



FOR IMMEDIATE RELEASE

April 3, 2014

FINANCIAL RESULTS FOR THE FOURTH QUARTER AND THE FULL YEAR ENDED DECEMBER 31, 2013

Moscow, Russia – April 3, 2014 – Sistema JSFC (“Sistema” or the “Company”, together with its subsidiaries, “the Group”) (LSE: SSA), the largest publicly-traded diversified holding company in Russia and the CIS, today announces its consolidated US GAAP financial results for the fourth quarter and the full year ended December 31, 2013.

FULL YEAR HIGHLIGHTS

- Consolidated revenues up 5.9% YoY to US\$ 35.9 billion
- Adjusted OIBDA¹ up 5.8% YoY to US\$ 8.9 billion, with an adjusted OIBDA margin of 24.8%
- Adjusted net income attributable to the Group² up 11.1% YoY to US\$ 2.0 billion
- Consolidated net income attributable to the Group up 138.6% YoY to US\$ 2.3 billion
- Net debt³ at the Corporate Holding level amounted to US\$ 296.8 million as at December 31, 2013
- Cash position⁴ at the Corporate Holding level amounted to US\$ 571 million, liquid investments in financial instruments amounted to US\$ 707⁵ million as at December 31, 2013

FOURTH QUARTER HIGHLIGHTS

- Revenues up 4.6% YoY to US\$ 9.9 billion
- Adjusted OIBDA up 9.9% YoY to US\$ 2.3 billion, with an adjusted OIBDA margin of 23.1%
- Adjusted net income attributable to the Group up 72.5% YoY to US\$ 627.3 million
- Consolidated net income attributable to the Group down 73.5% YoY to US\$ 47.7 million due to recognised certain one-off items

KEY CORPORATE HIGHLIGHTS FOR 2013

- Acquisition of a 51% stake in CJSC Business Nedvizhimost from CJSC MGTS-Nedvizhimost, for RUB 3.2 billion.
- Announced reorganisation plan to eliminate cross ownership in Bashneft by restructuring Sistema’s subsidiary Sistema-Invest⁶.
- Acquisition of a 100% stake in LLC Bashneft-Services Assets (BNSA) from Bashneft for a total cash consideration of RUB 4.1 billion.

¹ See Attachment A for definitions and reconciliation of adjusted OIBDA to GAAP financial measures.

² See Attachment A for definitions and reconciliation of adjusted net income attributable to the Group to GAAP financial measures.

³ Including highly liquid deposits and liquid financial investments in fixed-income instruments, based on management accounts.

⁴ Including highly liquid deposits.

⁵ Liquid financial investments in fixed-income instruments (bonds and eurobonds with high ratings and maturity less than 3 years) based on management accounts.

⁶ Sistema owns 50.6% in the charter capital of Sistema Invest CJSC, Bashneft owns 49.4% in the charter capital of Sistema Invest CJSC.

- Acquisition of a 98% stake in OJSC United Petrochemical Company (UPC) from Bashneft for RUB 6.2 billion, and a joint venture agreement signed by UPC with a subsidiary of Alpek, S.A.B. de C.V. for the construction of an integrated purified terephthalic acid – polyethylene terephthalate plant in Ufa, Bashkortostan.
- Sale of a 49% stake in OJSC Oil and Gas Company RussNeft, for a total cash consideration of US\$ 1.2 billion.
- Reorganisation of the Group’s transportation assets: sale of 70% and 15% of Sistema’s shares in SG-trans to Financial Alliance⁷ and Unirail for RUB 12.0 billion and RUB 2.5 billion, respectively. Sistema retained 100% of SG-trading.
- Approved a new motivational programme for Sistema’s portfolios and functional divisions, based on cash generation and share price performance principles.

Mikhail Shamolin, President and Chief Executive Officer of Sistema, commented:

“We are pleased to report excellent results after another strong year. Our numbers were largely driven by solid operating performance across our entire investment base and the consistent execution of our strategy. The Group’s revenues exceeded RUB 1.1 trillion in 2013, which represents an 8.4% year-on-year annual growth in rouble terms.

Our cash position was substantially strengthened with proceeds from dividends amounting to US\$ 1.5 billion, as well as the divestment of RussNeft and cash back from the restructuring of our transportation business. At the end of the year, we conducted the reorganisation of Sistema Invest, which eliminated the cross shareholding at Bashneft and optimised the ownership structure of Sistema’s petrochemical and power grid assets. As part of our efforts to realise hidden value, we acquired United Petrochemical Company, and completed the purchase of Bashneft-Services Assets, both of which have exciting prospects and turnaround potential as stand-alone businesses. Other key milestones for 2013 include the resolution of SSSL’s licensing issues by repositioning the company into a more focused data operator with a better spectrum and lower capital requirements.

In 2014, our focus will remain on balanced approach between monetising certain investments, sharpening the strategic and operational focus of our businesses and enhancing our portfolio through M&A. We are in an excellent financial position to deliver on all our promises, withstand any macroeconomic volatility and wisely take advantage of attractive asset opportunities when they arise.”

Conference call information

Sistema’s management will host an analyst conference call today at 9.30 am (EST)/ 2.30 pm (London time) / 3.30 pm (CET) / 5.30 pm (Moscow time) to present and discuss the fourth quarter and full year 2013 results.

The dial-in numbers for the conference call are:

UK/ International: + 44 (0) 20 3427 1928

US: +1 646 254 3387

And quote the conference call title: “Sistema Fourth Quarter and Full Year 2013 Financial Results”.

A replay of the conference call will be available on the Company’s website www.sistema.com for 7 days after the event.

For further information, please visit www.sistema.com or contact:

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⁷ Sistema owns 50% stake in Financial Alliance.

FINANCIAL SUMMARY

(US\$ millions, except per share amounts)

| | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|--|----------------|----------------|----------------------------|-----------------|-------------|----------------------------|
| Revenues | 9,872.8 | 9,434.4 | 4.6% | 35,942.1 | 33,950.4 | 5.9% |
| Adjusted OIBDA | 2,276.4 | 2,071.5 | 9.9% | 8,918.5 | 8,430.6 | 5.8% |
| Operating income | 471.8 | 890.9 | (47.0%) | 5,663.0 | 4,725.8 | 19.8% |
| <i>Adjusted operating income</i> | 1,444.6 | 1,313.5 | 10.0% | 5,675.9 | 5,361.7 | 5.9% |
| Net income attributable to Sistema | 47.7 | 180.1 | (73.5%) | 2,257.5 | 946.1 | 138.6% |
| <i>Adjusted net income attributable to Sistema</i> | 627.3 | 363.6 | 72.5% | 1,992.1 | 1,793.8 | 11.1% |
| Basic and diluted earnings per share (US cents) | 0.5 | 1.94 | (73.5%) | 24.43 | 10.18 | 140.1% |

GROUP OPERATING REVIEW

In 2013, Sistema's consolidated revenues increased by 5.9% in US dollar terms and by 8.4% year-on-year in rouble terms. The top-line growth reflects a strong contribution from all the Group's companies despite the rouble depreciating by an average of 2.4% against the US dollar in 2013. Practically all portfolio assets demonstrated revenue growth in the reporting year with the exception of SSTL due to closing its operations in 13 circles in India. Along with MTS and Bashneft, significant contribution came from Detsky mir, MTS Bank and Medsi. In the fourth quarter, the Group's revenues were up 4.6% year-on-year.

Selling, general and administrative expenses (SG&A) increased by 8.6% year-on-year to US\$ 4,422.8 million in 2013, mainly due to one-off restructuring costs at RTI, business expansion at Detsky mir and other factors. Bashneft reduced SG&A expenses by 8.1% year-on-year, while SSTL demonstrated 36.5% decrease in SG&A in 2013.

