JSC RTI
AND SUBSIDIARIES

Consolidated Financial Statements
As of December 31, 2013 and 2012
and for the Years then Ended

JSC RTI AND SUBSIDIARIES

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Deloitte.

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of JSC RTI:

We have audited the accompanying consolidated financial statements of JSC RTI and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of operations, comprehensive loss, changes in equity, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the Russian Federal Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated 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 Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Group as of December 31, 2013 and 2012, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

April 1, 2014
Moscow, Russian Federation

Закрытое акционерное общество «Делойт и Туш СНГ»
для аудиторских заключений
Россия, г. Москва, ул. Лесная, д. 5

Kaprizina N.V., Partner
(Certificate no. 01-001136 dated December 24, 2012)

ZAO Deloitte & Touche CIS

The Entity: RTI JSC

Certificate of registration in the Unified State Register № 013316985 of 17.02.11, issued by Moscow Inspectorate of the Russian Ministry of Taxation № 46.

Address: 10, 8th March St., Bldg. 1, Moscow 127083 Russia

Independent Auditor: ZAO "Deloitte & Touche CIS"

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

Certificate of registration in the Unified State Register № 1027700425444 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.

JSC RTI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2013	2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ 319,733	$ 346,172
Short-term deposits and loans	4	14,386	16,665
Trade receivables, net	5	305,219	431,017
Other receivables and prepaid expenses, net	6	409,428	436,002
Inventories, net	7	313,126	247,893
Restricted cash	12	1,731	2,146
Deferred tax assets, current portion	18	28,705	15,338
Current assets from discontinued operations	3	-	141,854
Total current assets		1,392,328	1,637,087
NON-CURRENT ASSETS:			
Property, plant and equipment, net	8	526,958	545,296
Intangible assets, net	9	114,422	256,444
Goodwill	9	3,180	242,601
Long-term investments	10	6,746	230,484
Long-term trade receivables	11	403,222	273,168
Deferred tax assets, non-current portion	18	35,769	21,534
Other long-term assets	13	2,356	2,820
Non-current assets from discontinued operations	3	-	70,462
Total non-current assets		1,092,653	1,642,809
TOTAL ASSETS		**$ 2,484,981**	**$ 3,279,896**

See notes to the consolidated financial statements.

JSC RTI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012 (CONTINUED)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2013	2012
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade accounts payable		$ 348,428	$ 450,873
Taxes payable		71,233	58,065
Accrued expenses and other current liabilities	14	487,060	601,452
Short-term loans and notes payable	15	351,281	438,950
Current portion of long-term debt	16	572,469	50,847
Deferred tax liabilities, current portion	18	13,335	15,547
Current liabilities from discontinued operations	3	-	330,599
Total current liabilities		1,843,806	1,946,333
LONG-TERM LIABILITIES:			
Capital lease obligations	17	7,870	134,314
Long-term debt	16	97,545	434,311
Other long-term liabilities		4,878	6
Long-term debt on State Defense Order	16	522,034	333,109
Deferred tax liabilities, non-current portion	18	9,676	44,415
Non-current liabilities from discontinued operations	3	-	5,230
Total long-term liabilities		642,003	951,385
TOTAL LIABILITIES		**2,485,809**	**2,897,718**
EQUITY:			
SHAREHOLDERS' EQUITY:			
Share capital (23,464,375,000 and 19,480,000,000 shares authorized and issued as of December 31, 2013 and 2012 respectively with par value of 1 Russian Ruble)	19	786,086	665,166
Additional paid-in capital		267,453	142,058
Accumulated deficit		(1,104,101)	(653,707)
Accumulated other comprehensive loss	19	(50,140)	(49,168)
TOTAL EQUITY ATTRIBUTABLE TO RTI		(100,702)	104,349
Redeemable share capital (703,125,000 and nil shares authorized and issued as of December 31, 2013 and 2012 respectively with par value of 1 Russian Ruble)		27,547	-
Equity attributable to non-controlling interest		72,327	277,829
TOTAL EQUITY		(828)	382,178
TOTAL LIABILITIES AND EQUITY		**$ 2,484,981**	**$ 3,279,896**

See notes to the consolidated financial statements.

JSC RTI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars except share and per share amounts)

	Notes	2013	2012
Revenues		$ 2,195,509	$ 2,210,593
Cost of sales, exclusive of depreciation and amortization shown separately below		(1,671,576)	(1,756,196)
Research and development expenses		(1,329)	(1,085)
Selling, general and administrative expenses		(387,914)	(262,389)
Depreciation and amortization		(103,654)	(87,528)
Impairment of long-lived assets other than goodwill and provisions for other assets	24	(544,267)	(64,022)
Impairment of goodwill	9, 24	(223,108)	-
Other operating (loss) / income, net		(12,900)	11,546
OPERATING (LOSS)/INCOME		(749,239)	50,919
Interest income		45,173	34,257
Interest expense		(138,021)	(108,757)
Foreign currency transactions (losses)/gains		(20,945)	1,299
Equity in gains of investees and revaluation gain		44,565	75
Other non-operating losses		-	(293)
Loss from continuing operations before income tax		(818,467)	(22,500)
Income tax benefit/(expense)	18	71,342	(23,893)
LOSS FROM CONTINUING OPERATIONS		**$ (747,125)**	**$ (46,393)**
Loss on discontinued operations, net of tax effect of $7,077 and $3,128, respectively	3	(45,505)	(127,695)
NET LOSS		**$ (792,630)**	**$ (174,088)**
Less: net loss attributable to non-controlling interest		365,762	21,729
NET LOSS ATTRIBUTABLE TO RTI		**$ (426,868)**	**$ (152,359)**
Including:			
Loss from continuing operations		(386,034)	(28,146)
Loss from discontinued operations		(40,834)	(124,213)
LOSS PER SHARE – BASIC, US cent:			
Loss from continuing operations		(1.97)	(0.14)
Loss from discontinued operations		(0.21)	(0.64)
Net loss		**$ (2.18)**	**$ (0.78)**
LOSS PER SHARE – DILUTED, US cent:			
Loss from continuing operations		(1.96)	(0.14)
Gain from discontinued operations		(0.21)	(0.62)
Net loss		**$ (2.17)**	**$ (0.76)**
Weighted average number of common shares outstanding, basic:		19,564,118,151	19,480,000,000
Weighted average number of common shares outstanding, diluted:		19,681,484,653	19,986,773,961

See notes to the consolidated financial statements.

JSC RTI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars)

	Notes	2013	2012
NET LOSS		$ (792,630)	$ (174,088)
Other comprehensive loss, net of tax		(15,168)	(13,970)
COMREHENSIVE LOSS		**(807,798)**	**(188,058)**
Comprehensive loss attributable to non-controlling interest		376,618	6,371
COMPREHENSIVE LOSS ATTRIBUTABLE TO RTI		**$ (431,180)**	**$ (181,687)**

See notes to the consolidated financial statements.

JSC RTI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars)

	2013	2012
OPERATING ACTIVITIES:		
Net loss	$ (792,630)	$ (174,088)
Loss from discontinued operations	45,505	127,695
Loss from continuing operations	(747,125)	(46,393)
Adjustments to reconcile net loss to net cash provided by operations:		
Depreciation and amortization	103,654	87,528
Gain from disposal of property, plant and equipment	(513)	(15,134)
Equity in gains of investees and revaluation gain	(44,565)	(75)
Deferred income tax	(86,888)	(4,850)
Bad debt expense	24,796	16,894
Inventory obsolescence provision	13,941	9,048
Loss on disposal of long-term investments	-	5,505
Stock based compensation	6,600	10,555
Change in liability for uncertain tax positions	-	(278)
Impairment losses and reserves	505,530	38,080
Impairment of Goodwill	223,108	-
Unrealized foreign currency translation	10,129	(6,564)
Changes in operating assets and liabilities:		
Trade receivables	(78,628)	(220,969)
Other receivables and prepaid expenses	11,254	(100,896)
Inventories	(97,604)	(7,842)
Trade accounts payable	(48,861)	67,763
Taxes payable	15,827	1,454
Accrued expenses and other current liabilities	(66,431)	103,439
Net cash used in operating activities of continuing operations	$ (255,776)	(62,735)
(Net cash used in)/provided by operating activities of discontinued operations	(153,735)	1,276
Net cash used in operating activities	(409,511)	(61,459)
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(71,554)	(74,269)
Proceeds from disposals of property, plant and equipment	2,969	1,567
Purchases of intangible assets	(23,544)	(30,875)
Cash disposed on disposal of business less consideration received	13,885	(48,292)
Cash paid on acquisition of business less cash acquired	(62,765)	(84,572)
Change in restricted cash	421	4,547
Purchase of short-term investments	(7,890)	(11,549)
Proceeds from short-term deposits and loans returned	14,189	56
Purchases of long-term investments	-	(2,059)
Proceeds from sale of long-term investments	991	-
Net cash used in investing activities	$ (133,298)	$ (245, 446)

See notes to the consolidated financial statements.

JSC RTI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars)

	2013	2012
FINANCING ACTIVITIES:		
Proceeds from short-term borrowings	$ 642,008	$ 663,182
Principal payments on short-term borrowings and current portion of long-term borrowings	(639,807)	(448,164)
Proceeds from long-term borrowings	88,799	208,518
Proceeds from long-term borrowings on State Defense Order (Note 16)	218,800	131,399
Principal payments on long-term borrowings	(12,813)	(74,509)
Principal payments on capital lease obligations	(36,674)	(43,386)
Dividends paid to minority shareholders	(4,123)	(2,970)
Proceeds from sale/ (payments for acquisition) of non-controlling interests in existing subsidiaries	3,355	(99,168)
Issue of common stock	182,325	-
Net cash provided by financing activities	$ 441,870	$ 334,902
Effects of exchange rate changes on cash and cash equivalents	(29,367)	22,794
(DECREASE)/ INCREASE IN CASH AND CASH EQUIVALENTS	**$ (130,306)**	**$ 50,791**
TOTAL CASH AND CASH EQUIVALENTS, beginning of the period (including cash of discontinued operations)	**$ 450,039**	**$ 399,248**
Cash and cash equivalents at the end of the period (including cash of discontinued operations)	319,733	450,039
Cash and cash equivalents of discontinued operations at the end of the period	-	(103,867)
TOTAL CASH AND CASH EQUIVALENTS of continuing operations, end of the period	**$ 319,733**	**$ 346,172**
CASH PAID DURING THE YEAR FOR:		
Interest, net of amounts capitalized	$ (113,946)	$ (83,760)
Income taxes	(22,704)	(33,307)
NON-CASH ITEMS:		
Equipment and licences acquired under capital lease	$ 223,628	$ 18,054
Amounts due for purchase of long-lived assets	(2,118)	(14,897)

See notes to the consolidated financial statements.

