	Sistema Shyam Teleservices Limited	Guarantee dd. 22.12.2011 under the loan granted to Sistema Shyam Teleservices Limited. Effective till 03.12.2014. Amount USD 230,000,000.	7,405,103
Gazprombank (Switzerland) Ltd.	Sistema Shyam Teleservices Limited	Guarantee for the Buyer's Loan dd. 18.11.2008/ Effective till 21.03.11	575,173
Societe Generale	SHYAM TELELINK LTD	Guarantee for the Tied Commercial Loan dd. 18.11.2008/ Effective till 21.03.11	33,834
Unicredit Global Leasing Export GmbH	Kapali Overseas Corp.	Guarantee Agr. dd. 23.11.2010/ Effective till 23.11.2015/ Leasing of BBJ plane	1,726,870
Moscow Property Department	Detsky Mir-Center	Mortgage Agr. No.35/2005 dd. 02.08.05/Pledge of bldg. Milyutinsky per. 13/1/22/ Effective till 02.08.15	272,506

Rosnanotech Group		Investment Agr. dd. 09.10.2009, option agreement dd. 21.12.2009	8,844,754
Sberbank	Detsky Mir-Center	Agr. on options and transfer of shares dd. 07.12.10	3,585,700
Svyazinvest	Sistema Inventure	Surety Agr. No. 1835 dd. 23.08.2010 for Sistema-Inventure under contract of exchange dd. 30.07.10	11,098,639
UniCredit Bank	Medsi Group	Surety Agr. under the Loan Agr. No. 001/1036L/08 dd. 31.07.08/ Effective till 31.07.15	581,800
UniCredit Bank	Medsi Group	Surety Agr. under the Loan Agr. No. 001/1069L/08 dd. 30.05.08/ Effective till 30.11.14	276,891
UniCredit Bank	Medsi Group	Surety Agr. under the Loan Agr. No. 001/0170L/08 dd. 30.05.08/ Effective till 30.05.16	426,578
Sberbank	RussNeft	Amendment 8 dd. 04.2010 to Share Pledge Agr. No.3559/1 dd. 15.12.2005	30,497,073

Total

103,761,142

as of 31.12.12

RUR '000

Creditor	Borrower	Contract	Amount
BANK OF CHINA LTD,SHENZHEN BRANCH	Sistema Shyam Teleservices Limited	Bank Guarantee Arg. dd. 13.12.2012 – USD 19,737,000/ Effective till 13.12.2020	599,439
BANK OF CHINA LTD,SHENZHEN BRANCH	Sistema Shyam Teleservices Limited	Bank Guarantee Arg. dd. 13.12.2012 – USD 22,763,000/ Effective till 13.12.2020	691,366
BANK OF CHINA LTD,SHENZHEN BRANCH	Sistema Shyam Teleservices Limited	Bank Security Agr. dd. 20.08.2009 / Effective till 29.06.2017	1,921,413
BANK OF CHINA LTD,SHENZHEN BRANCH	Sistema Shyam Teleservices Limited	Surety Deed dd. 18.12.2009 - USD 43,860,463.94 / Effective till. 18.12.2017	1,301,723
BANK OF CHINA LTD,SHENZHEN BRANCH	Sistema Shyam Teleservices Limited	Surety Deed dd. 18.12.2009 - USD 12,213,307.45 / Effective till. 18.12.2017	370,951
BANK OF CHINA LTD,SHENZHEN BRANCH	Sistema Shyam Teleservices Limited	Surety Deed dd. 18.12.2009 - USD 15,567,249.35 / Effective till 8.12.2017	472,819
BARCLAYS BANK PLC	Sistema Shyam Teleservices Limited	Guarantee dd. 19.09.2011. Loan 2 under the surety deed w/n dd. 08.08.12 with Gazprombank/ Effective till 10.06.2014	2,549,766
Central Bank of India (INR)	Sistema Shyam Teleservices Limited	Corporate Guarantee Agr. w/n 12 dd. 21.05.2012 / Effective till 21.05.2017	2,771,485
China Development Bank	Sistema Shyam Teleservices Limited	Guarantee dd. 23.12.2009 (ceiling USD 255,000,000) / Effective till 23.12.2017	6,970,663
Deutsche Bank AG	Sistema Shyam Teleservices Limited	Guarantee under the Loan series 1 dd. 28.11.11, series 2 dd. 29.11.11/	7,095,002
ICICI Bank Limited	Sistema Shyam Teleservices Limited	Corporate Guarantee Agr. dd. 26.12.2012 / Effective till 05.01.2014	621,023
Raiffeisen Bank International AG	Sistema Shyam Teleservices Limited	Stand-by letter of credit agr. for INR 10,250,000,000 dd. 30.03.12 repayment of Loan 1 (Indusind Bank) and Loan 2 (UBS)	5,542,970
Societe Generale	Sistema Shyam Teleservices Limited	Guarantee for the Buyer's Loan dd. 18.11.2008	434,079
Societe Generale	Sistema Shyam Teleservices Limited	Guarantee for the Tied Commercial Loan dd. 18.11.2008	25,534