Depreciation, depletion and amortisation expenses increased by 5.7% year-on-year to US\$ 3,242.6 million in 2013.

The Group's adjusted OIBDA increased by 5.8% year-on-year in 2013, adjusted OIBDA margin amounted to 24.8%. All portfolio companies, except for SSTL, achieved positive adjusted OIBDA. SSTL narrowed its adjusted OIBDA loss by 56.0% in the reporting year. A 9.9% year-on-year increase in adjusted OIBDA in the fourth quarter resulted from reduced loss at SSTL, as well as from the successful growth of the developing assets.

Adjusted consolidated net income attributable to Sistema grew by 11.1% year-on-year in 2013, despite a US\$ 268.0 million currency exchange loss. Most of the Group's companies were profitable and, with exception of SSTL and RTI, reported net income for 2013. The Group reported a 72.5% year-on-year increase in adjusted net income in the fourth quarter of 2013.

OPERATING REVIEW⁸

MTS

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|--|----------------|---------|---------------------------|-----------------|----------|---------------------------|
| Revenues | 3,221.7 | 3,167.6 | 1.7% | 12,510.8 | 12,161.1 | 2.9% |
| Adjusted OIBDA ⁹ | 1,451.4 | 1,365.2 | 6.3% | 5,656.1 | 5,285.8 | 7.0% |
| Operating income | 882.5 | 813.1 | 8.5% | 3,606.7 | 3,011.3 | 19.8% |
| <i>Adjusted operating income</i> | 906.2 | 813.1 | 11.4% | 3,365.1 | 3,099.6 | 8.3% |
| Net income attributable to Sistema | 323.4 | 289.0 | 11.9% | 1,264.6 | 533.9 | 136.9% |
| <i>Adjusted net income attributable to Sistema</i> | 357.3 | 289.0 | 23.6% | 1,146.2 | 1,123.8 | 2.0% |

MTS' revenues increased by 1.7% year-on-year in the fourth quarter and by 2.9% year-on-year in 2013 due to significant improvements in subscriber base quality with excellent growth in average monthly revenue per user (ARPU) and services consumption, resuming operations in Turkmenistan, restored subscriber base growth in Russia and across all markets where MTS operates. The active development of its data services and fixed-line businesses also contributed to revenue growth. Despite the unstable macro environment in Ukraine, MTS reported a 1.8% year-on-year revenue increase in local currency in Ukraine in the fourth quarter.

Adjusted OIBDA was up 6.3% year-on-year in the fourth quarter and 7.0% year-on-year in 2013, due to continued operating improvements and revenue growth from high-margin data services. The adjusted OIBDA margin increased to 45.1% in the reporting quarter and 45.2% in 2013, compared to 43.1% in the fourth quarter and 43.5% in 2012.

MTS' mobile subscriber base totalled 102.4 million¹⁰ customers as of December 31, 2013. ARPU in Russia grew by 3.7% year-on-year to RUB 308 in 2013, reflecting an increase in data services usage. Russian subscribers' average monthly minutes of usage (MOU) increased by 7.6% year-on-year to 327 minutes in 2013, compared to 304 minutes in 2012. In the fixed broadband business, the number of households passed increased by 4.7% year-on-year and reached 12.3 million in 2013.

During the fourth quarter, MTS launched LTE networks in several regions across Russia, including Rostov region, Amur Krai and Novosibirsk region.

In August, MTS paid out RUB 30.2 billion in dividends for the fiscal year 2012, and in November, another RUB 10.8 billion for the first six months of 2013.

Bashneft

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|------------------------|----------------|---------|---------------------------|-----------------|----------|---------------------------|
| Revenues | 4,493.7 | 4,498.6 | (0.1%) | 17,684.6 | 17,125.2 | 3.3% |

⁸ Here and from hereon, the comparison of period to period revenues are presented on an aggregated basis, excluding revenues from intra-segment (between entities in the same segment) transactions, but before inter-segment (between entities in different segments) eliminations, unless accompanied by the word "consolidated". Amounts attributable to individual companies, where appropriate, are shown prior to both intra-segment and inter-segment eliminations and may differ from respective standalone results due to certain reclassifications and adjustments.

⁹ MTS' OIBDA in 2013 reflects one-off gain from compensation related to the settlement of the disputes over Bitel LLC.

¹⁰ Excluding Belarus subscribers.

| | | | | | | |
|--|--------------|-------|--------|----------------|---------|---------|
| Adjusted OIBDA ¹¹ | 785.8 | 777.0 | 1.1% | 3,172.3 | 3,278.7 | (3.2%) |
| Operating income | 597.1 | 511.0 | 16.9% | 2,054.3 | 2,557.7 | (19.7%) |
| <i>Adjusted operating income</i> | 626.3 | 639.6 | (2.1%) | 2,575.5 | 2,686.4 | (4.1%) |
| Net income attributable to Sistema | 313.2 | 264.2 | 18.6% | 1,130.3 | 1,279.5 | (11.7%) |
| <i>Adjusted net income attributable to Sistema</i> | 335.2 | 359.4 | (6.7%) | 1,447.5 | 1,374.7 | 5.3% |

In 2013, Bashneft's revenues grew by 3.3% year-on-year, mainly as a result of an increase in export volumes of oil products, particularly to countries outside the Customs Union. At the same time, the year-on-year revenue growth was offset by falling oil prices on the world market. Revenue in the fourth quarter of 2013 was also affected by the deconsolidation of UPC and BNSA during this period, following the sale of both businesses to Sistema.

Adjusted OIBDA decreased by 3.2% year-on-year in 2013, largely due to a rise in export duties on oil products, as well as in production costs. This production cost increase was primarily a result of organic production growth in Bashkiria and the launch of the Trebs and Titov fields. The adjusted OIBDA margin was 17.5% in the reporting quarter and 17.9% in 2013.

In 2013, Bashneft's oil production increased by 4.1% year-on-year to 16.1 million tonnes, including 291,000 tonnes produced at the Trebs and Titov fields, while mature fields added 2.2% to the production growth. Exports amounted to 4.7 million tonnes of crude oil and 9.4 million tonnes of oil products in 2013.

Bashneft reported a 3.0% year-on-year increase in refining volumes in 2013, reaching 21.4 million tonnes of crude oil. In 2013, the average refining depth was 84.7% and light-product yield was 60.4%.

In December 2013, Bashneft paid out dividends for the nine months of 2013, amounting to RUB 45.25 billion. Earlier, in August 2013, Bashneft paid RUB 5.32 billion in dividends for the full year of 2012.

In December 2013, Bashneft acquired LLC Bashneftegazrazvedka, which holds a licence for geological exploration of subsoil blocks in the Vostochno-Ikskiy licence area, located in the Bakalinsky District of the Republic of Bashkortostan.

Bashkirian Power Grid Company (BPGC)

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|--|----------------|----------------|----------------------------|--------------|-------------|----------------------------|
| Revenues | 116.5 | 91.5 | 27.3% | 416.7 | 373.1 | 11.7% |
| OIBDA | 54.5 | 6.8 | 698.9% | 177.4 | 129.0 | 37.6% |
| Operating income/(loss) | 39.4 | (5.1) | - | 123.4 | 84.2 | 46.7% |
| Net income/ (loss) attributable to Sistema | 28.3 | (3.6) | - | 87.5 | 24.4 | 259.0% |

In 2013, Bashkirian Power Grid Company's revenues grew by 11.7% year-on-year, mainly as a result of a 3% increase in net electricity supply, as well as a 10% boiler tariffs indexation effective from July 1, 2013. BPGC's revenue rose by 27.3% year-on-year in the fourth quarter of 2013.