JSC RTI AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars, except share and per share amounts)

		Share capital	Additional paid-in capital	Accumulated deficit	Accumulated other comprehensive income/(loss)	Total RTI equity	Non-controlling interest	Redeemable share capital	Total equity
Balances at January 1, 2012	$	**665,166**	**107,193**	**(466,916)**	**(19,840)**	**285,603**	**250,592**	**-**	**536,195**
Acquisition of non-controlling interest (Note 3)		-	34,865	(34,432)	-	433	(67,331)	-	(66,898)
Deconsolidation of subsidiaries (Note 3)		-	-	-	-	-	(119,334)	-	(119,334)
Acquisition of subsidiaries (Note 3)		-	-	-	-	-	223,243	-	223,243
Dividends declared by subsidiaries (Note 19)		-	-	-	-	-	(2,970)	-	(2,970)
Net loss		-	-	(152,359)	-	(152,359)	(21,729)	-	(174,088)
Other comprehensive loss		-	-	-	(29,328)	(29,328)	15,358	-	(13,970)
Balances at December 31, 2012	$	**665,166**	**142,058**	**(653,707)**	**(49,168)**	**104,349**	**277,829**	**-**	**382,178**
Additional share issue (Note 19)		120,920	33,858	-	-	154,778	-	27,547	182,325
Acquisition of non-controlling interest (Note 3)		-	4,716	(12,038)	-	(7,322)	(16,608)	-	(23,930)
Dividends declared to Sistema and Bank of Moscow		-	-	(11,488)	-	(11,488)	-	-	(11,488)
Sale of non-controlling interest in subsidiaries		-	14,565	-	-	14,565	2,001	-	16,566
Acquisition of subsidiaries (Note 3)		-	-	-	-	-	187,164	-	187,164
Deconsolidation of subsidiaries (Note 3)		-	75,596	-	-	75,596	1,780	-	77,376
Dividends declared by subsidiaries (Note 19)		-	-	-	-	-	(3,221)	-	(3,221)
Net loss		-	-	(426,868)	-	(426,868)	(365,762)	-	(792,630)
Other comprehensive loss		-			(4,312)	(4,312)	(10,856)		(15,168)
Balances at December 31, 2013	$	**786,086**	**270,793**	**(1,104,101)**	**(53,480)**	**(100,702)**	**72,327**	**27,547**	**(828)**

See notes to the consolidated financial statements.

1. BACKGROUND AND DESCRIPTION OF THE BUSINESS AND OPERATING ENVIRONMENT

Joint-Stock Company "RTI" ("RTI") and its subsidiaries (together, the "Group") is a technology solution business with operations primarily conducted in the Russian Federation ("RF"), Ukraine and Czech Republic.

RTI was established in February 2011 by JSFC Sistema ("Sistema") and the Bank of Moscow. Sistema contributed its 97% interest in JSC "Concern "Radiotechnical and Information Systems", a manufacturer of radiotechnical equipment, and RUB 2.88 billion (approximately $98.3 million) in cash receiving 84.6% of the share capital of the newly established company. The Bank of Moscow invested RUB 3 billion (approximately $102.4 million) of cash in exchange for 15.4% of the company's share capital. These assets formed Defense Systems and Complex Security Systems segments.

In July 2011, RTI acquired from Sistema 70.4% (63.1% direct ownership and 7.3% treasury stock) ownership interest in SITRONICS, a provider of telecommunication, IT and microelectronic solutions for a consideration of RUB 3,133 million ($106.9 million). Assets acquired formed Microelectronic Solutions and part of Info-Communication Technologies Segments of RTI.

In September 2012, the Group acquired a 50%+0.5 share voting interest in CJSC NVision. Assets acquired were included into Info-Communication Technologies Segments of RTI.

In 2012 and 2013 the Group had the following operating segments:

Defense Systems segment is engaged in development, production, technical supervision and maintenance of surveillance and reporting long-distance radar systems for aerospace defense, and also technological researches in the area of long-distance radar ranging for the Ministry of Defense of the Russian Federation.

Complex Security Systems segment is engaged in development, implementation and support of complex security and information systems (including situation management systems, surveillance and warning systems) for the Russian federal, regional, and local state authorities.

Info-Communication Technologies segment is engaged in the design, manufacture and distribution of hardware and software products including convergence solutions. It also offers system integration and customization services for fixed line, mobile telecommunication operators, banking and financial institutions and the public sector.

Microelectronic Solutions segment is engaged in the design, manufacture, testing and distribution of semiconductor products and components, distribution and production of chip cards, microchip packaging and related solutions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation of Financial Statements – The accompanying financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Group's entities maintain accounting records in local currencies in accordance with the requirements of accounting and tax legislation in the countries of their incorporation.
The accompanying consolidated financial statements differ from the financial statements prepared for statutory purposes.

The financial statements are expressed in terms of US dollars (see "Foreign Currency" below) and reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP, which are not recorded in the accounting books of the Group's entities.

Significant subsidiaries, joint ventures and equity investees – the beneficial effective ownership interest of RTI in its significant subsidiaries, joint ventures and equity investees, as well as the locations of their principal business operations as of December 31, 2013 and 2012 were as listed below:

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Operating entities	Locations of principal business operations	Beneficial effective ownership interest as of December 31, 2013	Beneficial effective ownership interest as of December 31, 2012	Voting interest as of December 31, 2013	Voting interest as of December 31, 2012
Defense Systems segment:					
JSC "Concern "Radiotechnical and Information Systems" ("CRTIS")	Russia	97%	97%	97%	97%
JSC "Academician A.L.Mints Radiotechnical Institute" ("RTI Mints")	Russia	89%	77%	100%	100%
JSC "Saransk television plant" ("Saransk television plant")	Russia	97%	97%	100%	100%
JSC "Yaroslavl Radioworks" ("Yaroslavl Radioworks")	Russia	57%	58%	61%	63%
JSC "OKB-Planeta" ("OKB-Planeta")	Russia	97%	97%	100%	100%
JSC "Distant Radiocommunication Scientific Research Institute" ("NIIDAR")	Russia	88%	69%	100%	86%
JSC "Dubna Machine-Building Plant" by N.P. Fedorov" ("DMZ")	Russia	97%	97%	100%	100%
CSC "R.O.S.SPECTECHMONTAG" ("R.O.S.S.")	Russia	97%	97%	100%	100%
JSC "RTI-Invest"	Russia	97%	97%	100%	100%
Complex Security Systems segment:					
JSC "MTU Saturn"	Russia	76%	76%	78%	78%
Scientific Industrial Joint Company "High Technology and Strategic Systems" ("HTSS")	Russia	97%	97%	100%	100%
CSC "Vimpel-S"	Russia	92%	92%	100%	100%
JSC "Technological centre "Geoinformatics"	Russia	58%	58%	60%	60%
JSC "Intellect Telecom" (1)	Russia	-	49%	-	50%
Info-Communication Technologies segment:					
CJSC "Nvision Group" ("Nvision") (3)	Russia	50%	50%	50%	50%
NVision Czech Republic a. s. ("Nvision CR") (former JSC "SITRONICS Telecom Solutions, Czech Republic a.s.")	Czech Republic	50%	50%	100%	100%
JSC "SITRONICS Telecom Solutions" ("SITRONICS TS")	Russia	50%	50%	100%	100%
LLC "NVision Special projects" ("NvisionSP") (former LLC "SITRONICS Information Technologies")	Russia	50%	50%	100%	100%
LLC "NVision Industrial solution" ("NvisionIP") (former LLC "SITRONICS Bashkortostan)	Russia	50%	50%	100%	100%
SC "NVISION - HOLDING" (former JSC "SITRONICS Information Technologies Ukraine")	Ukraine	50%	50%	100%	100%
JSC "SITRONICS CAMS" (1)	Russia	-	74%	-	74%
Intracom S.A. Telecom Solutions (1)	Greece	-	48%	-	48%
Microelectronic Solutions segment:					
JSC "NII of molecular electronics and Mikron manufacturing plant" ("Mikron")	Russia	77%	80%	77%	80%
JSC "VZPP Mikron"	Russia	100%	100%	100%	100%
LLC "SITRONICS Smart Technologies" (SST)	Russia	75%	75%	75%	75%
Cosmos Wealth Ltd	China	77%	80%	100%	100%
LLC "SITRONICS-Nano"(2)	Russia	48%	40%	62%	50%
All other segments:					
JSC "SITRONICS" (1)	Russia	-	100%	-	100%
JSC "RTI Microelectronics"(1)	Russia	100%	-	100%	-
JSC "URALELECTRO"	Russia	87%	87%	97%	97%
SITRONICS IT B.V. (1)	Netherlands	-	100%	-	100%
JSC "Elion"	Russia	75%	75%	90%	90%

(1) In November 2013 the Group disposed of a group of assets, representing business, to Sistema (Note 3). JSC "RTI Microelectronics" was spun off from JSC "SITRONICS" and retained part of investments in subsidiaries previously held by JSC "SITRONICS";

(2) In May 2013 the Group obtained control over LLC "SITRONICS-Nano" (Note 3; Note 10);

(3) Voting interest in CJSC "Nvision Group" represents control (Note 3).

Principles of Consolidation and Restructuring of the Group – As of February 17, 2011 JSC RTI was legally founded and Sistema contributed 97% ownership interest of JSC "Concern "Radiotechnical and Information Systems" ("CRTIS") into the share capital of JSC RTI.

In July 2011, JSC RTI acquired from Sistema 70.4% ownership interest in SITRONICS.

The Group accounted for these transactions as transactions under common control. As of February 17, 2011, date when JSC "RTI" was legally founded, the financial statements of RTI, JSC "SITRONICS" and JSC "Concern "Radiotechnical and Information Systems" and their majority-owned subsidiaries (together, the "Group") were consolidated. Assets and liabilities acquired were recorded at the historical carrying value and the consolidated financial statements were retroactively restated to reflect the Group as if these businesses had been owned since the beginning of the earliest period presented.

The consolidated financial statements include the accounts of RTI, as well as entities where RTI has operating and financial control, most often through the direct or indirect ownership of a majority voting interest. Those ventures where the Group exercises significant influence but does not have operating and financial control are accounted for using the equity method. Investments in which the Group does not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method and included in long-term investments in the consolidated statements of financial position.

All intercompany transactions, balances and unrealized gains/losses on transactions are eliminated on consolidation.

Going concern – In preparing the consolidated financial statements, management presumed that the Group will continue its business for the foreseeable future. Management has no intention, nor need to liquidate or significantly curtail the Group's operations, and expects that obligations will be settled and assets will be realized as due in the normal course of business. If necessary the Group has an ability to obtain additional financial support from its shareholders. As of December 31, 2013 the Group had a working capital deficit in the amount of $451.5 million. The deficit is primary caused by reclassification of long-term debt in the amount of $309.8 million to current liabilities due to incompliance with certain restrictive covenants (see Note 16). Management expects to obtain waivers from the Bank of Moscow for the loans amounting to $193.8 million and, accordingly, expects to retain the classification of this debt as non-current. In respect of loans totaling $116 million management does not anticipate obtaining waivers. The management of the Group also has an intention to refinance the short-term loans into equity and long-term debt to cover the deficit in net current assets.

Business Combinations – Acquisitions of businesses from third parties are accounted for using the purchase method. On the acquisition date, the assets acquired, liabilities assumed and any non-controlling interest in the acquiree are measured and recognized at their fair values as at that date. Goodwill arising on acquisition is recognized as an asset and initially measured as the excess of the consideration transferred plus the fair value of any non-controlling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired.

Changes in the Group's ownership interest while the Group retains its controlling financial interest in its subsidiary are accounted for as equity transactions. No gain or loss is recognized in consolidated net income or comprehensive income. The carrying amount of the non-controlling interest is adjusted to reflect the change in its ownership interest in the subsidiary. Any difference between the fair value of the consideration received or paid and the amount by which the non-controlling interest is adjusted is recognized in equity attributable to the parent.

The results of acquired entities are included in the Group's financial statements from the date control was acquired.

Disposed entities are excluded from the Group's financial statements from the date when control does not rest with the Group. Disposals of entities in transactions under common control are accounted for as discontinued operations.