Unicredit Global Leasing Export GmbH	Kapali Overseas Corp.	Guarantee Agr. dd. 23.11.2010/ Effective till 23.11.2015/ Leasing of BBJ plane	885,364
Moscow City Property Department	Detsky Mir-Center	Mortgage Agr. No.35/2005 dd. 02.08.05/Pledge of bldg. Milyutinsky per. 13/1/22/ Effective till 02.08.15	272,506
Inter RAO UES	Sistema Invest and ECU GEST HOLDING	Surety to INTER RAO UES under the restructuring deal of Bashkirenergo	22,500,000
Rosnanotech Group		Investment Agr. dd. 09.10.2009, option agreement dd. 21.12.2009	10,014,349
Sberbank	Detsky Mir-Center	Agr. on options and transfer of shares dd. 07.12.10	3,769,151
Svyazinvest	Sistema Inventure	Surety Agr. No. 1835 dd. 23.08.2010 under the contract of exchange dd. 30.07.10	12,178,398
UniCredit Bank	Medsi Group	Surety Agr. under the Loan Agr. No. 001/1036L/08 dd. 31.07.08/ Effective till 31.07.15	581,800
UniCredit Bank	Medsi Group	Surety Agr. under the Loan Agr. No. 001/1069L/08 dd. 30.05.08/ Effective till 30.11.14	184,594
UniCredit Bank	Medsi Group	Surety Agr. under the Loan Agr. No. 001/0170L/08 dd. 30.05.08/ Effective till 30.05.16	373,256
Sberbank	RussNeft	Amendment 8 dd. 04.2010 to Share Pledge Agr. No.3559/1 dd. 15.12.2005	28,769,896
Total			110,897,549

The Agreement dd. 09.12.2010 between the Federal Agency for State Property Management of the Russian Federation and Sistema JSFC for buyback of Sistema Shyam Teleservices Limited shares worth USD 777m comes into force in March 2016.

24. Events after the reporting date

The following key events occurred between 01.01.2013 and the date of signing the statements:

- 1) CJSC MICEX Stock Exchange registered exchange traded bonds series BO-01 № 4B02-01-01669-A dd. 22.10.2012г., BO-02 № 4B02-02-01669-A dd. 22.10.2012г., BO-3 № 4B02-03-01669-A dd. 22.10.2012, the total number of bonds 30,000,000 at nominal value RUR 1,000. Placement had not started as of the date of signing the statements.
- 2) Repayment of non-convertible interest-bearing documentary bearer bonds with mandatory requirement of centralized storage, series 01, state registration № 4-01-01669-A dd. 21 February 2008. Bonds or any other issue-grade securities of the issuer, total number repaid: 5,025,081 (Five million twenty-five thousand eighty one)
- 3) Sistema Shyam TeleServices Limited (SSTL), subsidiary of Sistema JSFC providing its services under a brand MTS India, won licences in 8 circles during an auction held on 11.03.2013 for 800 MHz frequencies.
- 4) The Board of Directors of SG-Trans (Company), a subsidiary of Sistema JSFC, approved reorganizing the Company through a spin-off of SG-Trading.
- 5) Sistema JSFC successfully completed an SPO of series 03 bonds with the nominal value RUR 1,000, at a 100.65% of nominal value yield to call – 24 November 2016,

and effective yields to maturity of 8.72% per annum. The SPO amount equaled RUR 13.37 at nominal value.

25. Cash Flow Statement (CFS)

CFS was prepared in compliance with the Accounting Policy for CFS, PBU 23/11 approved by Directive of the Russian Ministry of Finance of 02.02.2011 No.11. Cash funds include: cash on hand, in settlement, foreign currency or special bank accounts, transfers in transit, deposits for not more than 3 months.

In the Cash Flow Statement, cash in foreign currencies was recognised at the exchange rate on the date of operation.