¹¹ In 2013 and 2012, Bashneft's OIBDA was impacted by the effect from the sale of Bashneft's stake in OJSC Belkamneft and other one-offs.

BPGC reported a significant OIBDA increase in the fourth quarter and in 2013, reflecting growth in revenue and in other income related to the disposal of fixed assets and accrued penalties for late customer payments.

Distribution grid losses decreased from 8.67% in 2012 to 8.25% in 2013, while the effective distribution power output was up 3.1% year-on-year reflecting organic consumption growth.

Transmission grid losses further decreased from 1.51% in 2012 to 1.37% in 2013. The effective transmission grid output was up 3.7% year-on-year in 2013.

Sistema Shyam TeleServices Ltd. (SSTL)

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|--|---------------|---------|---------------------|----------------|---------|---------------------|
| Revenues | 47.9 | 72.0 | (33.4%) | 209.4 | 303.0 | (30.9%) |
| Adjusted OIBDA ¹² | (33.3) | (113.8) | - | (146.5) | (333.2) | - |
| Operating loss | (52.5) | (132.4) | - | (210.2) | (621.2) | - |
| Net loss attributable to Sistema | (36.5) | (114.4) | - | (225.1) | (462.9) | - |
| <i>Adjusted net loss attributable to Sistema</i> | (36.5) | (114.4) | - | (225.1) | (341.3) | - |

SSTL reported a year-on-year decrease in revenues in the fourth quarter and in 2013, as a result of the company ceasing operations in 13 circles and focusing on its development in the nine most economically attractive areas. SSTL managed to revive its revenue growth in the fourth quarter and demonstrated a 7.4% quarter-on-quarter increase by expanding the subscriber base and improving its quality.

SSTL narrowed its adjusted OIBDA loss in 2013 by 56.0% to US\$ 146.5 million. The OIBDA loss reduced by 70.8% year-on-year and 4.9% quarter-on-quarter in the fourth quarter of 2013. The company's SG&A expenses decreased by 28.1% year-on-year in the fourth quarter and by 36.5% for the full year of 2013, reflecting the effects of the ongoing cost optimisation programme and improved operating efficiency.

As of December 31, 2013, SSTL's total wireless (voice and data) subscriber base declined by 34.1% year-on-year to 9.8 million customers, following the closure of the company's operations in 13 circles. However, in the fourth quarter of 2013, growth was restored with the subscriber base expanding by 2.2%, while the number of data customers increased by 10.7% quarter-on-quarter.

In the fourth quarter of 2013, subscribers' average monthly minutes of usage (MOU) increased by 39.5% year-on-year and by 2.9% quarter-on-quarter to 373 minutes. Blended mobile ARPU in rupees grew by 22.8% year-on-year and 2.1% quarter-on-quarter in the fourth quarter of 2013. Non-voice revenues from both data and VAS accounted for 34.7% of the company's total revenues in 2013.

Sistema Mass Media (SMM)

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|------------------------|-------------|---------|---------------------|--------------|------|---------------------|
| Revenues | 46.0 | 22.9 | 101.0% | 109.8 | 81.7 | 34.3% |
| OIBDA | 27.2 | 7.8 | 247.4% | 45.7 | 20.5 | 123.1% |

¹² SSTL's results in 2012 were affected by the recognised loss from the impairment of long-lived assets.

| | | | | | | |
|---|------------|-------|---|------------|--------|---|
| Operating income/ (loss) | 7.8 | (2.7) | - | 6.2 | (14.7) | - |
| Net income / (loss) attributable to Sistema | 6.1 | (3.0) | - | 0.5 | (11.1) | - |

Sistema Mass Media's revenues were up 34.3% for the full year of 2013, as a result of launching new services at Stream¹³, as well as an increase in Stream-TV's subscriber base. In the fourth quarter, the company's revenues increased by 52.3% quarter-on-quarter largely due to seasonal effects – WRS (World Russian Studios) distributing TV show formats and advertising market growth in the fourth quarter.

SMM's OIBDA demonstrated a significant year-on-year increase in the fourth quarter and in 2013 as a result of cost optimisation at the managing company level. The OIBDA margin expanded to 41.6% in 2013.

In 2013, the Stream-TV subscriber base increased by 39.0% year-on-year and reached 10.7 million subscribers following the active expansion of Stream-TV in the CIS countries. The WRS content library grew to 1,729 hours as of December 31, 2013.

In 2013, Stream successfully launched a number of new services, including a ringback tone service "Gudok", an informational service "MTS Info", a "Video" option in the mobile TV service for MTS subscribers, as well as new applications for viewing Stream online-cinema content for all major mobile phone platforms and TVs with Smart TV support.

RTI¹⁴

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|--|----------------|----------------|----------------------------|----------------|-------------|----------------------------|
| Revenues | 792.5 | 971.4 | <i>(18.4%)</i> | 2,195.5 | 2,196.2 | <i>0.0%</i> |
| Adjusted OIBDA | 63.1 | 89.2 | <i>(29.3%)</i> | 122.7 | 181.5 | <i>(32.4%)</i> |
| Operating loss | (739.4) | (72.3) | - | (776.9) | (59.3) | - |
| <i>Adjusted operating income</i> | 37.1 | 54.7 | <i>(32.2%)</i> | 26.3 | 73.6 | <i>(64.2%)</i> |
| Net loss attributable to Sistema | (339.8) | (87.0) | - | (412.6) | (129.9) | - |
| <i>Adjusted net income/ (loss) attributable to Sistema</i> | 25.6 | 22.3 | <i>14.7%</i> | (21.0) | (14.9) | - |

In 2013, RTI's revenues remained flat as the 23% year-on-year growth in revenues at the Defence Solutions BU was largely off-set by decreased revenues at the Information and Communication Technologies BU.

RTI's adjusted OIBDA fell by 29.3% year-on-year in the fourth quarter of 2013, following restructuring costs in the Information and Communication Technologies BU. In 2013, the company's adjusted OIBDA was down 32.4% year-on-year, largely as a result of reduced profitability at the Information and Communication Technologies BU.

In December 2013, RTI was appointed as the sole contractor for a project to establish a National Integrated Monitoring Centre for biological threats, which was commissioned by the President and the Government of the Russian Federation.

¹³ Stream CJSC is owned by Sistema (55%) and MTS (45%). For reporting purposes, Stream's financial results were allocated to SMM segment.

¹⁴ RTI consolidates OJSC Concern RTI Systems, Mikron group of companies, CJSC NVision Group and comprises of four principal business units ("BU") – Defence Solutions BU, Comprehensive Security Systems BU, Microelectronics Solutions BU and Information and Communication Technologies BU. RTI results do not include the results of SITRONICS-N for all periods presented. RTI's OIBDA in 2013 and 2012 was adjusted for the recognised loss from impairment of goodwill and other assets.

In December 2013, RTI's shareholders, - Sistema and the Bank of Moscow, - participated in the additional share issue of RTI, therefore effectively converting shareholder debt to equity.

In September 2013, as a result of restructuring of JSC SITRONICS, a number of assets, including CJSC SITRONICS KASU, JSC Kvant, JSC Elaks and JSC Koncel and JSC SITRONICS (owns certain assets in the high technology sector, including CSC Intellect Telecom), were transferred to a newly established company, JSC SITRONICS-N. Later, in November 2013, SITRONICS-N came into Sistema's direct ownership and management.