Variable Interest Entities – The Group evaluates its equity investments for consolidation in accordance with a standard issued by the Financial Accounting Standards Board ("FASB") that provides guidance on entities subject to consolidation as well as how to consolidate. The standard focuses on controlling financial interests that may be achieved through arrangements that do not involve voting interests. A variable interest entity ("VIE") is a legal structure that does not have equity investors with voting rights or has equity investors that do not provide sufficient financial resources for the entity to support its activities. The standard requires that a VIE be consolidated by a company if that company is the primary beneficiary of the VIE. The primary beneficiary of a VIE is an entity that is subject to a majority of the risk of loss from the VIE's activities or entitled to receive a majority of the VIE's residual returns or both. The standard requires continuous reassessment of VIE and primary beneficiary status.

As of December 31, 2013, The Group had no investments in affiliates that have not been consolidated that could be considered VIEs where the Group is determined to be the primary beneficiary.

Use of Estimates – The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses for the reporting period. Actual results could differ from those estimates.

Significant estimates include revenue recognition, costs to complete projects, allowance for doubtful accounts, carrying value of long-lived assets and inventories, useful lives and recoverability of long-lived tangible and intangible assets, fair value of financial instruments, valuation allowance on deferred tax assets, warranty liabilities, obligations related to employee benefits, and contingencies.

Foreign Currency – The primary financial statements of the entities of the Group are prepared and presented in the currency of the primary economic environment, in which each entity operates, i.e. its functional currency. Management has determined that the functional currency of RTI and its significant subsidiaries for the year ended December 31, 2013 are the currencies of the countries of their domicile.

Monetary assets and liabilities in foreign currencies are translated into the functional currency of the relevant subsidiaries at the rate of exchange ruling at the balance sheet date. Transactions in foreign currencies are translated into the relevant functional currency at the rate of exchange ruling at the date of the transaction. Transaction gains and losses, other than those related to current and deferred tax assets and liabilities, are recognized as other comprehensive income/loss in the consolidated statements of comprehensive loss. Transaction gains and losses arising on foreign currency denominated current and deferred tax assets and liabilities are included within income taxes in the consolidated statements of operations.

The Group has selected the United States Dollar ("USD") as its reporting currency. The results of operations for subsidiaries, whose functional currency is not the USD, have been translated into the USD at the average rates of exchange during the period, with the subsidiaries' statements of financial position translated at the rates effective at the balance sheet date. The resulting translation gains and losses are recorded as a separate component of other comprehensive loss.

Non-monetary assets and liabilities acquired prior to when Russian economy ceased to be highly inflationary on January 1, 2003, were translated from U.S. Dollars to Russian rubles by using exchange rate at that date. The resulting balance became historical Russian ruble cost basis. For non-monetary assets and liabilities acquired subsequently January 1, 2003, the historical Russian ruble amounts were retained.

Cash and Cash Equivalents – Cash and cash equivalents include cash on hand, amounts on deposit in banks and cash invested temporarily in various instruments having original maturities of less than three months. Any cash over which there is restriction as to its use is excluded from cash and cash equivalents and is reflected as restricted cash on the consolidated statement of financial position. Deposits and loans with original maturity of greater than three months are included in short-term deposits and loans in the consolidated statements of financial position.

Derivative Financial Instruments and Hedging Activities – All derivatives are measured at fair value and recognized as either assets or liabilities on the statement of financial position. The Group's derivatives have not been designated as hedges for accounting purposes. Accordingly, gains and losses from changes in the fair value are included in the consolidated statements of operations. At December 31, 2013 and 2012 the Group had no derivatives.

Fair Value Measurements – Fair value is determined based on the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants.

The valuation techniques are based on observable and unobservable inputs. Observable inputs reflect market data obtained from independent sources, whilst unobservable inputs reflect management's market assumptions. Observable inputs are used as the preferred source of inputs. Unobservable inputs are only used in the absence of market inputs.

The inputs are categorized into the following fair value hierarchy:

Level 1	Quoted prices for identical instruments in active markets.
Level 2	Quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
Level 3	Significant inputs to the valuation model are unobservable.

As of December 31, 2013, the Group had no financial instruments treated using Level 1 or Level 2 of the hierarchy.

Financial instruments carried on the statement of financial position include cash and cash equivalents, accounts receivable, investments, accounts payable and fixed and variable rate debt. The particular recognition methods adopted are disclosed in the individual policy statements associated with each item.

The Group has estimated the fair value of its financial instruments as follows:

- The fair value of short-term financial instruments approximates the carrying value due to the short-term nature of the instruments;
- The carrying value is equivalent to fair value for long-term variable rate financial instruments as management believes these are consistent with the terms upon which it could enter into similar agreements at December 31, 2013;
- The fair value of other long-term loans approximates their carrying values.

The Group does not apply fair value measurement techniques to financial instruments with related parties. Therefore, the fair value of such financial instruments may be different from their carrying value.

Accounts Receivable – Accounts receivable are stated net of allowance for doubtful accounts. Such allowance reflects either specific cases of delinquencies or defaults or estimates based on evidence of collectability.

Accounts receivable with payment period above one year are stated at amortised cost using applicable discount rate.

Inventories – Inventories are comprised of raw materials and spare parts, work-in-progress, finished goods and goods for resale. Inventory and spare parts are stated at the lower of cost or market value.

The cost of raw materials includes the cost of purchase, customs duties, transportation and handling costs. Work-in-progress and finished goods are stated at production cost, which includes manufacturing overheads.

The Group periodically assesses its inventories and spare parts for obsolete and slow-moving stock.

Held for sale – The Group classifies assets and liabilities as held for sale when all the following conditions have been met as of the reporting date: (i) management having the authority to approve the action commits to a plan to sell the asset (disposal group); (ii) the asset (disposal group) is available for immediate sale in its present condition; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale is probable and transfer of the assets (disposal group) is expected to qualify for recognition as a completed sale, within one year; (v) the asset (the disposal group) is being marketed at a reasonable price; and (vi) it is unlikely that the plan will be changed significantly or withdrawn. Held for sale assets are measured at the lower of carrying amount or fair value less cost to sell.

Property, Plant and Equipment – Property, plant and equipment ("PP&E") is stated at historical cost, less accumulated depreciation.

The cost of PP&E includes major expenditures for improvements and replacements which extend the useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance are charged to the consolidated statements of operations as incurred.

Items of PP&E that are retired or otherwise disposed of are eliminated from the consolidated statements of financial position along with the corresponding accumulated depreciation. Any gain or loss resulting from such retirement or disposal is included in the consolidated statements of operations.

PP&E, excluding land which is not depreciated, is depreciated on a straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	20-50 years
Leasehold improvements	Lesser of the estimated useful life or the term of the lease
Plant, machinery and equipment	3-15 years

Construction-in-progress and equipment for installation are not depreciated until placed into services.

Intangible Assets – Intangible assets represent values of purchased and internally developed software, customer contracts and the related customer relationships, trademarks and licenses.

Software development costs are capitalized upon the Group establishing technological feasibility and marketability of a software product. Technological feasibility is established when the Group has completed all planning, designing, coding, and testing activities that are necessary to establish that a product can be produced to meet its design specifications including functions, features, and technical performance requirements.

The useful lives of intangible assets are estimated as follows:

Customer contracts and customer relationships	3-8 years
Trademarks	3-8 years
Purchased and internally generated software, licenses and other intangible assets	3-12 years

Investments – Investments in businesses in which the Group does not have control but has the ability to exercise significant influence are accounted for by the equity method of accounting whereby the investment is carried at acquisition cost plus the Group's equity in undistributed earnings or losses since acquisition. Investments in which the Group does not have the ability to exercise significant influence are accounted for by the cost method. Equity and cost method investments are included in long-term investments in the consolidated statements of financial position.

Debt Issuance Costs – Debt issuance costs are capitalized and amortized using the effective interest method over the terms of the related debt. Unamortized debt issuance costs amounted to $2.7 million and $4.8 million as of December 31, 2013 and 2012, respectively.

Impairment of Long-lived Assets excluding Goodwill – The Group evaluates the recoverability of the carrying amount of its long-lived assets, excluding goodwill, whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable. The Group compares the undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. If the undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value. Fair value is usually measured based on the estimated discounted net future cash flows associated with such assets.

Goodwill – In business combinations completed subsequent to January 1, 2009, goodwill represents the excess of the fair value of the consideration given and the fair value of any non-controlling interest in the acquiree over the fair value of all the identifiable assets and liabilities acquired. For business combinations completed prior to January 1, 2009 goodwill represents the excess of the fair value of the consideration given over the fair value of the interest in identifiable assets and liabilities acquired.

Goodwill is not amortized to operations, but instead is reviewed for impairment, at least annually or whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of those net assets. If the reporting unit's carrying amount is greater than its fair value, then a second step is performed whereby the portion of the fair value that relates to the reporting unit's goodwill is compared to the carrying value of that goodwill. The Group recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value.

Leasing Arrangements – Leases of property, plant and equipment where the Group has substantially all the risks and rewards of ownership are classified as capital leases. For capital leases, the present value of the future minimum lease payments at the inception of the lease or fair value, whichever is less, is reflected as an asset and a liability in the consolidated statements of financial position. Principal amounts due within one year are classified as current liabilities and the remaining balance as long-term liabilities.

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases are charged to the consolidated statements of operations on a straight-line basis over the period of the lease.

Revenue Recognition – The Group recognizes revenues when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed and determinable; and (iv) collectability of the fee is reasonably assured. Provisions for warranty and product returns are provided for as reductions to revenue in the same period as the related sales are recorded. The Group monitors and tracks the amount of sales deductions based on historical experience to estimate the reduction to revenues.

Revenues under arrangements specific to the respective segments of the Group are recognized as follows:

Defense Systems segment and Complex Security Systems segment

Revenues on long-term contracts under commercial and military projects with the Ministry of Defense of the Russian Federation are recognized by reference to the stage of completion of the contract activity at the balance sheet date when the outcome of a contract can be estimated reliably. This is normally measured by the proportion of the contract costs incurred for work performed to date to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred that it is probable will be recoverable.

When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately. The cumulative effects of revisions to contract revenue and estimated completion costs are recorded in the accounting period in which the amounts become evident and can be reasonably estimated.

In respect of the contracts with the Ministry of Defense with long-term payment period where the Group acquires debt financing to perform the contract the Ministry of Defense provides financial guaranty to the lending bank and performs reimbursement of the related interest expenses to the Group. On such contracts revenue is recognized as present value of the contract cash flows including reimbursements received from the customer.

Costs and estimated earnings in excess of billings on uncompleted contracts include direct engineering, production, tooling costs and applicable overheads and estimated earnings that have not been billed yet as they relate to the contracts accounted by reference to the stage of completion of the contract.

In case the outcome of an uncompleted contract can not be estimated reliably revenues and costs are recognized by reference to client's acceptance of works performed.

Info-Communication Technologies segment

The sale of systems integration services typically includes multiple elements, such as equipment and software, installation services and post-contract support. A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met: (i) the delivered items have value to the customer on a standalone basis; and (ii) the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Group.

Revenue and cost of sales from contracts involving solutions achieved through modification of complex telecommunications equipment and software are recognized by reference to the stage of completion of the contract activity at the balance sheet date when the outcome of a contract can be estimated reliably. This is normally measured either by the proportion of the contract costs incurred for work performed to date relate to the estimated total contract costs or by the proportion of the revenue accepted by the customer relate to the total contract revenue, except where this would not be representative of the stage of completion.

Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. If the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred, which it is probable will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

Microelectronic Solutions segment

The products within this segment are generally sold with a limited warranty of product quality.
The product return reserves, warranty and other post-contract support obligations are accrued at the time of sale. The Group accrues for known warranty if a loss is probable and can be reasonably estimated, and accrues for estimated incurred but unidentified issues based on historical activity.