Taking into account the rationality requirement to financial accounting, the requirement of i.20 PBU 23.11 to disclose separately the company's material cash flows with related parties was disregarded by the Company in view of the fact that the Company's material cash flows in the reported period and in the previous reporting period mainly pertained to related parties.

In the Cash Flow Statement line 4500 "Closing balance of cash and cash equivalents" = line 4450 CFS "Opening cash balance" + line 4490 CFS "Effect of Rouble exchange rate changes" + line 4400 "Net cash flow from the reporting period".

Figures in line 4450 "Opening cash balance" and line 4500 "Closing cash balance" include deposits for not more than 3 months, as of 31.12.2011 – RUR 13,776,336,000, as of 31.12.2012 – RUR 4,416,000,000, accordingly.

Breakdown of line 4129 in the Cash Flow Statement

Indicator	RUR '000	
	for 2011	for 2012
Other payments/current operations	2,694,207	20,510
Payments to the tax authorities	1,352,380	674,080
Bank services/payment processing	109,912	232,156
Fee-of-charge financial aid to Binnopharm	-	1,705,000
Settlements with agent VTB Capital under the Agreement No.624 dd. 08.12.10	-	1,721,571
Other	85,355	375,287
Total for line 4129 Other payments	4,241,853	4,728,604

Breakdown of line 4219 in the Cash Flow Statement

Indicator	RUR '000	
	for 2011	for 2012
Recovery of deposits for more than 3 months	2,538,009	53,622,772
Recovery of property from trust management	-	3,321,857
Downpayment under an SPA with RZhD	-	4,000,000
Other	76,232	-
Total for line 4219 Other receipts	2,614,241	60,944,629

Breakdown of line 4229 in the Cash Flow Statement

Indicator	RUR '000	
	for 2011	for 2012
Opening of deposits for more than 3 months	35,973,703	21,797,125
Transfer of cash to trust management	2,500,000	200,000
Recovery of downpayment under an SPA with RZhD	-	4,000,000
Other	4,155,408	-
Total for line 4229 Other payments	42,629,111	25,997,125

26. Remuneration payable to the key management

Company's expenses on remuneration of key management personnel (President, Vice President, CEO and his deputies, members of the Management Board, members of the Board of Directors) include:

2010	2011	2012
-------------	-------------	-------------

Short-term remuneration, total	3,671,031	2,429,086	1,264,856
<i>including</i>			
salaries	712,470	480,727	535,100
annual holidays	110,786	161,034	165,849
taxes and mandatory payments to the tax authorities and non-budgetary funds	10,113	13,238	83,054
other short-term remuneration	2,837,662	1,774,087	480,853
Long-term remuneration, total	1,756,950	2,566,383	0

27. Property trust management (TM)

In 2012 Sistema recovered the key assets under 3 property trust management agreements with Allianz ROSNO Asset Management. EoP assets remaining under management:

	RUR '000
Allianz ROSNO Asset Management	
Agreement C70/ДУ-ЮЛ-2010 dtd 28.12.10	1,346
Agreement C71/ДУ-ЮЛ-2010 dtd 28.12.10	9,283
Agreement C72/ДУ-ЮЛ-2010 dtd 28.12.10	1,524

On the balance sheet of Sistema JSFC the account balances are shown in detail on the basis of trust management reports.

28. Risk management policy

The risks that may be faced by the business of the Corporation are diverse. They represent a manifestation of processes and factors on which Sistema JSFC has no or limited influence. Hence, efficient assessment and management of risks remain an important component of the strategy of Sistema JSFC.

The Corporation has introduced an integrated enterprise risk management system (ERM) that is designed to provide a reasonable guarantee that the strategic goals will be achieved and the level of risk will be kept within the limits that are acceptable for the shareholders and the management of the Corporation. ERM at Sistema JSFC was built in compliance with international standards, recommendations and best practices in risk management.

28.1. Industry risks

TELECOMMUNICATIONS

The Telecommunications business segment of Sistema JSFC represents one of the largest private telecom organizations in Russia. The companies of this business segment operate in the following sectors:

- Mobile telephony including voice services, Internet, data transfer, text messaging, roaming and long-distance communications, entertainment and content;
- Fixed telephony including voice services, Internet, data transfer, long-distance communications and pay TV;
- Development of proprietary retail network, mobile banking (MTS) development of M2M products and cloud services.