Binnopharm

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|--|----------------|----------------|----------------------------|--------------|-------------|----------------------------|
| Revenues | 30.4 | 20.1 | <i>51.4%</i> | 104.3 | 73.8 | <i>41.3%</i> |
| OIBDA | 6.6 | (3.8) | - | 20.5 | 16.0 | <i>28.3%</i> |
| Operating income/ (loss) | 4.6 | (10.2) | - | 13.4 | 6.1 | <i>119.1%</i> |
| Net income/ (loss) attributable to Sistema | 4.1 | (9.1) | - | 12.1 | 2.1 | <i>466.6%</i> |

Binnopharm's revenues grew by 51.4% year-on-year in the fourth quarter and by 41.3% year-on-year in 2013, mainly due to increased sales of its own biotechnical products.

The company generated OIBDA growth in the reporting quarter and in 2013 compared to the corresponding periods of 2012, resulting from successful development of the distribution network and increased production of own products.

In 2013, Binnopharm completed a large scale project, installing the filling line for syringes (erythropoetins, interferones, vaccines). Among others, the line is expected to be used in contract manufacturing.

Binnopharm carried out reconstruction of the infusion solutions unit in 2013, including the installation of a new plastic filling machine, on the Alium plant.

In 2013, Binnopharm successfully cooperated with ViiV Healthcare, a subsidiary of GlaxoSmithKline, on the localisation of antiretroviral medicines in Russia.

In April 2013, Binnopharm completed the merger with Alium Group of Companies, a producer of infusion solutions and blood substitutes.

MTS Bank

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|------------------------------------|----------------|----------------|----------------------------|--------------|-------------|----------------------------|
| Revenues | 262.3 | 211.1 | <i>24.2%</i> | 903.1 | 712.3 | <i>26.8%</i> |
| OIBDA | 38.8 | 53.4 | <i>(27.3%)</i> | 38.1 | 50.7 | <i>(24.9%)</i> |
| Operating income | 34.0 | 49.4 | <i>(31.2%)</i> | 19.0 | 32.3 | <i>(41.3%)</i> |
| Net income attributable to Sistema | 22.2 | 46.8 | <i>(52.4%)</i> | 18.8 | 11.1 | <i>69.3%</i> |

MTS Bank generated revenue growth of 24.2% year-on-year in the fourth quarter and 26.8% year-on-year in 2013, as a result of a significant increase in interest and commission income. The loan portfolio from joint projects with MTS grew by 28.8% quarter-on-quarter to US\$ 563 million.

The bank's OIBDA reduced by 24.9% year-on-year in 2013, mainly due to increased retail loan provisions following a 40% year-on-year growth in the loan portfolio to individuals to US\$ 2.1 billion. The loan provisions to loan portfolio ratio does not exceed 9%.

MTS Bank's gross loan portfolio increased by 3.1% year-on-year to US\$ 5,771 million in 2013, with retail loans accounting for 36% of the total loan portfolio compared to 27% in 2012. The interest income from retail and corporate transactions increased by 27.2% year-on-year to US\$ 731.8 million in 2013. In the fourth quarter, interest income grew by 12.5% quarter-on-quarter to US\$ 208.8 million.

In November 2013, the international rating agency Fitch Ratings affirmed MTS Bank's Long-term Issuer Default Rating at "B+" with a Stable outlook.

Detsky Mir

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|------------------------------------|--------------|---------|---------------------|----------------|-------|---------------------|
| Revenues | 368.9 | 313.8 | 17.6% | 1,130.4 | 892.5 | 26.7% |
| OIBDA | 57.1 | 49.7 | 14.9% | 87.0 | 54.3 | 60.3% |
| Operating income | 52.0 | 44.7 | 16.3% | 67.1 | 35.6 | 88.7% |
| Net income attributable to Sistema | 35.0 | 23.4 | 49.7% | 40.8 | 11.1 | 268.1% |

Detsky Mir's revenues rose by 17.6% year-on-year in the fourth quarter and by 26.7% for the full year of 2013, driven by high revenue growth dynamics in stores opened in 2012, a 13.4% increase in like-for-like revenue in rouble terms and 41 new store openings, including 33 Detsky Mir branded stores and 8 Early Learning Centre (ELC) stores.

In 2013, Detsky Mir focused on its competitive pricing strategy. OIBDA grew by 14.9% year-on-year in the fourth quarter and by 60.3% for the full year of 2013. The OIBDA margin increased to 7.7% in 2013 from 6.1% in 2012, which was stimulated by enhanced control over operating expenses and improved operational efficiency. Detsky Mir's SG&A expenses declined as a percentage of revenue to 31.8% in 2013 compared to 33.7% in 2012.

Detsky Mir's successful product and pricing policies resulted in an 8.2% increase in like-for-like traffic, while also achieving a 4.8% increase in like-for-like average ticket.

As of December 31, 2013, Detsky Mir's retail outlet network amounted to 252 stores, including 27 ELC franchised stores, located in 102 cities across Russia and Kazakhstan. The aggregate retail space was up 10% to 319,900 sq.m. as of the end of 2013.

In 2013, Detsky Mir paid out annual dividends for 2012 in the amount of US\$ 12.7 million.

In July 2013, Detsky Mir repurchased its 25%+1 share from Sberbank for RUB 4.5 billion. Following the completion of the deal, Sistema's effective stake in Detsky Mir increased to 100%.

Intourist

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|------------------------|-------------|---------|---------------------|-------------|------|---------------------|
| Revenues | 20.3 | 24.1 | (15.5%) | 88.4 | 87.5 | 1.0% |

| | | | | | | |
|----------------------------------|--------------|--------|---|--------------|--------|---|
| OIBDA | 3.3 | (17.2) | - | 18.0 | (13.5) | - |
| Operating income/ (loss) | 1.8 | (20.2) | - | 12.3 | (23.2) | - |
| Net loss attributable to Sistema | (1.8) | (14.6) | - | (0.9) | (24.7) | - |

In 2013, despite improved business operations, Intourist's revenues remained at the level of 2012, largely as a result of terminating the management services contract for "Severnaya" hotel in Petrozavodsk and "Oktyabrskaya" hotel in Nizhny Novgorod. Intourist's OIBDA was restored in 2013, after recognised loss in 2012 from the joint venture with Thomas Cook. The OIBDA margin expanded to 16.0% in the reporting quarter and 20.4% in 2013, following the optimisation of costs, including outsourcing certain functions, as well as reviewing contracts with food suppliers.

As of December 31, 2013, Instourist owned and managed 11 hotels across Russia, Italy, Czech Republic, Turkey, Ukraine and Namibia. The number of rooms owned, managed and rented in the reporting year amounted to 2,688 rooms.

Medsi

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|------------------------------------|----------------|----------------|----------------------------|--------------|-------------|----------------------------|
| Revenues | 77.7 | 66.1 | 17.5% | 294.0 | 208.1 | 41.3% |
| OIBDA | 13.0 | 4.6 | 185.4% | 44.2 | 27.6 | 60.1% |
| Operating income | 9.5 | 3.3 | 186.4% | 30.4 | 8.6 | 253.3% |
| Net income attributable to Sistema | 28.4 | 3.5 | 704.2% | 31.8 | 0.2 | 16,157.6% |

Medsi generated significant year-on-year revenue growth in the fourth quarter and in 2013 following the integration of its assets with the Medical Centre for the Mayor and Government of Moscow (SUE) at the end of 2012, as well as increased patient traffic and medical assets utilisation. Medsi reported improved OIBDA in the fourth quarter of 2013 compared to the corresponding period of 2012, as well as a 60.1% year-on-year increase in 2013.