There are contracts with agents who sell products on behalf of the Group. In the case of agreements with agents, the revenue is recognized upon notification by the agent that goods have been shipped to the customer. For provision of research and development services to customers, revenue is recognized at the end of each phase within a contract. This is upon acceptance by the client that the phase is complete and all contractual deliverables provided.

Research and Development Costs – Research and development ("R&D") costs are charged to the consolidated statements of operations when incurred. The costs of materials and equipment, facilities that are acquired or constructed for research and development activities are capitalized when acquired or constructed and depreciation expense associated with R&D activities is included in depreciation and amortization costs.

Income Taxes – Current income taxes for the Group's subsidiaries have been calculated in accordance with the respective local laws.

Deferred income taxes are recognized for the differences between the tax bases of assets and liabilities and their reported amounts in the accompanying consolidated financial statements that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. A valuation allowance is provided against deferred tax assets, if it is more likely than not some portion or all of the deferred tax assets will not be realized.

The Group recognizes uncertain tax positions for tax positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes. The Group recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses.

Debt on State Defense Order – Defense Systems Segment is a defense contractor to the Ministry of Defense of Russian Federation ("MoD"). To finance the contracts the Group obtains the long-term credit facilities from the banks, secured by financial guarantees of the MoD. Interest paid under these loan agreements is reimbursed by the MoD.

Borrowing Costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the years ended December 31, 2013 and 2012 amounted to $9.5 million and $10.2 million, respectively. The remaining borrowing costs are recognized as an expense in the period in which they are incurred.

Stock Options – Stock based compensation represents the cost of stock options granted to employees. The Group measures compensation cost based on the estimated fair value of the instruments on the reporting date using fair value valuation models. The cost is recognized as an expense over the period during which the employees are required to provide services (Note 20).

Earnings/(Loss) Per Share (EPS) – EPS are computed based on net income/(loss) attributable to RTI divided by the weighted average number of shares outstanding during the years ended December 31, 2013 and 2012. Diluted EPS reflect the potential dilution related stock options granted to employees.

Reclassifications and revisions – Certain comparative information presented in the consolidated financial statements for the year ended December 31, 2012 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended December 31, 2013. Such reclassifications and revisions were not significant to the Group financial statements, except for presentation of discontinued operations (Note 3).

New Accounting Pronouncements

To be adopted in future periods

In March 2013, the FASB issued ASU 2013-05 "Foreign Currency Matters", which indicates that the entire amount of a cumulative translation adjustment (CTA) related to an entity's investment in a foreign entity should be released when there has been a (1) Sale of a subsidiary or group of net assets within a foreign entity and the sale represents the substantially complete liquidation of the investment in the foreign entity; (2) Loss of a controlling financial interest in an investment in a foreign entity (i.e., the foreign entity is deconsolidated); (3) Step acquisition for a foreign entity (i.e., when an entity has changed from applying the equity method for an investment in a foreign entity to consolidating the foreign entity). The ASU is effective for fiscal years (and interim periods within those fiscal years) beginning on or after December 15, 2013. For nonpublic entities, the ASU is effective for the first annual period beginning on or after December 15, 2014, and interim and annual periods thereafter. Early adoption will be permitted for both public and nonpublic entities. The ASU should be applied prospectively from the beginning of the fiscal year of adoption. The Group does not expect the adoption of this guidance to have a significant impact on its financial statements.

In July 2013, the FASB issued ASU 2013-11 "Presentation of an Unrecognized Tax Benefit (UTB) When a Net Operating Loss (NOL) Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists". Under the ASU, an entity must present a UTB, or a portion of a UTB, in the financial statements as a reduction to a deferred tax asset (DTA) for an NOL carryforward, a similar tax loss, or a tax credit carryforward except when (1) An NOL carryforward, a similar tax loss, or a tax credit carryforward is not available as of the reporting date under the governing tax law to settle taxes that would result from the disallowance of the tax position; (2) The entity does not intend to use the DTA for this purpose (provided that the tax law permits a choice).

If either of these conditions exists, an entity should present a UTB in the financial statements as a liability and should not net the UTB with a DTA. New recurring disclosures are not required because the ASU does not affect the recognition or measurement of uncertain tax positions under ASC 740. This amendment does not affect the amounts public entities disclose in the tabular reconciliation of the total amounts of UTBs because the tabular reconciliation presents the gross amounts of UTBs. The ASU's amendments are effective for public entities for fiscal years beginning after December 15, 2013, and interim periods within those years. Nonpublic entities may wait until fiscal years, and interim periods within those years, beginning after December 15, 2014, to adopt the amendments. Early adoption is permitted for all entities. The Group does not expect the adoption of this guidance to have a significant impact on its financial statements.

Adopted during the current year

In December 2011, the FASB issued ASU No. 2011-11 "Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities". The amendments in this Update will enhance disclosures required by U.S. GAAP by requiring improved information about financial instruments and derivative instruments that are either (1) offset in accordance with either Section 210-20-45 or Section 815-10-45 or (2) subject to an enforceable master netting arrangement or similar agreement, irrespective of whether they are offset in accordance with either Section 210-20-45 or Section 815-10-45. This information will enable users of an entity's financial statements to evaluate the effect or potential effect of netting arrangements on an entity's financial position, including the effect or potential effect of rights of setoff associated with certain financial instruments and derivative instruments in the scope of this Update. The Group adopted the ASU since January 1, 2013. The adoption did not have effect on the Group's consolidated financial position, results of operations and cash flows.

In February 2013, the FASB issued accounting guidance on the reporting of reclassifications out of accumulated other comprehensive income. The guidance requires an entity to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income if the amount is reclassified to net income in its entirety in the same reporting period. For other amounts not required to be reclassified in their entirety to net income in the same reporting period, a cross reference to other disclosures that provide additional detail about the reclassification amounts is required. The Group adopted the ASU since January 1, 2013. The adoption did not have a significant effect on the Group's consolidated financial position, results of operations and cash flows.

In July 2012, the FASB issued ASU No. 2012-02 "Intangibles-Goodwill and Other (Topic 350): Testing Indefinite-Lived Intangible Assets for Impairment". The amendments in this Update are intended to reduce cost and complexity by providing an entity with the option to make a qualitative assessment about the likelihood that an indefinite-lived intangible asset is impaired to determine whether it should perform a quantitative impairment test. The amendments also enhance the consistency of impairment testing guidance among long-lived asset categories by permitting an entity to assess qualitative factors to determine whether it is necessary to calculate the asset's fair value when testing an indefinite-lived intangible asset for impairment, which is equivalent to the impairment testing requirements for other long-lived assets. The Group adopted the ASU since January 1, 2013. The adoption had no significant effect on the Group's consolidated financial position, results of operations and cash flows.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

3. ACQUISITIONS AND DISPOSALS

SITRONICS-Nano – In May 2013 the Group obtained control over LLC SITRONICS-Nano by acquisition of 12.3% voting interest ownership (to 62.3%) from RUSNANO for a cash consideration of RUB 2,000 million ($61.1 million at the acquisition date).

As a result the Group changed the equity method of accounting to consolidation in respect of the investment in SITRONICS-Nano and accounted for this business combination by applying the acquisition method. The following table summarizes the consideration paid for SITRONICS-Nano and the amounts of the assets acquired and liabilities assumed that were recognized at the acquisition date, as well as the fair value of the non-controlling interest in the investee:

		May 29, 2013
Current assets		73,231
Non-current assets		518,916
Current liabilities		(76,700)
Long-term liabilities		(18,829)
Non-controlling interest		(187,164)
Total consideration, comprising	$	**309,454**
Fair value of previously held interest		248,309
Cash consideration		61,145

As part of this business combination, the Group recognised a revaluation gain resulting from the remeasurement of its previously held interest. The difference in the amount of $46.5 million between the fair value of previously held interest and the carrying value of the Group's investment has been recorded in equity in gains of investees and revaluation gain in the consolidated statement of operations. The fair value of previously held interest and the non-controlling interest in SITRONICS-Nano were estimated by a market approach.

Simultaneously, Sistema and RUSNANO amended the existing call and put option agreements. Under amended agreements, RUSNANO has a put option to sell its residual shares in SITRONICS-Nano to Sistema at the price of RUB 8,100 million not earlier than October 31, 2016 and not later than November 1, 2017. Sistema has a call option to acquire RUSNANO's shares for RUB 6,122 million plus 7.63% p.a. at any time till November 1, 2017. The put option which gave RUSNANO rights to put its share in SITRONICS-Nano to Sistema on non-fulfillment of certain criteria was cancelled.

SITRONICS New Group – In September 2013, the Group undertook restructuring of SITRONICS assets for the purpose of their subsequent partial disposal to its controlling shareholder Sistema.

JSC "SITRONICS", a subsidiary of RTI, spun off two companies, JSC "SITRONICS-N" and JSC "RTI Microelectronics", with allocation of all its major assets and liabilities to these companies. Investments in subsidiaries and affiliates, previously held by JSC "SITRONICS", were allocated between the companies as follows: (1) JSC "SITRONICS-N" became a holding company for JSC "Intellect Telecom", JSC "SITRONICS CAMS", Intracom S.A. Telecom Solutions and several smaller subsidiaries; (2) JSC "RTI Microelectronics" became a holding company for Microelectronic Solution segment companies, received 22.9% voting interest in CJSC "Nvision Group" and several smaller subsidiaries. To complete the restructuring process JSC "SITRONICS" was sold to JSC "SITRONICS-N" for one Russian Ruble.

In November 2013, the Group sold JSC "SITRONICS-N" (SITRONICS New Group) to its controlling shareholder Sistema for a cash consideration of RUB 1,000 million ($30.5 million as of the date of transaction).

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

As the Group will not have a significant continuing involvement in the operations of SITRONICS New Group, its results of operations are reported as discontinued operations in the consolidated statements of operations for all periods presented, and the related assets and liabilities were included in the consolidated statement of financial position as assets and liabilities from discontinued operations as of December 31, 2012 and as of the date of the disposal, November 13, 2013.

The carrying value of SITRONICS New Group's net assets as at the date of disposal, November 13, 2013, and December 31, 2012 consisted of the following:

		November 13, 2013		December 31, 2012
Current assets	$	137,227	$	141,854
Non-current assets		55,462		70,462
Total assets of discontinued operations		**192,689**		**213,316**
Current liabilities		235,913		330,599
Non-current liabilities		1,891		5,230
Total liabilities of discontinued operations		**237,804**		**335,829**

The results of operations of discontinued operations for the year ended December 31, 2013 and December 31, 2012 were as follows:

		Until November 13, 2013		2012
Total revenues	$	75,197	$	180,110
Net expenses		(127,779)		(310,933)
Income tax benefit		7,077		3,128
Loss on discontinued operations, net of tax effect	**$**	**(45,505)**	**$**	**(127,695)**
Gain on disposal of discontinued operations		77,376		-
Result from discontinued operations, net of tax effect	**$**	**31,871**	**$**	**(127,695)**

Gain on disposal of discontinued operations, net of tax for the year ended December 31, 2013 was as follows:

		2013
Consideration received	$	30,481
Carrying value of net assets disposed		(45,115)
Non-controlling interest disposed		1,780
Gain on disposal of discontinued operations	**$**	**77,376**

Gain on disposal of discontinued operation attributable to RTI for the year ended December 31, 2013 was recorded by the Group within additional paid-in capital in the amount of $75.6 million as the transaction of disposal of SITRONICS New Group to Sistema represents the transaction under common control.

Sales of continuing operations to SITRONICS New Group in 2013 prior to the disposal and for the year ended December 31, 2012 amounted to $0.1 million and $0.4 million, respectively. Purchases of continuing operations from SITRONICS New Group prior to the disposal and for the year ended December 31, 2012 amounted to $3.1 million and $4.4 million, respectively.