The telecom industry is currently undergoing major transitions: operators provide not only traditional voice services, but also data services, including content. Overall, the industry is demonstrating explosive growth of data traffic and the operators face the task of converting this traffic growth into the growth of profits by using an optimum pricing model. As competition intensifies, one of the key objectives is to enhance the quality of client service and to continue offering unique and convenient services.

Mobile telephony

- Government regulation of the telecom industry in Russia and in particular the implementation of recent initiatives (cancellation of intra-circle roaming, introduction of the technological neutrality principle) may have a negative impact on the profits of mobile telephony business;
- The passing of the law on mobile number portability may increase the churn of subscribers and lead to additional costs for the operator;
- Although MTS obtained a federal licence for providing 4G services on the basis of LTE (Long-Term Evolution) networks, the regulatory risks related to launching LTE technology remain;
- The growing competition from discount operators (Tele 2) may result in churn of subscribers and forced reduction of the price per minute of service, which will consequently lead to a significant drop in the earnings of MTS;
- Strong competition in the mobile Broadband segment (Megafon, Rostelecom) means that MTS requires considerable investment in the construction of 3G and LTE networks;
- Substitution of traditional mobile services and SMS by OTT(Over-The-Top) products like IP-telephony and message exchange programmes aided by the increased penetration of smartphones and unlimited tariffs;
- The position of MTS in the CIS markets remains unstable (discontinued operations in Uzbekistan, resuming operations in the market of Turkmenistan);
- Strengthening of the RUR exchange rate against the currencies of the CIS leads to a decline in the contributions of foreign subsidiaries to the revenues of MTS Group;
- The two main competitors (Megafon and Beeline) are taking considerable effort aimed at becoming convergence companies. Similar steps are expected to be taken by another player - the united Rostelecom. Megafon continues to actively develop its retail business, including through the acquisition of a stake in Euroset;
- Megafon was the first company to start the commercial operation of LTE network on the basis of Scartel (Yota brand) and it is actively promoting its advantage in the market: by the end of 2012 the LTE network of Megafon covers 22 cities.

Intense competition in the Indian market determines the low ARPU of SSTL and a long payback period of the business. The revised strategy of the company provides for active development of mobile broadband data and voice services in priority circles and for introducing smartphones to the market, entering the small and medium business segment and the segment of niche M-applications in order to fight off strong competition and increase ARPU.

On 11 March 2013 SSTL won an auction for the 800MHz spectrum (three bands 1.25 MHz each) being the only bidder at the auction. While participating in the auction SSTL decided not to bid for licences in three telecom circles - Mumbai, Maharashtra and Uttar Pradesh, and earlier it discontinued its operations in 10 circles. The Company will continue its operations in nine circles, which account for 40% of the Indian population and 60% of potential mobile Internet users. SSTL received technologically neutral frequencies for a 20-year term. In the future they can be used for the construction of 4G LTE networks.

Fixed telephony

- A drop in consumption of fixed line services due to the growing competition from mobile and IP telephony;
- A decline in the number of mobile subscribers, migration of subscribers to cheaper tariffs, a slow-down in BB growth in the regions, a shift in demand towards the cheaper mass market segment;
- MGTS and operators which are monopolists in the fixed telephony market are dependent on state regulation on communication tariffs;
- Further consolidation of BB and Pay TV operators, strengthened competition in the market.

The companies of Sistema's telecom business segment are pursuing a proactive strategy aimed at tackling these risks. The main focus is on ensuring efficient asset management designed to increase shareholder value. A set of measures has been developed and is currently being implemented in order to strengthen the telecom group in general and its separate parts in particular. For example, a lot of attention is given to cost efficiency, improvement of business processes and development of the network infrastructure.

MTS will also continue implementing its “3i” strategy – integration, innovation and Internet. The company will be developing comprehensive communication services for all subscriber groups and promoting them via integrated sales channels.

The following changes in the organizational structure of MTS have been approved: splitting the company into three critical divisions (sales, marketing and operations) and direct subordination of macro-region directors to the President of MTS. These changes will enable the company to accelerate the process of taking new convergent products and services to the market, and to increase the efficiency of management.

Moreover, in addition to new services the telecom segment is introducing new tariff plans to allow our companies to successfully compete in the market and to actively use convergent opportunities. The development of proprietary retail channel under MTS brand enables the company to maintain a big share in new additions, improve the quality of new subscribers and the loyalty of the existing ones. Besides, to diversify the business and to boost the company's quality MTS is implementing a strategy which provides for entering new markets associated with telecoms – M2M, Internet platform for content sales (Stream), mobile banking of MTS-Bank, services based on NFC technology, cloud computing etc.