In 2013, the number of patient visits and services provided increased by 20.8% and by 15.2% year-on-year, respectively, as a result of the integration with SUE's assets and expansion of the service offering. The average bill totalled US\$ 48.7.

As of December 31, 2013, Medsi's network consisted of 29 medical clinics, a consultation and diagnostic centre, 3 hospitals, 82 first aid stations, an ambulance service, 3 wellness centres and 3 sanatoriums, with 198,500 sq.m of healthcare facilities.

CORPORATE

| <i>(US\$ millions)</i> | 4Q 2013 | 4Q 2012 | Year on Year Change | 2013 | 2012 | Year on Year Change |
|------------------------|----------------|----------------|----------------------------|--------------|-------------|----------------------------|
| OIBDA ¹⁵ | (174.0) | (190.1) | - | 870.0 | (240.7) | - |
| Net (loss)/ income | (143.0) | (196.1) | - | 518.1 | (251.7) | - |

¹⁵ Here and further, OIBDA and net income (loss) of the Corporate & Other category are shown without an effect of intragroup dividends.

| | | | | | | |
|--------------|----------------|---------|--------|----------------|---------|--------|
| Indebtedness | 1,574.5 | 1,646.8 | (4.4%) | 1,574.5 | 1,646.8 | (4.4%) |
|--------------|----------------|---------|--------|----------------|---------|--------|

The Corporate segment comprises the companies that control and manage the Company's interests in its subsidiaries.

In 2013, the Corporate segment reported positive OIBDA as a result of recognised gain from sale of RussNeft.

In 2013, the Corporate's SG&A expenses increased by 54.6% year-on-year to US\$ 349.0 million. This includes US\$ 54 million one-off non-cash management share award. The amount of recognised expense was calculated based on the share price as of the date of the transaction in 2013.

Dividend flow from Sistema's investments totalled US\$ 1.5 billion (net of tax) in the reporting year.

FINANCIAL REVIEW

Net cash provided by operations in the fourth quarter increased by 17.5% year-on-year to US\$ 1,822.8 and increased by 15.4% for the full year of 2013 to US\$ 6,828.8 million.

Net cash spent by the Group in investing activities totalled US\$ 2,912.7 million in 2013, compared to US\$ 4,672.3 million used in 2012. In the fourth quarter 2013 the Group used US\$ 1,622.3 million in investing activities compared to US\$ 209.6 million spent in the fourth quarter 2012.

This year-on-year reduction in the investing cash outflow was mainly due to the cash consideration of US\$ 2,046.7 million that the Group received from the sale of investments in affiliated and subsidiary companies in 2013, in particular US\$ 1,200.0 million from the sale of a 49% stake in OJSC Oil and Gas Company RussNeft, US\$ 199.0 million from the sale of 500 ordinary shares of OJSC Belkamneft, and US\$ 417.7 million, net of cash disposed, from the sale of 85% in SG-trans to Financial Alliance and Unirail. In 2013 the Group also sold INTER RAO UES promissory notes received in 2012 for sale of the power generation assets for the cash consideration of US\$ 220.2 million.

The Group's capital expenditure in 2013 amounted to US\$ 4,013.3 million compared to US\$ 4,209.6 million in 2012. The 4.7% decrease in CAPEX was due to reduced capital expenditures at MTS by 11.8%, partially offset by Bashneft's growing investment programme in connection with developing the Trebs and Titov fields. In addition, in the reporting year, net increase in short-term and long-term investments was US\$ 429.2 million mainly due to placing free funds into deposits. Investments in affiliates grew by US\$ 386.9 million mainly as a result of loans issued to Bashneft-Polus.

Net cash outflow from financing activities in 2013 was slightly lower than in 2012 (US\$ 3,083.0 million in 2013 compared to US\$ 3,171.7 million in 2012). In the fourth quarter of 2013, cash outflow from financing activities amounted to US\$ 962.8 million compared to cash outflow of US\$ 1,426.3 million in the corresponding quarter of 2012. Cash outflow from financial activities in 2013 partly resulted from the payments of US\$ 950.3 million to shareholders of subsidiaries compared to corresponding payments of US\$ 575.8 million in 2012 and dividends paid by Sistema of US\$ 275.1 million compared to US\$ 82.3 million in 2012. The Group's net principal payments on long-term borrowings in 2013 totalled US\$ 1,253.8 million. Net principal payments of US\$ 231.0 million on short-term borrowings resulted in 86% repayment of short-term loans at the reporting date.

The Group's cash balances of continuing operations stood at US\$ 2,059.1 million as of December 31, 2013 (excluding an amount of US\$ 1,132.4 million which is attributable to the Group's banking activities) compared to US\$ 1,859.2 million as of December 31, 2012 (excluding an amount of US\$ 769.4 million which is attributable to the Group's banking activities). The Group's net debt (short-term and long-term debt less cash and cash equivalents and highly liquid deposits) amounted to US\$ 11,007.4 million as of December 31, 2013, compared to US\$ 13,460.1 million as of December 31, 2012.

SIGNIFICANT EVENTS FOLLOWING THE END OF THE REPORTING PERIOD

Bashneft

In February 2014, the Extraordinary General Meeting of Shareholders (EGM) of Bashneft approved a decision on the reorganisation of the company by consolidating CJSC Bashneft-Invest, established through a spinoff from CJSC Sistema-Invest, with Bashneft. In accordance with the Federal Law on Joint-Stock Companies, the EGM

decided to reduce Bashneft's authorised share capital by cancelling 20.2% of Bashneft's ordinary shares owned by CJSC Bashneft-Invest to be consolidated with the Company.

In March 2014, Bashneft Group gained control over a 100% stake in LLC Burneftegaz, an oil exploration and production company in the Tyumen District. LLC Burneftegaz owns the rights to explore and develop the Sorovskoye field (the Vostochno-Vuemskiy licence area) and the Tortasinskoye field (the Tortasinskiy licence area) via its wholly owned subsidiaries. Total C1+C2 oil reserves of the fields amount to 53.4 million tonnes. LLC Tortasinskneft, a wholly owned subsidiary of Burneftegaz, also holds licences for geological exploration at the Severo-Ityakhskiy 3 and Vostochno-Unlorskiy subsoil areas. The value of the transaction exceeded US\$ 1 billion, including the right to demand debt repayment from companies forming part of Burneftegaz Group.

UPC

In March 2014, UPC acquired 10,081,685 ordinary shares of OJSC Ufaorgsintez, UPC's subsidiary, which constitute 8.93% of Ufaorgsintez's share capital, under a voluntary offer procedure for a cash consideration of RUB 959.8 million.

Corporate

In January 2014, Sistema's wholly owned subsidiary Sistema Telecom Assets LLC signed legally binding agreements with CJSC Region Kapital and several other individual shareholders to acquire a 38.75% stake in CJSC NVision Group. The total value of the deal amounted to US\$ 82.5 million, US\$ 37.5 million of which will be paid in cash, and US\$ 45 million in Sistema shares. As a result, Sistema's ownership in CJSC NVision Group increased to 88.75%.

In April 2014, Sistema acquired 49% of the ordinary shares of CJSC Business Nedvizhimost from CJSC MGTS-Nedvizhimost, for RUB 3.1 billion. As a result, Sistema now owns 100% of Business Nedvizhimost.