NVision – In September 2012, the Group acquired a 50%+0.5 share voting interest (which represents a controlling interest) in CJSC NVision Group from NVision Group Managing Company LLC and individual shareholders.

The Group paid cash consideration in the amount of RUB 3,000 million (equivalent of $95.6 million as of the date of the transaction) and participated in an additional share issue of Nvision by contributing its subsidiaries NVISION CR (former JSC "SITRONICS Telecom Solutions, Czech Republic a.s. "), SITRONICS TS, SC "NVISION - HOLDING" (former SITRONICS Information Technologies Ukraine) and NvisionSP (former SITRONICS Information Technologies) with a total carrying value of $84.0 million into the share capital of Nvision. For the purposes of determining the total consideration paid the transferred interests in subsidiaries were measured at their carrying value, as the Group did not lose control over these assets.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The purchase price allocation for the acquisition was as follows:

Current assets		717,562
Customer relationships		106,785
Non-current assets		161,394
Goodwill		232,583
Current liabilities		(763,724)
Non-current liabilities		(51,774)
Non-controlling interest		(223,243)
Total consideration	**$**	**179,583**

Customer relationships recognized as a result of the acquisition are amortized over a period of 7.25 years.

The excess of the consideration paid over the value of net assets acquired in the amount of $232.6 million was allocated to goodwill which was attributable to the Info-Communication Technologies segment and is not deductible for income tax purposes. Goodwill is mainly attributable to the expected synergies from combining the operations of RTI and NVision.

As of December 31, 2013 the Group has determined that Goodwill relating to Info-Communication Technologies segment was impaired (see Notes 9 and 24).

Intracom Telecom S.A. – In April 2012 the Group sold 3% shareholding in its subsidiary Intracom Telecom S.A. for a cash consideration of $1.4 million to RYDRA TRADING Ltd thus decreasing the Group's voting interest to 48%. The transaction resulted in a loss of control but the Group retained significant influence over the operations and policies of the company. The Group applied the equity method of accounting in respect of the residual investment. The loss on sale of 3% ownership amounted to $5.5 million. As a result of the changed accounting approach the Group derecognized the non-controlling interest related to Intracom Telecom from its statement of financial position in the amount of $118.6 million.

In November 2013 the Group disposed of its 48% voting interest share in Intracom S.A. Telecom to Sistema as a part of SITRONICS New Group disposal.

As a result of the disposal the Group disposed of (a) the financial guarantee obligations for loans of Intracom Telecom (including a Syndicated loan) and (b) the contingent put option obligations with Intracom Holdings S.A. to acquire the remaining 49.0% of the common shares of Intracom Telecom.

LLC Networks Systems – In March 2012 the Group sold 2% of its shareholding in its subsidiary LLC Networks Systems, thus decreasing the Group's voting interest to 49%, which resulted in a change of the accounting approach in respect of the investment from consolidation to equity method of accounting. As a result of the changed accounting approach the Group derecognized the non-controlling interest related to LLC Networks Systems in the amount of $0.7 million. In November 2013 the Group disposed the residual investment as part of SITRONICS New Group.

Acquisitions and disposals of non-controlling interests in subsidiaries

During 2012 and 2013 the Group acquired non-controlling interests in its subsidiaries: SITRONICS, RTI Mints and NIIDAR. The Group accounted for the changes in its ownership interest as equity transactions and derecognized non-controlling interest balances in amounts of $67.3 million and $16.6 million in 2012 and 2013, respectively. Gains resulted from the transaction were recognized as additional paid-in capital in amounts of $34.9 million and $4.7 million in 2012 and 2013, respectively, and losses were recognized within accumulated deficit in amounts of $34.4 million and $12.0 million in 2012 and 2013, respectively.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Period	Subsidiary	Effective ownership Before	Effective ownership After	Voting interest Before	Voting interest After	Seller	Conside-ration
May – August 2012	SITRONICS	70%	100%	70%	100%	Open market LSE	48,150
November 2012	NIIDAR	37%	69%	52%	86%	JSC MAC "Vimpel"	49,087
April 2013	NIIDAR	69%	78%	86%	97%	Individual shareholders	14,116
September 2013	NIIDAR	78%	81%	97%	100%	Individual shareholders	3,699
December 2013	NIIDAR	81%	88%	100%	100%	Individual shareholders	4,070
December 2013	RTI Mints(1)	77%	89%	100%	100%	JSC MAC "Vimpel"	2,887

(1) As of December 31, 2013, 26,584 shares of RTI Mints were pledged as collateral and were subject to restrictions on withdrawal.

Mikron nonpublic share issue – In August 2013 Mikron completed an issuance of 691,967 ordinary shares. The whole issue was repurchased by the existing shareholder, Federal Agency for State Property Management (Rosimushchestvo) for a cash consideration of RUB 465 million ($15.0 million at the date of transaction). As a result of the transaction, the Group decreased its effective ownership interest in Mikron from 80% to 77%.

Yaroslavl Radioworks share issue – In November 2013, Yaroslavl Radioworks issued 8,394 ordinary shares. The whole issue was repurchased by Federal Agency for State Property Management (Rosimushchestvo) for a cash consideration of RUB 51.4 million ($1.6 million as of the date of transaction). As a result of the transaction, the Group decreased its effective ownership interest in Yaroslavl Radioworks from 58% to 57%.

4. SHORT-TERM DEPOSITS AND LOANS

Short-term deposits and loans as of December 31, 2013 and 2012 comprised the following:

	Annual interest rate (Actual at December 31, 2013)	2013	2012
Short-term loans	9% - 14%	$ 6,063	$ 11,179
Short-term loans to Sistema and subsidiaries	10.5% - 17.0%	6,016	637
Bank deposits (over 3 months)	9.5% - 10.5%	2,166	1,362
Promissory notes of Bank of Moscow	-	-	3,292
Other		141	195
Total		$ **14,386**	$ **16,665**

5. TRADE RECEIVABLES, NET

Trade receivables, net of provision for doubtful accounts, as of December 31, 2013 and 2012 comprised the following:

	2013	2012
Trade receivables	$ 345,181	$ 476,632
Less: provision for doubtful accounts	(39,962)	(45,615)
Total	$ **305,219**	$ **431,017**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

6. OTHER RECEIVABLES AND PREPAID EXPENSES, NET

Other receivables and prepaid expenses, net of provision for doubtful accounts, as of December 31, 2013 and 2012 comprised the following:

	2013	2012
Advances to suppliers	$ 142,591	$ 154,780
Taxes prepaid	118,101	79,947
Costs and estimated earnings in excess of billings on uncompleted contracts	103,115	137,047
Prepaid expenses	30,731	43,008
Promissory notes from CJSC Promtorgcenter	4,358	4,948
Loans to employees	1,888	1,197
Debt issuance costs, current portion	349	1,964
Other	24,053	23,530
Less: provision for doubtful accounts	(15,758)	(10,419)
Total	**$ 409,428**	**$ 436,002**

Advances received from customers under long-term contracts as of December 31, 2013 and 2012 are disclosed in the Note 14.

7. INVENTORIES, NET

Inventories as of December 31, 2013 and 2012 comprised the following:

	2013	2012
Work-in-progress	$ 139,554	$ 111,328
Raw materials and spare parts	115,005	71,753
Finished goods and goods for resale	58,567	64,812
Total	**$ 313,126**	**$ 247,893**

As of December 31, 2013 and 2012, obsolete and slow-moving stock provision amounted to $35.3 million and $26.2 million, respectively.

8. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2013 and 2012 comprised the following:

	2013	2012
Plant, machinery and equipment (including leased vehicles and equipment of $50,963 and $225,136 as of December 31, 2013 and 2012 respectively)	$ 473,910	$ 497,878
Buildings and leasehold improvements (including leased buildings of $32,729 and $35,268 as of December 31, 2013 and 2012 respectively)	320,522	295,978
Construction-in-progress and equipment for installation	52,508	108,856
Land	3,066	3,225
	850,006	905,937
Less accumulated depreciation:		
Plant, machinery and equipment (including leased vehicles and equipment of ($11,023) and ($71,318) as of December 31, 2013 and 2012 respectively)	(179,498)	(214,316)
Buildings and leasehold improvements (including leased buildings of ($1,705) and ($955) as of December 31, 2013 and 2012 respectively)	(143,550)	(146,325)
	(323,048)	(360,641)
Total	**$ 526,958**	**$ 545,296**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Depreciation expense for property, plant and equipment for the years ended December 31, 2013 and 2012 amounted to $56.6 million and $52.6 million, respectively.

Land, buildings and equipment with an approximate carrying value of $41.8 million and $55.9 million as of December 31, 2013 and 2012, respectively, were pledged to collateralize the outstanding balance of debt to InvestTorgBank, Sberbank, Bank of Moscow and other banks (Note 15, Note 16) and outstanding balance of capital lease obligations to JSC IRT (Note 17).

During the year ended December 31, 2013 the Group concluded that an other-than-temporary decline in value of certain production equipment related to Microelectronics Segment has occurred (see Note 24). The impairment of such equipment recorded in 2013 amounted to $278.9 million.

9. INTANGIBLE ASSETS AND GOODWILL, NET

Intangible assets, net of accumulated amortization, and goodwill as of December 31, 2013 and 2012 comprised the following:

	2013			2012		
	Gross carrying value	Accumulated amortization	Net carrying value	Gross carrying value	Accumulated amortization	Net carrying value
Amortized intangible assets:						
Software internally generated and other	$ 56,012	(11,910)	44,102	$ 53,812	(6,764)	47,048
Licenses	45,222	(1,469)	43,753	25,844	(10,005)	15,839
Software purchased from third parties	50,225	(37,508)	12,717	53,782	(43,805)	9,977
Customer contracts and customer relationships	55,100	(44,755)	10,345	144,718	(40,803)	103,915
Trademarks	3,505	-	3,505	83,050	(3,385)	79,665
	210,064	(95,642)	114,422	361,206	(104,762)	256,444
Unamortized intangible assets:						
Goodwill	226,288	-	226,288	242,601	-	242,601
Accumulated impairment loss	(223,108)	-	(223,108)	-	-	-
	3,180	-	3,180	242,601	-	242,601
Total	$ 213,244	(95,642)	117,602	$ 603,807	(104,762)	499,045

The amortization expense for the years ended December 31, 2013 and 2012 was $47.0 million and $34.9 million respectively.

In the year ended December 31, 2013 the Group recognized an impairment of Customer relationships and Trademarks related to Info-Communication Technologies Segment of $65.9 million and $59.8 million, respectively. Also goodwill related to Info-Communication Technologies Segment was impaired by $223.1 million. The decline in value of certain intangible assets and goodwill was caused by significant reduction of revenue forecasts for Nvision business due to significant decrease in purchases made by its key customers during the year ended 31 December 2013.