In particular, the MTS Money project is aimed at satisfying the needs of customers by creating a unique product at the meeting point of telecom, retail and financial services, thus enhancing customer loyalty, increasing consumption and subscriber ARPU. This project makes it possible for MTS to develop business in the most fast-growing market - communications, consumer electronics and financial services for individuals.

MASS MEDIA

The Mass Media business segment is represented by Sistema Mass Media, its subsidiaries and affiliates. The operations of Sistema Mass Media encompass the following markets: content aggregation, production and distribution, the cinema industry (film production and services), advertising markets.

- SMM operates on the markets which are highly competitive and are prone to the risk of being considerably influenced by the fluctuations taking place in the adjacent segments of the media market;
- Moreover, although some mass media groups continue investing in the development of assets, which may result in tougher competition, most operators in these markets are planning to reduce their investment and scale down expansion plans.

In order to mitigate the risks the company constantly monitors the costs of products and services, as well as markets and competitors so as to implement best practices and launch content projects requiring the establishment of technological infrastructure. The company's suppliers have proven technological solutions, which have been successfully tested abroad.

FINANCIAL SERVICES

The banking business is associated with high risks in Russia. At the same time, the monetary and lending policy of the Russian government is aimed at boosting the stability of the banking sector and strengthening the protection of savers and bank lenders.

The key sector risks:

- a relatively insignificant size of the Russian banking system (the aggregate assets of the banking system account for approximately 80% of the GDP), susceptibility to the pressures of the general economic situation in Russia. The sustainability of the Russian financial system in its turn depends largely on the situation in the external markets, including the macroeconomic indicators of the eurozone countries;
- uncertain level of investors' confidence in Russia especially in the context of the bank's capital requirements;
- low capitalization of a considerable number of the Russian banks (from 01.01.2012 the minimum capital requirement was increased from RUR 90 to 180m), the growth rates of equity capital are lagging behind those of the assets;
- further consolidation of the banking sector against the background of the falling number of banks and the aggressive M&A strategy of state-owned banks (in the second half of 2012 the total number of Russian banks was less than 900 and it continues to decline, most of the largest banks remain under government control);
- reduction in profits from banking operations and interest earnings as a result of toughened rules on capital adequacy ratio and increased costs of fund-raising;
- potential growth of interbank interest rates, the build-up of liquidity deficit;
- high volatility in the foreign currency markets, the emerging gaps between the bank's assets and profits.

RETAIL

- Poor supply of high-quality retail space may be an impediment to fast expansion of the retail chain;
- The underdeveloped transport and IT infrastructure in the regions may create obstacles for regional development and further management of the regional retail chain;
- Increasing competition in the segment may lead to a decline in the industry's profit margins and cuts in the investment plans of the Russian retail operators. The development of modern retail formats in the children's goods market - both federal and local retail chains and large-format stores - may intensify competition in the children's goods market. The growth of Internet sales and the arrival of non-core players in the market may result in increased price competition and lower profitability.
- The aggressive M&A policy of competitors may result in DMC's losing its status of the only federal largest operator in its segment.

TOURISM

The major risk of the tour operating business is the aggressive dumping policy of most of the market players, especially those that have air transport divisions. Using the price as the main competition tool in the outbound tourist segment with virtually no barriers to market entry does not give any of the operators real long-term advantages.

Energy prices have a significant impact on the development of both inbound and outbound tourism. The growth of fuel prices triggers the rise in air transportation costs, which in turn drives up prices for tour products and puts a downward pressure on demand.

The unstable situation in North Africa and Middle East contributes to the shift of demand towards other tourist destinations (South-East Asia, Europe). As a result, the market operators rethink their product portfolios.

The hotel sector, being closely related to the tour operating business, accounts for a big share in the Intourist portfolio. The hotel market in Russia is mainly influenced by the customer traffic in tourist and business travel, both inbound and outbound. The tourists serviced by Intourist in the domestic and external markets both in the business and recreational tourist segments ensure the occupancy of the Intourist hotels, which enables the company to reduce the impact of the risk related to changes in tourist numbers.

The hotel business of Intourist is also influenced by foreign hotel operators aiming to develop their hotel chains in Russia, thus increasing competition from both new and existing hotels which form partnerships with market operators from the West.