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Sistema is the largest publicly-traded diversified holding company in Russia and the CIS, which invests in and is a major shareholder of companies serving over 100 million customers in the sectors of telecommunications, high technology, oil and energy, radars and aerospace, banking, retail, mass-media, tourism and healthcare services. Founded in 1993, the Company reported revenues of US\$ 35.9 billion for the full year of 2013, and total assets of US\$ 43.2 billion as at December 31, 2013. Sistema's global depository receipts are listed under the symbol "SSA" on the London Stock Exchange. Sistema's ordinary shares are listed under the symbol "AFKS" on the Moscow Exchange. Sistema was ranked number 308 in the 2013 edition of the Fortune Global 500 list. Website: www.sistema.com

The Company is not an investment company, and is not and will not be registered as such, under the U.S. Investment Company Act of 1940.

Some of the information in this press release may contain projections or other forward-looking statements regarding future events or the future financial performance of Sistema. You can identify forward looking statements by terms such as "expect," "believe," "anticipate," "estimate," "intend," "will," "could," "may" or "might" the negative of such terms or other similar expressions. We wish to caution you that these statements are only predictions and that actual events or results may differ materially. In addition, there is no assurance that the new contracts entered into by our subsidiaries referenced above will be completed on the terms contained therein or at all. We do not intend to update these statements to reflect events and circumstances occurring after the date hereof or to reflect the occurrence of unanticipated events. Many factors could cause the actual results to differ materially from those contained in our projections or forward-looking statements, including, among others, general economic conditions, our competitive environment, risks associated with operating in Russia, rapid

technological and market change in our industries, as well as many other risks specifically related to Sistema and its operations.

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

| | Year ended December 31, | | Three months ended December 31, | |
|---|----------------------------|---------------------|------------------------------------|-------------------|
| | 2013 | 2012 | 2013 | 2012 |
| Sales | \$ 35,063,235 | \$ 33,281,990 | \$ 9,614,155 | \$ 9,245,115 |
| Revenues from banking activities | 878,832 | 668,384 | 258,650 | 189,285 |
| TOTAL REVENUES | 35,942,067 | 33,950,374 | 9,872,805 | 9,434,400 |
| Cost of sales, exclusive of depreciation, depletion and amortization shown separately below | (13,660,015) | (13,172,263) | (3,921,702) | (3,959,340) |
| Cost related to banking activities, exclusive of depreciation and amortization shown separately below | (523,960) | (372,921) | (129,322) | (96,470) |
| Selling, general and administrative expenses | (4,422,803) | (4,072,933) | (1,258,915) | (1,189,266) |
| Depreciation, depletion and amortization | (3,242,609) | (3,068,876) | (831,760) | (757,999) |
| Transportation costs | (895,683) | (861,933) | (222,483) | (222,624) |
| Impairment of goodwill | (258,048) | - | (258,048) | - |
| Impairment of long-lived assets other than goodwill and provisions for other assets | (833,954) | (715,636) | (739,775) | (370,562) |
| Taxes other than income tax | (7,209,315) | (6,758,011) | (1,867,467) | (1,808,753) |
| Gain on disposal of investment in RussNeft | 1,200,000 | - | - | - |
| Impairment of investment in Belkamneft | (491,986) | - | - | - |
| Gain on Bitel case resolution | 371,100 | - | 25,000 | - |
| Other operating expenses, net | (357,149) | (205,266) | (189,158) | (168,478) |
| Equity in results of affiliates | 45,329 | (9,138) | (7,391) | 17,620 |
| Gain on disposal of subsidiaries | - | 12,394 | - | 12,394 |
| OPERATING INCOME | 5,662,974 | 4,725,791 | 471,784 | 890,922 |
| Interest income | 266,951 | 273,946 | 63,072 | 41,837 |
| Change in fair value of derivative instruments | 30,199 | (2,144) | 32,048 | (295) |
| Interest expense, net of amounts capitalized | (1,175,227) | (1,345,596) | (245,977) | (326,974) |
| Foreign currency transactions (losses)/gains | (267,953) | 114,912 | (10,470) | 16,927 |
| Income from continuing operations before income tax | 4,516,944 | 3,766,909 | 310,457 | 622,417 |
| Income tax expense | (1,297,744) | (1,191,111) | (268,677) | (288,223) |
| Income from continuing operations | 3,219,200 | 2,575,798 | 41,780 | 334,194 |
| (Loss)/gain from discontinued operations, net of income tax effect | - | (1,046,562) | 15,918 | (55,191) |
| Gain on disposal of discontinued operations, net of income tax effect | - | 131,039 | - | 117,227 |
| NET INCOME | \$ 3,219,200 | \$ 1,660,275 | \$ 57,698 | \$ 396,230 |
| Noncontrolling interest | (961,672) | (714,137) | (10,018) | (216,107) |
| NET INCOME attributable to Sistema JSFC | \$ 2,257,528 | \$ 946,138 | \$ 47,680 | \$ 180,123 |
| Income per share, basic and diluted, U.S. cent | 24,43 | 10,18 | 0,51 | 1,94 |

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

| | <u>December 31,</u> <u>2013</u> | <u>December 31,</u> <u>2012</u> |
|--|------------------------------------|------------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 2,059,092 | \$ 1,859,217 |
| Short-term investments | 1,719,223 | 1,214,869 |
| Assets from banking activities, current portion (including cash and cash equivalents of \$1,132,368 and \$769,411) | 3,898,740 | 4,342,984 |
| Accounts receivable, net | 2,173,972 | 2,320,058 |
| VAT receivable | 720,181 | 610,974 |
| Inventories and spare parts | 1,848,145 | 1,843,046 |
| Deferred tax assets, current portion | 390,238 | 348,773 |
| Assets of discontinued operations | - | 371,355 |
| Other current assets | 1,756,082 | 1,673,010 |
| | <u>14,565,673</u> | <u>14,584,286</u> |
| NON-CURRENT ASSETS: | | |
| Property, plant and equipment, net | 19,945,701 | 20,839,670 |
| Advance payments for non-current assets | 187,850 | 230,773 |
| Goodwill | 1,327,779 | 1,767,660 |
| Other intangible assets, net | 2,225,927 | 2,129,345 |
| Investments in affiliates | 946,759 | 1,482,721 |
| Assets from banking activities, net of current portion | 2,554,229 | 2,255,709 |
| Debt issuance costs, net | 87,226 | 155,895 |
| Deferred tax assets, net of current portion | 344,965 | 327,814 |
| Long-term investments | 249,071 | 269,180 |
| Other non-current assets | 813,814 | 599,135 |
| | <u>28,683,321</u> | <u>30,057,902</u> |
| TOTAL ASSETS | <u>\$ 43,248,994</u> | <u>\$ 44,642,188</u> |