During the year ended December 31, 2013 the Group concluded that an other-than-temporary decline in value of certain licenses related to Microelectronics Segment has occurred (see Note 24). The impairment of licenses recorded in 2013 amounted to $82.5 million.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The estimated amortization expense for the amortized intangible assets as of December 31, 2013 for each of the five succeeding fiscal years and thereafter is as follows:

2014	34,941
2015	16,916
2016	15,027
2017	12,671
2018	7,721
Thereafter	27,146
Total	$ **114,422**

The actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

The change in the net carrying amount of goodwill for 2013 and 2012 by reportable segments was as follows:

	Defense Systems	Info-Communication Technologies	Total
Balances at January 1, 2012			
Gross amount of goodwill	$ 3,244	60,478	63,722
Accumulated impairment loss	-	-	-
	3,244	**60,478**	**63,722**
Acquisitions (Note 3)	-	170,179	170,179
Currency translation adjustment	195	8,505	8,700
Balances at December 31, 2012			
Gross amount of goodwill	3,439	239,162	242,601
Accumulated impairment loss	-	-	-
	3,439	**239,162**	**242,601**
Currency translation adjustment	(259)	(16,054)	(16,313)
Impairment loss	-	(223,108)	(223,108)
Balances at December 31, 2013			
Gross amount of goodwill	3,180	223,108	226,288
Accumulated impairment loss	-	(223,108)	(223,108)
	$ **3,180**	**-**	**3,180**

10. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2013 and 2012 comprised the following:

	2013	2012
Share in JSC UEC	$ 1,925	$ 2,074
Loan to Sitronics-Nanotech	1,142	1,231
Voting common shares of Centerprogrammsistem	949	1,022
Voting common shares of MTS Bank	886	955
Voting common shares of Angstrem	604	651
Voting common shares of Innovation center	535	576
Other	705	1,991
Share in LLC SITRONICS-Nano (See Note 3)	-	221,984
Total	$ **6,746**	$ **230,484**

Long-term investments as of December 31, 2013 and 2012 represent investments in which the Group does not have the ability to exercise significant influence over operating and financial policies and are accounted for under the cost method, except for the investments in shares of LLC SITRONICS-Nano (See Note 3).

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

11. LONG-TERM TRADE RECEIVABLES

The long-term portion of trade receivables as of December 31, 2013 and 2012 comprised the following:

	Annual imputed interest rate (December 31, 2013)	Maturity date	2013	2012
Trade receivables from third parties	8.5%-13.5%	2015-2018	$ 403,222	$ 273,168
Total			**$ 403,222**	**$ 273,168**

The long-term trade receivables are primarily related to interest free receivables under long-term contracts with Ministry of Defense of the Russian Federation.

12. RESTRICTED CASH

The Group's restricted cash is mainly related to government financing with predefined purposes of use. As of December 31, 2013 and 2012, restricted cash amounted to $1.7 million and $2.1 million respectively.

13. OTHER LONG-TERM ASSETS

Other long-term assets include the long-term portion of unamortized debt issuance costs which amounted to $2.4 million and $2.8 million as of December 31, 2013 and 2012, respectively.

14. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2013 and 2012 comprised the following:

	2013	2012
Customers' prepayments	$ 196,944	$ 150,205
Billings in excess of costs and estimated earnings on uncompleted contracts	115,629	254,158
Accrued payroll and vacation	82,164	70,287
Accrued expenses and other current liabilities	35,700	35,336
Current portion of capital lease (Note 17)	18,972	55,760
Interest payable on debt	14,705	30,254
Dividends payable	13,369	-
Warranty obligations	9,577	4,601
Uncertain tax positions provision	-	851
Total	**$ 487,060**	**$ 601,452**

Payments received in advance from the Ministry of Defense of the Russian Federation and other customers under long-term contracts amounted to $396.7 million and $324.5 million as of December 31, 2013 and 2012, respectively.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

15. SHORT-TERM LOANS AND NOTES PAYABLE

At December 31, 2013 and 2012, short-term loans and notes payable comprised the following:

	Currency	Annual interest rate (Actual at December 31, 2013)	2013	2012
Loans, notes payable and other credit facilities				
Including:				
Sistema and its subsidiaries	RUB, EUR	0.1%-13.5%	$ 340,783	$ 247,632
Bank of Moscow	RUB	8.9%	2,631	33,106
Transcreditbank	RUB	-	-	62,556
Bank Saint Peterburg	RUB	-	-	27,986
Gazprombank	RUB	-	-	21,699
Sberbank	RUB	-	-	19,867
VTB Bank	RUB	-	-	8,290
Svyaz Engineering	RUB	-	-	4,939
Other	various	0%-12.75%, 3m PRIBOR+0.35%	7,867	$ 12,875
Total			$ **351,281**	$ **438,950**

As of December 31, 2013 unused limit available to the Group on credit facility arrangements, with maturity period less than one year, amounted to $103.1 million.

16. LONG-TERM DEBT AND DEBT ON STATE DEFENSE ORDER

Long-term debt as of December 31, 2013 and 2012 consisted of the following:

	Currency	Annual interest rate (Actual at December 31, 2013)	2013	2012
Loans, Bonds and other credit facilities				
Bank of Moscow	RUB, USD, EUR	Mosprime3m+5%; Mosprime3m+6%; Mosprime3m+7.25%; 6.77% - 11.65%; 3m Libor +7.5%; CBR+3%	$ 288,121	$ 240,024
Sberbank	RUB	9.3% - 12.5%	123,029	69,691
Alfa Bank	RUB	9.9% - 10.99%	92,486	-
VTB Bank	RUB	9.0% - 10.35%	80,614	1,855
MCB	RUB	13.5%	30,554	20,248
Zenit Bank	RUB	10.3%	21,299	9,548
Raiffeisenbank	RUB	MosPrime1m +3%	12,222	-
Gazprombank	RUB	11%	1,222	7,803
SITRONICS-Nano	RUB	-	-	58,293
Transcreditbank	RUB	-	-	64,969
Other loans	various	11.9% - 12.9%	20,467	12,727
			670,014	**485,158**
Long-term debt on State Defense Order:				
Gazprombank	RUB	9.0% - 10.0%	$ 293,217	$ 167,171
Sberbank	RUB	8.55% - 10.0%	$ 228,817	$ 165,938
			522,034	**333,109**
Less current portion of long-term debt			(572,469)	(50,847)
Total			$ **619,579**	$ **767,420**

As of December 31, 2013, unused limit on credit facility arrangements available to the Group amounted to $206.6 million, including $35.1 million with maturity period less then one year.

As of December 31, 2013, shares of Yaroslavl Radioworks and Nvision were pledged as collateral for certain long-term loans and were subject to restrictions on withdrawal.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Covenants – Certain loans from banks and financial institutions are subject to restrictive covenants, including, but not limited to compliance with certain financial ratios, limitations on dispositions of assets and transactions within the Group. As of December 31, 2013, RTI was not in compliance with certain covenants on long-term loans in the total amount of $309.8 million, including loans from Bank of Moscow, Sberbank, Zenit Bank and Raiffeisenbank, and the lenders had the right to call the debt immediately. Accordingly, such debt was classified as current obligation as of December 31, 2013 in the consolidated statement of financial position.

The following table presents the aggregate scheduled maturities of the total long-term debt outstanding as of December 31, 2013:

Year ended December 31,		
2014	$	572,469
2015		301,489
2016		152,024
2017		166,066
2018		-
Thereafter		-
Total	**$**	**1,192,048**

17. CAPITAL LEASE OBLIGATIONS

The capital lease obligations as of December 31, 2013 and 2012 are presented as follows:

		2013		**2012**
Total minimum lease payments (undiscounted)	$	31,923	$	199,222
Less: amount representing interest		(5,081)		(9,148)
Present value of net minimum lease obligations		**26,842**		**190,074**
Less: current portion of capital lease obligations (Note 14)		(18,972)		(55,760)
Non-current portion of capital lease obligations	**$**	**7,870**	**$**	**134,314**

In December 2009, Mikron entered into a lease agreement for equipment and vehicles with SITRONICS-Nano classified as a capital lease. The total amount of minimum lease payments outstanding under this agreement was $158.6 million as at December 31, 2012.

In May 2013, the Group acquired control over SITRONICS-Nano (Note 3) and thus gained full rights in respect to the equipment and vehicles, which resulted in elimination of the respective capital lease obligation from the consolidated statement of financial position as at December 31, 2013.

Other lease obligations relate to buildings acquired by RTI from JSC IRT and production equipment acquired by Yaroslavl Radioworks, Saransk television plant, DMZ, RTI Mints and OKB-Planeta under various lease agreements.

Buildings of RTI Estate with an approximate carrying value of $13.9 million were pledged as security under the capital lease agreement with JSC IRT as at December 31, 2013.

Future payments under capital leases in effect as of December 31, 2013, are as follows:

Year ended December 31,		
2014		23,775
2015		6,943
2016		1,162
2017		43
2018 and thereafter		-
Less: amount representing interest		(5,081)
Total	**$**	**26,842**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

18. INCOME TAX

Income tax rates effective at December 31, 2013 and 2012, in countries where the Group primarily operates were as follows:

	2013	2012
Russia	20%	20%
Ukraine	19%	21%
Czech Republic	19%	19%

The Group's provision for income taxes for the years ended December 31, 2013 and 2012 was as follows:

	2013	2012
Current tax expense	$ (15,546)	$ (28,743)
Deferred income tax benefit	86,888	4,850
Total income tax benefit/(expense)	**$ 71,342**	**$ (23,893)**

The provision for income taxes is different from that which would be obtained by applying the Russian statutory income tax rate of 20% to the loss before income tax. The items causing this difference are as follows:

	2013	2012
Loss from continuing operations before income tax	$ (818,467)	$ (22,500)
Russian statutory tax rate	20%	20%
Income tax benefit	163,693	4,500
Adjustments due to:		
Expenses not deductible for tax purposes	(48,691)	(11,476)
Movement in valuation allowance	(45,029)	(15,047)
Change in liability for uncertain tax positions	-	278
Income tax paid in capacity of agent	-	(479)
Other	1,369	(1,669)
Income tax benefit /(expense)	**$ 71,342**	**$ (23,893)**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Temporary differences between the tax and accounting bases of assets and liabilities give rise to the following deferred tax assets and liabilities as at December 31, 2013 and 2012:

	2013	2012
Deferred tax assets		
Property, plant and equipment	$ 11,931	$ 4,532
Intangible assets	13,884	443
Tax loss carried forward	60,726	26,056
Accounts receivable	5,557	3,190
Accrued expenses	12,459	9,430
Inventories	8,425	5,482
Capital lease obligations	7,836	26,937
Other	3,757	3,016
Less: allowance for deferred tax asset	(46,717)	(1,548)
Total deferred tax assets	**$ 77,858**	**$ 77,538**
Deferred tax liabilities		
Property, plant and equipment	$ (12,394)	$ (48,424)
Intangible assets	(3,559)	(39,461)
Accounts receivable	(504)	(47)
Costs and estimated earnings in excess of billings on uncompleted contracts	(16,623)	(9,187)
Inventories	(1,246)	(871)
Other	(2,069)	(2,638)
Total deferred tax liabilities	**$ (36,395)**	**$ (100,628)**
Deferred tax assets, current portion	$ 28,705	$ 15,338
Deferred tax assets, non-current portion	35,769	21,534
Deferred tax liabilities, current portion	(13,335)	(15,547)
Deferred tax liabilities, non-current portion	(9,676)	(44,415)

As of December 31, 2013, deferred tax assets relating to tax losses carried forward net of allowance attributable to Nvision and RTI amounted to $5.9 and $3.7 million, respectively. The remaining balance is mainly attributable to NvisionSP, CRTIS, HTSS and Elion. These tax losses can be utilized until the year 2024.

As of December 31, 2013 the Group has no significant uncertain tax positions in accordance with FASB ASC No. 740 "Income Taxes".

19. SHAREHOLDERS' EQUITY

Common Stock – In February 2011, RTI has registered issuance of 19,480,000,000 voting common shares with par value of 1 RUB. Share capital comprises of one class of ordinary shares with each share having equal voting rights. Based on Russian law, distributions to shareholders can only be paid out of distributable earnings. The distributable retained earnings of RTI are based on amounts determined in accordance with Russian statutory accounting regulations and may differ significantly from the amounts calculated on the basis of U.S. GAAP.

