

With the purpose of compliance with the requirements of the Tax Code of the Russian Federation (hereinafter - "the Code") with regard to the application of tax rates to the dividends paid following the results of 2013, Sistema JSFC hereby informs its shareholders as follows:

Article 275 of the Code prescribes a different procedure for acknowledgement of Russian companies as tax agents for dividend distribution, which comes into effect from 01 January 2014.

Sistema JSFC is recognized as tax agent in respect of dividend distributions and the documents specified herein should be received by Sistema JSFC for tax assessment in the following situations:

- when dividends are paid for the shares recorded in the register of Sistema JSFC's securities, on the personal account of the owner of such securities, as of the date determined in the resolution (declaration) of income distribution among such shares (see par. 1, i. 7, Art. 275 Russian Tax Code);
- when dividends are paid to the companies whose entitlement to such income was established, for the shares that are recorded at the account of unidentified persons opened by the registrar (par. 3, i. 7, Art. 275 Russian Tax Code), as of the date stated in the resolution (declaration) of dividend distribution.

Please note that since the deadline for dividend distribution is 31 July 2014, and since time should be allowed for tax calculations and for payment procedures, the documents specified herein should be received by Sistema JSFC (if it is recognised as tax agent based on Articles 275 of the Code) by 24 July 2014. If the documents are not received in due time, Sistema JSFC cannot guarantee application of relevant tax reliefs for tax calculation. In such circumstances, foreign shareholders shall independently apply to the tax authorities for a tax refund (set-off) on the basis of Articles 78 and 312 of the Code.

Please be lenient to the fact that in certain cases Sistema JSFC as tax agent shall reserve the right to request additional documents not listed in this letter, usually related to confirmation of the tax status of a specific recipient of dividends.

In each specific case such recipient can be provided with a full explanation of the reasons why additional documents are requested.

## 1. **Defining the tax status of an individual**

For the purpose of performing the functions of a tax agent with respect to the dividends paid to individuals, Sistema JSFC shall determine the tax status of the individuals that receive such income.

The tax status is determined on the basis of the information provided in the Questionnaire of the individual owner (hereinafter - "the Questionnaire").

Meanwhile, Sistema JSFC shall recognize an individual to be a Russian tax resident if such an individual filled in the Questionnaire, indicating a Russian/USSR passport number and a residential address on the territory of the Russian Federation.

In other cases, a shareholder is qualified as an individual who is not a tax resident of the Russian Federation which, however, does not deprive such a person of the legal right to submit additional documents proving the status of a Russian tax resident.

Since a person shall be considered as a Russian tax resident in the event that as of the date of income payment this person has spent in Russia at least 183 calendar days during 12 months in

succession, in order to confirm the period of stay on the territory of the Russian Federation, the individual shareholders may submit:

- A copy of passport with passport control stamps made on crossing the borders of the Russian Federation;
- Citizens of the states where border passport control has been canceled (the Republic of Belarus, the Republic of Kazakhstan, the Republic of Armenia, Ukraine) can provide other documents including those that indirectly confirm the period of stay on the territory of the Russian Federation (for example, a free-form employer's certificate that confirms the number of days that the employee spent on the territory of Russia over the last 12 calendar months).

**2. Payment of dividends to individual shareholders that are Russian tax residents and to legal entity shareholders incorporated in accordance with the Russian laws (*hereinafter - Russian shareholders*)**

When paying dividends to Russian shareholders, Sistema JSFC is not obliged to withhold personal income tax or profit tax from the dividend income in accordance with i. 5 Article 275 of the Code.

The economic sense behind this rule is that in the event that a joint-stock company allocates dividends using, among other sources, the funds received as dividends from its subsidiaries and affiliates, this dividend stream should be exempt from double taxation.

Accordingly, if the amount of dividends received by Sistema JSFC from its subsidiaries and affiliates (with the exception of dividends taxed at the 0% rate) exceeds the amount of dividends distributed by Sistema JSFC to its Russian shareholders, no tax liability shall arise. In this case the tax agent will not have the obligation to withhold tax from the amount of dividends, and the recipient represented by a Russian shareholder will not have the obligation to calculate and pay the tax either.

**3. Payment of dividends to individual shareholders that are not Russian tax residents.**

When dividends are paid to individual shareholders that are not Russian tax residents, following item 224 of the Code, a 15% tax shall be withheld.

If the shareholders specified above are the tax residents of countries with which Russia has an effective double taxation treaty and if such a treaty provides for the taxation of dividends at a lower rate (exemption from taxation), and if the shareholder has an actual beneficial right to the dividends (is a beneficiary of the dividends), then such shareholders are entitled to a refund of the excess tax withheld.

The excess tax shall be returned by the tax agent (Article 231 of the Code) upon provision of the documents listed below and transfer of the respective sum by the tax authority to Sistema JSFC:

- tax refund application;
- document (tax certificate) confirming the status of dividend recipient as a person with a permanent residency in the respective state executed in accordance with the requirements set out in Article 232 of the Code;
- document confirming the payment of tax in the respective state;
- documents confirming the right of an individual to receive the dividends.

**4. Payment of dividends to legal entity shareholders incorporated in accordance with the laws of foreign states (*hereinafter - foreign organizations*)**

According to the general rule, when dividends are paid to the specified category of shareholders on the basis of clause 284 of the Code the tax is withheld at the rate of 15%. The terms on which the reduced rate is applied are outlined below in i.4.1. – 4.2. of this notice.