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

| | December 31, 2013 | December 31, 2012 |
|---|------------------------------|------------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 3,144,233 | \$ 2,532,574 |
| Liabilities from banking activities, current portion | 3,864,415 | 4,131,390 |
| Taxes payable | 812,880 | 763,301 |
| Deferred tax liabilities, current portion | 229,038 | 139,842 |
| Subscriber prepayments, current portion | 620,281 | 606,856 |
| Accrued expenses and other current liabilities | 2,225,913 | 2,640,038 |
| Short-term loans payable | 40,836 | 292,260 |
| Current portion of long-term debt | 2,470,058 | 2,862,264 |
| Liabilities of discontinued operations | - | 371,355 |
| Total current liabilities | 13,407,654 | 14,339,880 |
| LONG-TERM LIABILITIES: | | |
| Long-term debt, net of current portion | 10,764,278 | 12,447,374 |
| Subscriber prepayments, net of current portion | 101,240 | 112,805 |
| Liabilities from banking activities, net of current portion | 772,525 | 1,057,072 |
| Deferred tax liabilities, net of current portion | 1,956,472 | 2,015,058 |
| Asset retirement obligations | 184,261 | 228,627 |
| Postretirement benefits obligations | 91,640 | 89,038 |
| Property, plant and equipment contributions | 74,174 | 88,380 |
| Other long-term liabilities | 595,909 | 250,599 |
| Total long-term liabilities | 14,540,499 | 16,288,953 |
| TOTAL LIABILITIES | 27,948,153 | 30,628,833 |
| Commitments and contingencies | - | - |
| Redeemable noncontrolling interests | 805,130 | 731,661 |
| SHAREHOLDERS' EQUITY: | | |
| Share capital (9,650,000,000 shares issued; 9,274,755,045 and 9,209,574,962 shares outstanding with par value of 0.09 Russian Rubles, respectively) | 30,057 | 30,057 |
| Treasury stock (375,244,955 and 440,425,038 shares with par value of 0.09 Russian Rubles, respectively) | (426,715) | (501,109) |
| Additional paid-in capital | 2,616,608 | 2,859,491 |
| Retained earnings | 8,993,469 | 7,110,467 |
| Accumulated other comprehensive loss | (906,718) | (326,717) |
| Total Sistema JSFC shareholders' equity | 10,306,701 | 9,172,189 |
| Non-redeemable noncontrolling interests | 4,189,010 | 4,109,505 |
| TOTAL EQUITY | 14,495,711 | 13,281,694 |
| TOTAL LIABILITIES AND EQUITY | \$ 43,248,994 | \$ 44,642,188 |

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

| | <u>2013</u> | <u>2012</u> |
|--|---------------------|---------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 3,219,200 | \$ 1,660,275 |
| Gain from disposal of discontinued operations | - | (131,039) |
| Loss from discontinued operations | - | 1,046,562 |
| Income from continuing operations | <u>3,219,200</u> | <u>2,575,798</u> |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation, depletion and amortization | 3,242,609 | 3,068,876 |
| Equity in net income of investees | (45,329) | 9,138 |
| Deferred income tax expense | 140,292 | 152,168 |
| Gain from disposal of Russneft | (1,200,000) | - |
| Loss from impairment of Belcamneft | 491,986 | - |
| Foreign currency transactions losses/(gains) | 267,953 | (114,912) |
| Gain on Bitel resolution, net of cash received of \$125,000 | (246,100) | - |
| Impairment of goodwill | 258,048 | - |
| Impairment of long-lived assets other than goodwill and provisions for other assets | 833,954 | 715,636 |
| Loss on disposal of property, plant and equipment | 14,094 | 12,802 |
| Amortization of connection fees | (60,309) | (73,568) |
| Allowance for loan losses | 212,081 | 60,672 |
| Dividends received from affiliates | 65,247 | 92,322 |
| Non-cash compensation to employees | 54,158 | 22,498 |
| Gain on disposal of subsidiaries | - | (12,394) |
| Other non-cash items | (15,057) | 82,281 |
| Changes in operating assets and liabilities, net of effects from purchase of businesses: | | |
| Trading securities | (406,687) | (30,044) |
| Accounts receivable | (240,586) | (624,023) |
| VAT receivable | (174,951) | 99,452 |
| Inventories and spare parts | (171,320) | (417,944) |
| Other current assets | (93,381) | 105,855 |
| Accounts payable | 533,948 | 323,158 |
| Subscriber prepayments | 110,112 | 61,965 |
| Taxes payable | 109,503 | (99,951) |
| Accrued expenses and other liabilities | <u>(54,127)</u> | <u>(175,687)</u> |
| Net cash provided by operating activities of continuing operations | 6,845,338 | 5,834,098 |
| Net cash used in operating activities of discontinued operations | <u>(16,503)</u> | <u>83,279</u> |
| Net cash provided by operating activities | <u>\$ 6,828,835</u> | <u>\$ 5,917,377</u> |

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

| | 2013 | 2012 |
|--|---------------------|---------------------|
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments for purchases of property, plant and equipment | \$ (3,458,179) | \$ (3,853,968) |
| Payments for purchases of intangible assets | (555,077) | (355,583) |
| Payments for purchases of businesses, net of cash acquired | (34,664) | (889,373) |
| Purchase of investments in affiliated companies | (386,947) | (136,073) |
| Payments for purchases of long-term investments | (105,000) | (539,299) |
| Payments for purchases of short-term investments | (1,433,806) | (2,899,100) |
| Payments for purchases of other non-current assets | (83,451) | (11,214) |
| (Increase) /decrease in restricted cash | (15,819) | 70,073 |
| Proceeds from sale of subsidiaries, net of cash disposed | 561,402 | 82,885 |
| Proceeds from sale of property, plant and equipment | 74,407 | 60,941 |
| Proceeds from sale of investments in affiliated companies | 1,485,292 | - |
| Proceeds from sale of long-term investments | - | 934,434 |
| Proceeds from sale of other non-current assets | - | 92,259 |
| Proceeds from sale of short-term investments | 1,109,585 | 3,139,025 |
| Net increase in loans to customers of the banking division | (70,458) | (367,321) |
| Net cash used in investing activities | <u>(2,912,715)</u> | <u>(4,672,314)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from short-term borrowings, net | (231,036) | (93,749) |
| Net (decrease)/increase in deposits from customers of the banking division | (177,105) | 77,046 |
| Proceeds from long-term borrowings | 3,504,615 | 3,059,293 |
| Debt issuance costs | (6,055) | (16,056) |
| Reimbursement of debt issuance cost | 30,125 | - |
| Principal payments on long-term borrowings | (4,758,382) | (4,350,409) |
| Acquisition of non-controlling interests in existing subsidiaries | (299,184) | (1,118,653) |
| Dividends paid | (1,225,440) | (658,144) |
| Proceeds from capital transactions with shares of existing subsidiaries | 79,452 | 73,987 |
| Purchases of treasury shares | - | (145,031) |
| Net cash used in financing activities | <u>(3,083,010)</u> | <u>(3,171,716)</u> |
| Effect of foreign currency translation on cash and cash equivalents | (271,194) | 247,013 |
| Net increase/(decrease) in cash and cash equivalents | 561,916 | (1,679,640) |
| Cash and cash equivalents at the beginning of the period (including cash of discontinued operations) | 2,629,544 | 4,322,708 |
| Cash and cash equivalents at the end of the period (including cash of discontinued operations) | 3,191,460 | 2,643,068 |
| Cash and cash equivalents of discontinued operations at the end of the period | - | (14,440) |
| Cash and cash equivalents of continuing operations at end of the period * | <u>\$ 3,191,460</u> | <u>\$ 2,628,628</u> |
| <i>* Cash and cash equivalents at the end of the period comprised of the following:</i> | | |
| <i>Non-banking activities</i> | <u>\$ 2,059,092</u> | <u>\$ 1,859,217</u> |
| <i>Banking activity</i> | <u>1,132,368</u> | <u>769,411</u> |
| | <u>\$ 3,191,460</u> | <u>\$ 2,628,628</u> |