In December 2013, RTI issued 4,687,500,000 voting common shares with par value of 1 RUB. The issue was distributed between existing shareholders and resulted in a change of Sistema's ownership interest from 84.6% to 84.7%. Sistema purchased 3,984,375,000 shares for a cash consideration of RUB 5,100 million ($154.8 million as of the date of transaction). The Bank of Moscow purchased RUB 703,125,000 shares for a cash consideration of RUB 900 million ($27.5 million as of the date of transaction).

As the result of a transaction share capital and additional paid-in capital increased by $120.9 million and $33.9 million, respectively.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

The next day after the Bank of Moscow purchased its portion of the additional shares issued, RTI (via its subsidiary Concern RTI Systems) granted a put option on these shares to Bank of Moscow. According to the terms of the put option, the Bank of Moscow has a right to sell its 703,125,000 shares in JSC RTI to CRTIS at the price of RUB 900 million ($27.5 million as of the date of transaction of purchase) plus 8.25% p.a. not earlier than December 26, 2016 and not later than December 26, 2018. The contribution of Bank of Moscow was accounted for as redeemable share capital in the accompanying consolidated statement of financial position at fair value as of the date of the issuance.

Non-controlling interest – during the years ended December 31, 2013 and 2012 several subsidiaries of the Group declared dividends in amounts of $3.2 million and $3.0 million, respectively.

20. STOCK OPTIONS

The Group maintains phantom stock option plans in order to compensate certain employees. In December 2011, RTI Board of Directors approved a three-year stock option plan for senior and middle management of the Company. The participants are granted phantom shares, contingent on continued employment with the Company and increase in the value of the Group. The plan consists of 3 options each starting in the beginning of years 2012, 2013 and 2014. According to the terms of the plan shares are granted either in cash or in ordinary shares of the Company by choice of the participant. In case the participants choose to convert the phantom options into ordinary shares, the conversion can be performed not earlier than at the end of 2014.

The obligation to the participants on the plan is measured by the Group based on fair value of the Company's ordinary shares at grant date multiplied by respective quantity of phantom shares. The Lattice model is used to calculate fair value of Company's ordinary shares at grant date based on present value of future cash flows of the Group, valuated by an independent appraiser, and taking into consideration the variability of outcomes with relevant probability allocated to each one. The Group recognizes compensation cost on a straight-line basis over the requisite service period for each separately vesting portion of the award.

Option 1

In the year 2012, RTI Board of Directors established the key provisions of the first part of the stock option plan with the quantity of phantom shares granted equal to 342,352,337 ("Option 1").

The activity relating to Option 1 for the years ended December 31, 2013 and 2012 was as follows:

Number of shares	**2013**	**2012**
Outstanding at the beginning of the year	199,618,528	-
Options granted	-	342,352,337
Options exercised	(66,539,509)	-
Options forfeited	-	(142,733,809)
Outstanding at the end of the year	**133,079,019**	**199,618,528**

As of December 31, 2013, there were no unvested phantom shares under Option 1 left.

In the year ended December 31, 2013, participants exercised 66,539,509 phantom shares at price RUB 1.28 for cash.

As of December 31, 2013, the participants of Option 1 have the right to convert into cash up to 1/3 of the vested options at a price of RUB 1.19 per share. The price is calculated based on independent appraiser's report on fair value of the Group's equity as of December 31, 2013.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

Option 2

In the year 2013, RTI Board of Directors established the key provisions of the second part of the stock option plan with the quantity of phantom shares granted equal to 186,847,471 ("Option 2").

The activity relating to Option 2 for the years ended December 31, 2013 and 2012 was as follows:

Number of shares	2013	2012
Outstanding at December 31, 2012	-	-
Options granted	186,847,741	-
Options exercised	-	-
Options forfeited	-	-
Outstanding at December 31, 2013	**186,847,741**	**-**

As of December 31, 2013 there were no unvested phantom shares under Option 2.

As of December 31, 2013 participants of Option 2 program have the right to convert into cash up to 2/3 of the vested options at a price of RUB 1.19 per share. The price is calculated based on independent appraiser's report on fair value of the Group's equity as of December 31, 2013.

The compensation costs under Options 1 and 2 recorded during the years ended December 31, 2013 and 2012 and amounting to $6.6 and $10.6 million (including social contribution) are included within selling, general and administrative expenses of the consolidated statements of operations.

Accrued payroll and vacation included payables to senior management of JSC RTI under phantom option plan in the amount of $12.4 million and $9.8 million as of December 31, 2013 and 2012, respectively.

21. SEGMENT INFORMATION

The FASB ASC No. 280 "Segment Reporting" establishes standards for reporting information about operating segments in the financial statements. Operating segments are defined as components of an enterprise engaging in business activities for which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance.

The Group had four operating segments, namely the Defense Systems segment, the Complex Security Systems segment, the Info-Communication Technologies segment and the Microelectronic Solutions segment in 2012-2013. These operating segments had differing production processes and product specifications. The Group's management evaluated the performance of the segments based on their operating income.

The intersegment eliminations presented below consist primarily of intercompany sales transactions, intercompany investments and loans and other intercompany transactions and balances conducted in the normal course of operations.

The "All other" category does not constitute either an operating segment or a reportable segment. It includes the results of a number of other segments that do not meet the quantitative and qualitative thresholds for separate reporting. These segments do not qualify for aggregation to produce a reportable segment, since these segments do not have similar economic characteristics.

Corporate segment includes various corporate expenses, assets and liabilities that cannot be allocated to operating segments.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

An analysis and reconciliation of the Group's business segment information to the respective information in the consolidated financial statements for the years ended December 31, 2013 and 2012 is as follows:

For the year ended December 31, 2013	**Defense Systems**	**Complex Security Systems**	**Info-Communication Technologies**	**Micro-electronic Solutions**	**All other**	**Corporate**	**Total**
Sales to external customers	$ 771,399	$ 27,593	$ 1,047,113	$ 307,900	$ 30,887	$ 10,617	$ **2,195,509**
Intersegment sales	3,056	5,180	961	427	8,355	26,516	**44,495**
Depreciation and amortization	(17,969)	(954)	(45,319)	(34,385)	(1,668)	(3,359)	**(103,654)**
Operating income/(loss)	120,911	(6,225)	(476,952)	(366,182)	773	(21,564)	**(749,239)**
Interest income	26,309	314	649	1,261	58	16,582	**45,173**
Interest expenses	(55,495)	(359)	(23,069)	(26,036)	(4,840)	(28,222)	**(138,021)**

For the year ended December 31, 2012	**Defense Systems**	**Complex Security Systems**	**Info-Communication Technologies**	**Micro-electronic Solutions**	**All other**	**Corporate**	**Total**
Sales to external customers	$ 627,508	$ 63,075	$ 1,180,664	$ 292,018	$ 43,757	$ 3,571	$ **2,210,593**
Intersegment sales	2,726	2,279	2,813	228	1,861	22,621	**32,528**
Depreciation and amortization	(13,154)	(846)	(32,843)	(38,344)	(1,396)	(945)	**(87,528)**
Operating income/(loss)	129,035	3,186	(44,268)	(9,166)	4,324	(32,192)	**50,919**
Interest income	7,022	468	3,758	644	-	22,365	**34,257**
Interest expenses	(34,835)	(142)	(12,057)	(31,222)	(1,975)	(28,526)	**(108,757)**

The reconciliation of segment operating income to loss before income tax is as follows:

	2013	**2012**
Defense Systems	$ 120,911	$ 129,035
Complex Security Systems	(6,225)	3,186
Info-Communication Technologies	(476,952)	(44,268)
Microelectronic Solutions	(366,182)	(9,166)
Total segment operating (expense)/income for reportable segments	**(728,448)**	**78,787**
All other	773	4,324
Corporate	(21,564)	(32,192)
Interest expense, net	(92,848)	(74,500)
Foreign currency transactions (losses)/gains	(20,945)	1,299
Equity in gains of investees	44,565	75
Other non-operating losses	-	(293)
Loss from continuing operations before income tax	$ **(818,467)**	$ **(22,500)**

As of December 31, 2013 and 2012, the total assets of reportable segments comprised the following:

	2013	**2012**
Defense Systems	$ 1,205,741	$ 1,044,411
Complex Security Systems	37,425	38,577
Info-Communication Technologies	642,243	1,148,608
Microelectronic Solutions	585,132	803,449
Total for reportable segments	**2,470,541**	**3,035,045**
All other	128,466	114,741
Corporate	566,915	493,270
Assets of discontinued operations		212,316
Intersegment elimination	(680,941)	(575,476)
Total assets	$ **2,484,981**	$ **3,279,896**

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

For the years ended December 31, 2013 and 2012, the Group's additions to property, plant and equipment and intangible assets, comprised the following:

	2013	2012
Defense Systems	$ 54,739	$ 44,556
Complex Security Systems	1,688	1,887
Info-Communication Technologies	17,143	19,906
Microelectronic Solutions	55,729	66,475
Total for reportable segments	**129,299**	**132,824**
All other	1,951	1,362
Corporate	4,108	480
Total additions to property, plant and equipment and intangible assets	**$ 135,358**	**$ 134,666**

Information about the Group's revenues attributed to different geographic areas for the years ended December 31, 2013 and 2012 is shown below. The revenue is attributed by the location of the registered office of the customer.

	2013	2012
Russia and CIS, except for Ukraine	$ 2,033,914	$ 1,966,668
Ukraine	99,761	174,991
Asia-Pacific region	31,062	27,212
Central and Eastern Europe	26,147	26,011
Middle East and Africa	3,203	1,159
All Other	1,422	14,552
Total sales to external customers	**$ 2,195,509**	**$ 2,210,593**

As of December 31, 2013 and 2012, the Group's property, plant and equipment and intangible assets, net of accumulated depreciation and amortization plus goodwill, in respect of their geographical location were as follows:

	2013	2012
Russia and CIS, except for Ukraine	$ 609,629	$ 998,142
Ukraine	13,514	26,786
Czech Republic	12,274	12,274
Other	9,143	7,139
Total property, plant and equipment and intangible assets, net of accumulated depreciation and amortization plus goodwill	**$ 644,560**	**$ 1,044,341**

22. RELATED PARTY TRANSACTIONS

The Group enters into transactions with its related parties, all of which are affiliated with the Group through common ownership, on normal commercial terms. During the year ended December 31, 2013 and 2012, the Group entered into transactions with related parties as follows:

	2013	2012
Services provided and products shipped	$ 539,300	$ 542,469
Purchases	(60,363)	(53,963)
Selling, general and administrative expenses	(6,019)	(12,476)
Other operating (expenses)/income	78	2,155
Interest income	18,658	26,172
Interest expense	(43,219)	(58,789)

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

As of December 31, 2013 and 2012, the related parties' balances were as follows:

	2013	2012
Assets:		
Cash and cash equivalents	$ 43,163	$ 57,085
Short-term deposits and loans	7,125	14,838
Trade receivables, net	75,054	81,395
Other receivables and prepaid expenses, net	26,188	8,876
Long-term investments	1,142	1,231
Liabilities:		
Trade accounts payable	12,495	24,521
Accrued expenses and other current liabilities	72,025	152,559
Short-term loans and notes payable	343,415	285,677
Current portion of long-term debt	255,123	15,165
Long-term debt	32,998	283,152

Other related party balances as of December 31, 2013 and 2012 are disclosed in the corresponding notes to the financial statements.

23. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Group leases land, buildings and vehicles from other parties through contracts, which expire in various years through 2019. Rental expenses under these leases were $23.0 million and $13.7 million for the years ended December 31, 2013 and 2012 respectively, and were included in selling, general and administrative expenses in the accompanying consolidated statements of operations.