4.1. If the shareholders specified above are tax residents (persons with a permanent place of residence) of the countries with which Russia has an effective double taxation treaty, and if such a treaty provides for taxation of dividends at a reduced rate (tax exemption), and if the shareholder is the beneficiary of the dividends (has actual beneficial rights to the dividends), then such Russian shareholders are entitled to:

(a) taxation at the rate set by the international treaty (tax exemption) – provided that they submit a document confirming the tax status of the shareholder prior to the date of income payment;

(b) application for a refund of excess tax filed to the tax authorities of the Russian Federation in conformity with the procedures set out in i. 2 Article 312 of the Code – if the document confirming the tax status of the shareholder is not submitted to Sistema JSFC prior to the income payment date.

With the purpose of withholding tax at a reduced rate established by the international treaty, a foreign organization should provide Sistema JSFC with a document (tax certificate ) meeting the following requirements:

- It contains the following sentence or a sentence with a similar meaning *"This is to confirm that ... (specify the company name) ... has been a permanent resident in ... (specify the country) ... throughout the period of ... (specify the time period) .. with regards to the Treaty (specify the title of the international treaty) signed by and between the Russian Federation /USSR and (specify the foreign state)"*
- It indicates the specific calendar year to which the treaty is applicable or is dated 2014;
- It bears a stamp of the foreign state's agency which has the powers (or was authorized) with respect to this double taxation treaty or bears a signature of the authorized official of this agency. In the event that the agency/official of a foreign state which acts as an authorized agency/official with regard to the respective treaty has delegated their powers to any other agency/person, it is necessary to provide the information confirming the fact of such delegation of powers. Sistema JSFC will accept as sufficient confirmation the information submitted in a free-form shareholder letter (in Russian) which would refer to an official Internet site of the respective state authority of a foreign state clearly stating that this agency/person delegate their powers to the respective agencies/persons. You are kindly asked to be aware that if the respective page of the Internet site of the authorized body of a foreign state contains information in a language different from English or Russian, Sistema JSFC will not be able to accept a reference to such an Internet page as sufficient confirmation
- It is legalized in a diplomatic agency or embassy of the Russian Federation (for the states which have not joined the Hague Convention of 05.10.1961) or bears an Apostille
- If a copy of the document is submitted, it should be certified by a notary
- If the document is made in a foreign language, it should be translated into Russian

Please note that if a shareholder delivers a tax certificate that meets all the requirements above, the shareholder thus confirms his entitlement to tax relief envisaged in the tax treaty, including the beneficial rights to the dividends. Along with the tax certificate, shareholders should present a letter that confirms that the shareholder is simultaneously a resident in the country to which the international treaty is applied, and has an actual beneficial right to the dividends (is a beneficiary of the dividends) (for a draft form of the letter please see Annex 1 hereto).

When international treaties contain provisions that limit application of such treaties to income taxation of certain categories of individuals (limitation of tax relief), including dividend income, residents of foreign states should provide further confirmation, in addition to the documents mentioned in this item. Such confirmation should contain information to the fact that residents of such states are not subject to the limitations stipulated in such treaties. Such confirmation can be

provided by residency certificates or separate certificates produced by relevant authorities of the relevant foreign state, or by the auditors of such companies.

4.2 If the applicable double taxation treaty contains more than one reduced tax rate and application of the lowest rate is conditional upon meeting some criteria, in order to apply this minimal rate it is necessary to provide Sistema JSFC with the documents confirming that such criteria have been met.

The documents should be translated into Russian and, if necessary, legalised/apostilled.

The examples of international treaties which may serve as the basis for application of differentiated reduced rates would be the effective treaties between the Russian Federation and the Republic of Cyprus, the United States of America, the French Republic, etc.

#### Contact details:

- **for issues related to dividend taxation:**

Any questions regarding the contents of this message concerning the taxation procedure applicable to dividends should be sent by email to Ekaterina Kuznetsova, Sistema JSFC's Managing Director of Tax Administration: [ekuznetsova@sistema.ru](mailto:ekuznetsova@sistema.ru) and to Tatiana Vorobyova, Sistema JSFC's Tax Manager: [t.vorobyova@sistema.ru](mailto:t.vorobyova@sistema.ru)

- **postal address for submission of documents:**

Address: 13/1 Mokhovaya St., 125009, Moscow,  
Attn.: Sistema JSFC  
Marina Zhuravleva, Deputy Chief Accountant.

In order to speed up processing of information, copies of the documents may be emailed to: [M.Zhuravleva@sistema.ru](mailto:M.Zhuravleva@sistema.ru) and [Sergunova@sistema.ru](mailto:Sergunova@sistema.ru), however, please note that this method does not substitute mandatory submission of hard copies of the documents.

Annex 1

Attn.: Sistema JSFC

From: Name of legal entity

#### Confirmation letter

*{Full name of the legal entity (in accordance with the residency certificate)} hereby confirms that it is a resident in the country {specify the country} and, pursuant to item \_\_\_ of Article \_\_\_ {specify item number and the Articles relating to dividends in the respective international treaty} has an actual beneficial right to the dividends (is a beneficiary of the dividends) from Sistema JSFC following results of the year 2013.*

*{Signature, full name, date, seal of the legal entity}*