SISTEMA JSFC AND SUBSIDIARIES
UNAUDITED SEGMENTAL BREAKDOWN FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars)

| For the year ended December 31, 2013 | | | | | | | Total | | |
|--|------------|------------|-----------|-----------|-----------|-----------|------------------------|-----------|------------|
| | MTS | Bashneft | SSTL | MTS Bank | RTI | Corporate | reportable segments | Other | Total |
| Net sales to external customers ^(a) | 12,488,877 | 17,562,645 | 209,432 | 878,832 | 1,685,546 | 46,237 | 32,871,569 | 3,070,498 | 35,942,067 |
| Intersegment sales | 21,884 | 121,912 | - | 24,301 | 509,963 | 36,742 | 714,802 | 204,446 | 919,248 |
| Equity in net income/(loss) of affiliates | 77,615 | 15,463 | - | - | (1,696) | - | 91,382 | (46,053) | 45,329 |
| Net interest revenue ^(b) | - | - | - | 40,678 | - | - | 40,678 | - | 40,678 |
| Depreciation, depletion and amortization | 2,244,014 | 596,806 | 63,666 | 19,152 | 96,374 | 14,378 | 3,034,390 | 208,219 | 3,242,609 |
| Operating income/(loss) | 3,662,740 | 2,054,262 | (210,185) | 18,954 | (776,878) | 834,945 | 5,583,838 | 124,363 | 5,708,201 |
| Interest income | 87,704 | 167,425 | 9,522 | - | 45,045 | 116,328 | 426,024 | 40,868 | 466,892 |
| Interest expense | 486,636 | 269,212 | 121,513 | - | 138,020 | 159,215 | 1,174,596 | 130,579 | 1,305,175 |
| Income tax expense/(benefit) | 720,893 | 495,284 | - | (2,645) | (80,025) | 140,376 | 1,273,883 | 23,861 | 1,297,744 |
| Investments in affiliates | 153,168 | 575,870 | - | - | - | 45,210 | 774,248 | 172,511 | 946,759 |
| Segment assets | 15,218,084 | 13,605,995 | 847,342 | 6,919,610 | 2,530,299 | 3,572,805 | 42,694,135 | 4,101,288 | 46,795,423 |
| Indebtedness ^(c) | 6,682,047 | 2,756,264 | 596,641 | - | 1,228,635 | 1,574,531 | 12,838,118 | 437,054 | 13,275,172 |
| Capital expenditures ^(d) | 2,561,310 | 1,018,863 | 45,765 | 21,379 | 95,009 | 73,224 | 3,815,550 | 197,706 | 4,013,256 |

| For the year ended December 31, 2012 | | | | | | | Total | | |
|--|------------|------------|-----------|-----------|-----------|-----------|------------------------|-----------|------------|
| | MTS | Bashneft | SSTL | MTS Bank | RTI | Corporate | reportable segments | Other | Total |
| Net sales to external customers ^(a) | 12,151,844 | 17,113,023 | 303,032 | 668,384 | 1,677,608 | 38,876 | 32,952,767 | 1,997,607 | 33,950,374 |
| Intersegment sales | 9,302 | 12,210 | - | 43,887 | 518,618 | 38,889 | 622,906 | 23,120 | 646,026 |
| Equity in net loss/(net income) of affiliates | 27,929 | (11,610) | - | - | (218) | - | 16,101 | (25,239) | (9,138) |
| Net interest expense ^(b) | - | - | - | 21,393 | - | - | 21,393 | - | 21,393 |
| Depreciation, depletion and amortization | 2,133,585 | 592,384 | 74,653 | 18,470 | 86,707 | 12,350 | 2,918,149 | 150,727 | 3,068,876 |
| Operating income/(loss) | 3,063,910 | 2,557,696 | (621,167) | 32,266 | (59,261) | (253,001) | 4,720,443 | 55,182 | 4,775,625 |
| Interest income | 83,487 | 179,344 | 6,423 | - | 29,055 | 136,718 | 435,027 | 27,445 | 462,472 |
| Interest expense | 562,541 | 353,173 | 176,481 | - | 83,629 | 153,860 | 1,329,684 | 111,679 | 1,441,363 |
| Income tax expense/(benefit) | 629,571 | 465,896 | - | 16,125 | 21,490 | (25,144) | 1,107,938 | 83,173 | 1,191,111 |
| Investments in affiliates | 165,233 | 942,247 | - | - | 251,747 | 117,233 | 1,476,460 | 6,261 | 1,482,721 |
| Segment assets | 15,606,599 | 15,211,987 | 630,300 | 7,023,706 | 3,108,525 | 2,629,385 | 44,210,502 | 4,775,186 | 48,985,688 |
| Indebtedness ^(c) | 7,583,742 | 3,601,385 | 1,046,717 | - | 1,139,827 | 1,646,799 | 15,018,470 | 583,428 | 15,601,898 |
| Capital expenditures ^(d) | 2,902,768 | 890,472 | 83,500 | 31,210 | 102,782 | 11,651 | 4,022,383 | 187,168 | 4,209,551 |

(a) Interest income and expenses of the MTS Bank are presented as revenues from financial services and cost of financial services, correspondingly, in the Group's consolidated financial statements.

(b) Represents the net interest result of banking activities. In reviewing the performance of MTS Bank, the chief operating decision maker reviews the net interest result, rather than the gross interest amounts.

(c) Represents the sum of short-term and long-term debt.

(d) Represents purchases of property, plant and equipment and intangible assets.

Attachment A

Non-GAAP financial measures. This press release includes financial information prepared in accordance with accounting principles generally accepted in the United States of America, or US GAAP, as well as other financial measures referred to as non-GAAP. The non-GAAP financial measures should be considered in addition to, but not as a substitute for, the information prepared in accordance with US GAAP.

Operating Income Before Depreciation and Amortization (OIBDA) and OIBDA margin. OIBDA represents operating income before depreciation and amortization. OIBDA margin is defined as OIBDA as a percentage of our net revenues. Our OIBDA may not be similar to OIBDA measures of other companies; is not a measurement under accounting principles generally accepted in the United States and should be considered in addition to, but not as a substitute for, the information contained in our consolidated statement of operations. We believe that OIBDA provides useful information to investors because it is an indicator of the strength and performance of our ongoing business operations, including our ability to fund discretionary spending such as capital expenditures, acquisitions of businesses and other investments and our ability to incur and service debt. While depreciation and amortization are considered operating costs under generally accepted accounting principles, these expenses primarily represent the non-cash current period allocation of costs associated with long-lived assets acquired or constructed in prior periods. Our OIBDA calculation is commonly used as one of the bases for investors, analysts and credit rating agencies to evaluate and compare the periodic and future operating performance and value of companies. Adjusted OIBDA represents OIBDA adjusted for a number of one-off gains and losses which are of an exceptional nature. We believe that Adjusted OIBDA provides investors with additional useful information to measure our underlying financial performance, particularly from period to period, because this measure is exclusive of certain exceptional gains and losses. Adjusted OIBDA can be reconciled to our consolidated statements of operations as follows:

Operating income and OIBDA reconciliation

| | 4Q 2013 | 4Q 2012 | 2013 | 2012 |
|---|----------------|----------------|-------------|-------------|
| Operating Income | 471.8 | 890.9 | 5,663.0 | 4,725.8 |
| <i>One off items</i> | 972.8 | 422.5 | 12.9 | 635.9 |
| Adjusted operating income | 1,444.6 | 1,313.5 | 5,675.9 | 5,361.7 |
| <i>Depreciation, depletion and amortization</i> | 831.8 | 758.0 | 3,242.6 | 3,068.9 |
| Adjusted OIBDA | 2,276.4 | 2,071.5 | 8,918.5 | 8,430.6 |

Net income reconciliation

| | 4Q 2013 | 4Q 2012 | 2013 | 2012 |
|----------------------|----------------|----------------|-------------|-------------|
| Net income | 47.7 | 180.1 | 2,257.5 | 946.1 |
| <i>One off items</i> | 579.6 | 183.4 | (265.4) | 847.7 |
| Adjusted net income | 627.3 | 363.6 | 1,992.1 | 1,793.8 |