HEALTHCARE (MEDICAL SERVICES)

1. Strong market fragmentation and potential dumping by market participants.
2. The risk of insurance companies reducing the volume of their insurance plans and a drop in the number of patients covered by such insurance plans.
3. The government's subsidizing the modernization of medical facilities results in the improved quality of medical services provided by state-owned clinics whose doctors can offer high-quality services at very low prices.
4. The shortage of qualified medical staff may place constraints on the development of the medical sector. Potential increase in competition for medical personnel may put pressure on profitability due to the growth of compensation levels for the best medical professionals.

PHARMACEUTICALS

1. Changes in the legislation (the mechanism for provision of reimbursed drugs, introduction of pricing regulation, a more complicated process for registration and clinical testing of new drugs).
2. Tougher competition from foreign producers interested in entering the Russian market, which is characterized by high growth rates and profit margins.
3. Risks of the emergence of new generics competing with the drugs produced by the company.
4. Pricing pressure from distributors.

HIGH TECHNOLOGIES

The High Technologies business unit is represented by OJSC RTI (hereinafter - RTI) and its subsidiaries and affiliates and operates in several industries, such as defence solutions, security systems, microelectronics and system integration. RTI conducts its business operations both in the domestic and external markets. Influenced by the global economic processes RTI will be facing risks both in the domestic and external markets. All the industries where the subsidiaries and affiliates of RTI operate have the following risks:

- RTI works in the market of major systemic knowledge-based projects associated with the following marketing risks: state-owned companies may have preferential treatment in tenders for selecting a lead contractor for a major project.

At present there is a battle of two concepts:

- a traditional concept when the state customer commissions a state company with project development irrespective of the level of this company's efficiency.

- a modern concept when the state customer awards the contract to the most efficient bidder irrespective of whether it's a state-owned or a private company.

Recently the choice has increasingly been made in favour of the efficient bidder, though should the strategic priorities of the government change, there may be a risk that contracts will be awarded based on company ownership principle. To mitigate this risk RTI is conducting active PR operations jointly with other successful private companies operating in the market of large-scale government projects and it is also actively involved in the preparation of government's long-term development plans for the projects of national importance.

- Some products of RTI's subsidiaries and affiliates may suffer from general reduction in prices, which may have a negative impact on their operations, financial position and performance results. The products and services of RTI's subsidiaries and affiliates may become outdated if the company fails to develop new products and services or improve the existing ones. RTI assesses this risk as negligible since the drop in prices for finished products is followed by a decrease in the prices for raw materials and components required for manufacturing these products. RTI has significant R&D potential and owns several research centers both in Russia and abroad, it is closely cooperating with foreign companies which are leaders in developing new and improving the existing products and solutions. Moreover, RTI is investing heavily in innovations and upgrading the product range;

- The subsidiaries and affiliates of RTI operate in a highly competitive environment including globally renowned companies. Most of such companies are better established in the market, have extensive customer bases and considerable opportunities in the area of finance, technology, marketing, distribution and other resources as compared to the subsidiaries of RTI, and thus they have important competitive advantages. RTI is minimizing this risk by ensuring competitiveness of its own products by means of meeting specific requirements of the customer, adapting products and solutions to the market requirements, offering the market unique products and solutions due to low production costs, R&D work and low costs for qualified personnel;

- RTI's subsidiaries and affiliates rely on their relationships with suppliers and sellers. The loss, break-up or deterioration of such relationships may produce an adverse effect on manufacturing, the financial position and the performance results of the company;

- The subsidiaries and affiliates of RTI are susceptible to the risks associated with a potential increase in prices for raw materials, component parts and services that they use in their daily operations. The impact of this risk is not so significant because materials, component parts and services bought from third parties do not have a major share in the production cost. In addition, RTI is taking considerable effort to diversify the base of suppliers and sellers and to constantly monitor the best offers in the market with respect to supplies and sales;

- The microelectronics industry, where RTI is operating, is historically prone to changes and is characterized by fluctuations in product supplies and demand. From time to time this industry suffers from a major decline mostly caused by the anticipation of change in product generations or technological cycles, or due to the surplus of commodity inventories or a general deterioration of the macroeconomic environment. If the economic environment deteriorates as compared to the current level, the demand for communication equipment and microelectronic products of RTI may fall, which will have an adverse effect on the financial results of RTI. Through its subsidiaries and affiliates RTI operates in the markets of various countries and regions whose technological cycles and economic environment are totally different. Therefore, should the demand for some type of product or service decline in one of the markets, the marketing and selling efforts of RTI will be

redirected to another market experiencing a higher demand for the products and services of RTI.