Future minimum rental payments under non-cancellable operating leases in effect as of December 31, 2013 were as follows:

Year ended December 31,	
2014	18,883
2015	13,469
2016	13,487
2017	13,487
2018	13,493
Thereafter	11,190
Total	**$ 84,009**

Legal Proceedings

In the ordinary course of business, the Group may be party to various legal and tax proceedings, and be subject to claims. Unresolved legal claims against RTI amounted to $15.5 million and nil as of December 31, 2013 and 2012 respectively. Management estimates the unfavourable outcome of the legal claims to be possible. In the opinion of the management, the Group's liability, if any, in all pending litigation, other legal proceedings or other matters, will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

Guarantees

As of December 31, 2012, Mikron provided a financial guarantee to the Bank of Moscow in respect of obligations of SITRONICS-Nano under the uncovered irrevocable letter of credit with post-financing in favor of STMicroelectronic N.V. in the amount of EUR 27.0 million ($35.8 million). The guarantee expires in March 2017. In May 2013 SITRONICS-Nano was consolidated within the Group and therefore the guarantee became intercompany.

(Amounts in thousands of U.S. dollars, except share amounts or if otherwise stated)

As of December 31, 2012, Mikron provided a financial guarantee to the RUSNANO corporation in respect of a credit facility issued to SITRONICS-Nano in the amount of RUB 1.8 billion ($59.2 million). The guarantee expired in October 2013.

As of December 31, 2013, Nvision provided a financial guarantee to the Novikombank in respect of bank guarantee issued by Novikombank to Nonprofit Partnership "GLONASS". The obligation under the financial guarantee amounts to RUB 147.8 million ($4.5 million) and expires in January 2014.

As of December 31, 2013 Yaroslavl Radioworks provided financial guarantees to the Sberbank in respect of credit facilities issued to OOO "Aspekt" in total amount of RUB 69.8 million ($2.1 million). The credit facilities were utilized to acquire production equipment and subsequently to provide them to Yaroslavl Radioworks under lease agreements. The guarantees expire in a period of February 2014 till March 2018.

24. IMPAIRMENTS AND PROVISIONS

Impairments and provisions recognized by the Group in the years ended December 31, 2013 and 2012 comprised the following:

	2013	2012
Impairment of goodwill	$ 223,108	$ -
Total Impairment of goodwill	**223,108**	**-**
Impairment of 180 and 90 nanometer production equipment and licences	361,385	-
Impairment of NVision intangible assets	125,747	-
Bad debt expense	24,796	16,894
Inventory obsolescence provision	13,941	9,048
Impairment of other assets	10,161	15,205
Impairment of other long-lived assets	8,237	22,875
Total impairment of long-lived assets other than goodwill and provisions for other assets	**544,267**	**64,022**
Total	**$ 767,375**	**$ 64,022**

Impairment of 180 and 90 nanometer production equipment and licences – As of December 31, 2013, as a result of the adverse information on the decrease in the demand for 180 and 90 nanometer microchip products due to significant delay of certain projects, the Group carried out a review of the recoverable amount of long-lived assets used in the production of microchips, with a total carrying value of $547.5 million at Mikron, a subsidiary of the Group.

The estimated fair value of such long-lived assets was determined based on unobservable inputs ("Level 3" of the hierarchy established by U.S. GAAP guidance). When calculating the future cash flows used in the assessment of the fair value of long-lived assets, the Group considered historical and projected revenue and operating costs, market conditions, asset ages, asset utilization and other relevant information.

The key assumptions used in the value in use calculations were as follows:

	Percentage points
Post-tax discount rate	17.2-35.0
Long-term growth rate	2.3
Revenue growth [(1)]	11.7
Equipment useful life	30 years

(1) Represents the compound annual growth rate during the whole 12-year period.

As a result of this impairment review, the Group concluded that the fair value of the long-lived assets was $195.9 million. An impairment charge of $361.4 million was therefore recognized in the consolidated statement of operations and comprehensive income.

Impairment of NVision intangible assets and goodwill – During the year ended December 31, 2013, the Group identified indicators that the carrying amounts of long-lived assets attributable to NVision may not be recoverable. These indicators included lower than expected revenue and profitability levels and downward revisions to management's forecasts for the NVision business.

Subsequent to its acquisition of NVision by the Group in 2012, NVision experienced a significant decrease in purchases made by its key customers and, as a result, revenue forecasts were substantially reduced as compared to those existing at the acquisition date. Based on the revised forecasts, the Group determined that the carrying value of the NVision asset group exceeded its undiscounted cash flows. The Group then compared the fair value of the asset group to its carrying value and determined the impairment loss. The impairment loss was allocated to the carrying values of the long-lived assets, but not below their individual fair values. The Group estimated the fair value of the assets primarily using an income approach based on unobservable inputs ("Level 3" of the hierarchy established by U.S. GAAP guidance), with the key assumptions including a discount rate of 16.5% and 3-7% of revenue royalty payments for the trade mark. The decline in the fair value of the NVision reporting unit and its intangible assets, as well as fair value changes for other assets and liabilities in the step two goodwill impairment test, resulted in an implied fair value of goodwill being substantially below its carrying value.

As a result of the impairment review, for certain long-lived assets with a carrying value of $129.0 million the Group concluded that the fair value amounted to $3.3 million and recorded an estimated impairment charge of $125.7 million in the consolidated statement of operations and comprehensive income. The Group also recorded an estimated impairment charge on goodwill of $223.1 million based on its implied fair value.

Management believes that the amount of provisions and reserves adequately reflects the future uncertainties related to the recoverability of the Group assets.

25. CONCENTRATIONS OF RISK

Credit Risks

During the years ended December 31, 2013 and 2012, the Group's sales to subsidiaries of Sistema and affiliates amounted to $517.5 million and $522.2 million respectively, or 23.6% and 23.6% of the Group's consolidated revenues for the respective periods. The Group's cash and cash equivalents, trade receivables, short-term deposits and loans balances from subsidiaries of Sistema and affiliates as of December 31, 2013 and 2012 are disclosed in the respective notes.

Industry Risks

The industries in which the Group operates are characterized by rapid technological changes, competitive pricing pressures and cyclical market patterns. The Group's financial results are affected by a wide variety of factors, including the general economic conditions in the countries where the Group's entities operate, industry-specific economic conditions, the timely implementation of new manufacturing technologies, the ability to safeguard patents and intellectual property in rapidly evolving markets, reliance on vendors and independent distributors and policy of the Russian Government in terms of State Defense Order financing. The Group is exposed to the risk of obsolescence of its inventory depending on the mix of future business. As a result, the Group may experience significant period-to-period fluctuations in future operating results due to the factors mentioned above, or other factors.

Tax Risks

The Russian economy, while deemed to be of market status, continues to display certain traits consistent with that of emerging markets. These characteristics have in the past included higher than normal inflation, insufficient liquidity of the capital markets, and the existence of currency controls. The continued success and stability of the Russian economy will be subject to their respective governments' continued actions with regard to legal and economic reforms.

Russia currently has a number of laws related to various taxes imposed by governmental authorities. Applicable taxes include VAT, corporate income tax, and payroll taxes, together with others. The policies on implementation of these regulations are often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia that are more significant than typically found in countries with more developed tax systems.

Management believes that it has adequately provided for tax liabilities in the Group's consolidated financial statements; however, the risk remains that relevant authorities could take a different position with regard to interpretive issues.

Operating Environment and Financial Risks

The global financial system continues to exhibit signs of deep stress and many economies around the world are experiencing lesser or no growth than in prior years. Additionally there is increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These conditions could slow or disrupt the economy of the Russian Federation, adversely affect the Group's access to capital and the cost of capital for the Group, negatively impact the value of the currencies of the countries where the Group conducts the most part of its operations and, more generally, its business, results of operations, financial condition and prospects. However, in the context of the current global economic environment, the degree of volatility could be very different from management's expectation. This may affect the financial position and results of operations of the Group.

26. SUBSEQUENT EVENTS

In the period, subsequent to the reporting date through April 1, 2014, the date when the financial statement were issued, the Group entered into a number of new credit facilities as follows:

Subsidiary	Lender	Credit limit, in thousands of U.S. dollars	Interest rate per annum	Maturity date
Credit facilities				
Nvision	Sberbank	45,831	12.20%	Dec. 2014
RTI Mints	Sberbank	44,303	9.50%	Dec. 2018
Mikron	Bank of Moscow	20,165	8.85%	Apr. 2016
CRTIS	Zenit Bank	15,277	10.30%	Dec. 2015
OKB-Planeta	VTB Bank	12,222	9.75%	Jan. 2017
Long-term debt on State Defense Order:				
CRTIS	Gazprombank	76,880	9.75%	Dec. 2018

In the period, subsequent to the reporting date through April 1, 2014, the Group made the following proceeds and repayments on credit arrangements:

Subsidiary	**Lender**	**Amount of proceeds, in thousands of U.S. dollars**
R.O.S.S.	Globexbank	12,222
RTI Mints	Sberbank	4,311
SITRONICS-Nano	Bank of Moscow	3,610
RTI Mints	Bank Saint Peterburg	1,222

Subsidiary	**Lender**	**Amount of repayments, in thousands of U.S. dollars**
Mikron	MCB	15,277
Mikron	Bank of Moscow	4,583
Elion	Sistema and its subsidiaries	3,926

In the period, subsequent to the reporting date through April 1, 2014, the amount of Group's proceeds and repayments under revolving credit facilities comprised $101.4 million and $142.8 million respectively.

Redemption of loans issued – In the period, subsequent to the reporting date through April 1, 2014, Sistema and its subsidiaries partially repaid some loans received from JSC RTI in amount of RUB 138.7 million ($4.2 million).

Political and economic crisis in Ukraine – The continuing deterioration in key aspects of the national economy and a lack of investment in the social infrastructure, has, amongst other things, led to political instability in Ukraine. Furthermore, the refusal of the Ukrainian Government to enter into an association agreement with the European Union ignited mass protests by the opposition in Kyiv and other regions of the country. These protests and the related unrest have caused a deterioration of Ukraine's international ratings and depreciation of the national currency. On January 28, 2014, several concessions were made to protestors' demands, including the resignation of the government. The political tension in Ukraine remains high and in case of a continued escalation or conflict may have negative effects on the Group's businesses in Ukraine including its financial position and results of operations.

In March 2014, sanctions have been imposed by the U.S. and E.U. on certain Russian officials, businessmen and companies. These official actions, particularly if further extended, may result in reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

Depreciation of the Russian Ruble – During the period from January 1 to April 1, 2014, the Russian Ruble further depreciated by 8.8% against the U.S. Dollar. Since a portion of the Group's capital expenditures, borrowings and certain operating costs are denominated in U.S. dollars, this and any further devaluation could adversely affect the Group's results of operations in 2014. A decline in the value of the Russian Ruble against the U.S. dollar also results in a translation loss when the Group translates its ruble revenues and assets into U.S. Dollars which is the Group's reporting currency.

Mikron share issue – In January 2014, Federal Agency for State Property Management (Rosimushchestvo) acquired 219,178 of additional shares issued by Mikron for cash proceeds of RUB 160 million ($4.8 million), JSC "RTI Microelectronics" acquired 8,904,110 of additional shares issued by Mikron for cash proceeds of RUR 6.5 billion ($196.1 million).

As a result of the transaction the Group increased its voting interest in Mikron from 76.8% to 84.5%. The capital transactions were in line with the State Program "Development of electronic components and electronics".

NIIDAR sale of buildings – In April 2014, NIIDAR signed an agreement of intentions with CJSC "REGIONI-Development" on sale of its production and administrative buildings with the carrying value of $1.8 million as of the reporting date.

Management of the Group has evaluated subsequent events through April 1, 2014, the date when its financial statements were issued.

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