OIL AND ENERGY

In 2012 oil production in Russia rose by 1.3% compared to 2011 with Bashneft increasing its output by 2.2%.

The growth of average Brent oil price in the reporting period was 0.6% and the average rouble rate weakened against US dollar by 5.7%; in aggregate these factors had a favourable impact on the oil companies.

The price for crude oil and oil products is the main factor determining the financial and operating results of Bashneft. The Company has limited capacity in terms of controlling the prices for its products, which mostly depend on the world market and the balance of supply and demand in the regions of the company's presence.

A drop in the price for oil and oil products may have an adverse effect on the operating and financial performance of the Company. Falling prices may cause a reduction in the volumes of Bashneft's profitable oil production, which will lead to a drop in profitable oil reserves, a decrease in the economic efficiency of the exploration and development works, review of investment projects, revision of the sales policy and a forced reduction of operating costs.

According to the management of Bashneft the most important risks include:

1. Seasonal fluctuation of demand for energy carriers
2. Increase in the tariffs of transportation monopolies (Transneft and RZD)
3. Measures taken by the government authorities in the area of export regulation, including the introduction of quotas for the export of the Issuer's products
4. Increase in the tax burden on oil companies
5. Tougher requirements to licencing the use of subsoil resources.
6. Accelerated development of alternative energy sources

ELECTRIC POWER

In the medium term the main industrial risks of OJSC BESK include:

- More stringent requirements of the regulator to the sustainability of energy supplies and strict HSE rules set by the government authorities coupled with a relatively high level of amortization of fixed assets;
- A drop in the revenues of power grid companies caused by the limits on power tariffs;
- Unstable legislation including plans for adopting a new methodology for setting tariffs based on the utilization rate of equipment;
- Growth in overdue payments owed by power distribution companies to the grid companies.

28.2. Country and regional risks

TELECOMMUNICATIONS

The telecom business unit of Sistema JSFC operates in Russia, CIS and India. These countries have all the risks that are usually associated with emerging economies.

- Despite relative stabilization of the world financial markets, the macroeconomic risks remain high and may have a negative impact on the operations of the business unit's companies;
- Devaluation of local currencies may result in slackened growth of dollar revenues;

- Considerable risks are posed by unfavourable regulatory changes in the telecom industry and unpredictable decisions of courts and government authorities in the countries of the company's presence.

MASS MEDIA

Most of the mass media business is conducted on the territory of the Russian Federation. The country risks of this business unit mostly depend on the political and economic situation in the Russian Federation.

FINANCIAL SERVICES, RETAIL, TOURISM, HEALTHCARE (MEDICAL SERVICES), PHARMACEUTICALS

Most of the operations of these business units are conducted on the territory of the Russian Federation. The country risks depend on the political and economic situation in the Russian Federation.

In children's retail most of the goods are imported from the South-East Asia (mostly from China). Significant climatic, political, economic and other changes in this region may have a negative impact on the goods supply capacity and prices.

The outbound tour operating business is prone to the risks related to political instability in the countries which are traditional tourist destinations (Egypt, Turkey).

HIGH TECHNOLOGIES

RTI is vulnerable not only to the Russian risks but to the risks related to international operations. A considerable part of the products is sold in the CIS, South-East Asia, Eastern Europe and North Africa.

In the event of major political turmoil in these regions the activities of the business units in these regions may be put on hold thus leading to significant losses. At the same time, there are a lot of alternative suppliers and potential buyers of the business unit's goods in other countries and in the event of necessity RTI may switch to these countries and markets.

OIL AND ENERGY

The main operations of the oil and energy business unit are conducted on the territory of the Russian Federation. The country risks of the business unit are related to the political and economic situation in the Russian Federation.

The probability of swift changes in the taxation system of the oil industry (in combination with the applied methodology of calculating 'oil taxes and levies' on the basis of prices of previous periods) poses the biggest risk for the financial results of the business unit.

ELECTRIC POWER

All the operations of OJSC BESK are conducted on the territory of the Republic of Bashkortostan. Therefore, the country and regional risks are caused by the political and economic situation in this region and in the Russian Federation as a whole. Consequently, the main risks for the company include:

- Keeping the growth of tariffs in the region within the limits of inflation or below.
- Revision of the current models of the wholesale and retail electric power and capacity market in Russia aimed at containing the growth of tariffs for end consumers.
- Poor technical and economic controls over the operation of small territorial grid companies, increased share of these grid companies in the boiler tariff due to the benefits they have in terms of revenue formation;
- Annual tightening of tariff regulations with strict control over the execution of tariff rulings and tariff deductions based on the results of the regulated period;

- Risk of power underconsumption and the respective drop in profits due to the new legislation according to which starting from 2014 the consumers will pay only for the actually consumed power, while the tariffs are calculated on the basis of the contracted capacity.
- Absence of up-to-date comprehensive development plans for the electrical grids of the regions.

28.3. Financial risks

Fluctuations in the rouble exchange rate may result in increased expenses of Sistema JSFC and limit its capacity to repay debts. As of the end of 2012 about one third of the total debt of Sistema JSFC is denominated in foreign currencies (US dollars and Euro). In Q4 2012 the domestic currency market demonstrated a relative balance of foreign currency demand and supply, which was caused by the balance of cross-border flows in the current account and capital account against the background of stabilizing oil prices after their drop in the second half of October. At the same time, in the second half of November the rouble appreciated amid resumed growth of prices in the world energy markets and due to investor's increased risk appetite in the international financial markets in anticipation of a successful resolution of budget problems in the USA.

The official USD/RUR exchange rate was RUR 30.3727 per US dollar, EUR/RUR exchange rate was RUR40.2286 as of December 31st, 2012.

In order to reduce the currency risks Sistema JSFC diversifies its debt portfolio by increasing the share of the borrowed funds denominated in currencies other than the US dollar (mainly in roubles and Euro). Moreover, we set prices for some types of services (consultative, rental) in US dollars with payment in roubles at the exchange rate established by the Central Bank of Russia. The effectiveness of such protection, however, is limited, since for reasons of competition or regulatory limitations it is not always possible to make prices directly tied to the dollar exchange rate. Inflation may be another driver of the rise in expenses of Sistema JSFC. For quite a while the Russian economy has been showing high inflation rates.

In 2012 the growth of retail lending, the continued reduction in savings and an increase in real salaries and a drop in unemployment continued to support consumer demand which in its turn is increasing the pressure of inflation on the economy. At the same time, the Bank of Russia in September tightened its monetary and lending policy by increasing the refinancing rate by 0.25%, however, since retail lending has very high profit margins, the increase in rates may not produce any major effect on retail growth rates. Moreover, the increase in utility tariffs, the growth of power tariffs in July and the continued growth of the oil and grain prices add to the inflationary pressures. Based on the 2012 results inflation in Russia was 6.6% (6.1% for 2011), the key driver was the growth rates of food prices, which almost doubled. Food prices accounted for the 2.8 p. p. inflation increase out of 6.6%.

In December the growth of prices accelerated again up to 0.5% - first of all, due to the seasonal hike in food prices and transportation tariffs. If the inflation trends intensify, certain costs denominated in roubles may grow as well. These primarily include rentals and wages that are traditionally the most vulnerable to inflation impacts.

The Ministry of Economic Development expects an increase in inflation rate in the first half of 2013, the average annual rate will be higher than in 2012 (6.7% against 5.1%), but by the end of the year the price index will fall to 5-6%.

However, we believe that even if the inflation rate remains at the level of 2005-2009 (from 9% to 15% per annum), this will produce no material impact on the performance and the financial situation of the company.

In the current conditions the alteration of interest rates in the capital market will not lead to any considerable increase of our expenses because the predominant part of Sistema's

borrowings has a fixed interest rate. However, when raising funds in the future we may encounter the situation when borrowing becomes more expensive. This prospect depends, in the first place, on the level of the future credit rating of the Russian Federation, the interest rates in the capital markets and the level of liquidity both in the Russian Federation and the world financial system.

In the event that we are unable to raise the required financing within the deadlines and on the terms acceptable for the company, this may create significant barriers to our business and operations.

In order to service and refinance the current and future liabilities it may become necessary to permit considerable cash outflows. The ability to repay the debt may depend on many factors which are not always in our control. There is a risk of deepening world financial crisis (the risk of the so-called "double dip"), which may lead to more severe lending rules and restricted access to liquidity. The undermined financial stability in a number of countries of the European Union is another important factor.

To ensure the required level of liquidity Sistema JSFC is implementing a number of measures which, for example, provide for the opening of credit facilities in the leading Russian and foreign banks, as well as building the necessary reserves.

28.4. Legal risks

No changes have taken place in this area in the reporting period.

28.5. Risks related to the Corporation's business operations.

No changes have taken place in this area in the reporting period.

Senior Vice President A. Buyanov

Chief Accountant I. Borisenkova

13 March 2013

date of signing the report