



FOR IMMEDIATE RELEASE

August 28, 2014

**UNAUDITED FINANCIAL RESULTS FOR THE SECOND QUARTER
ENDED JUNE 30, 2014**

Moscow, Russia – August 28, 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 unaudited consolidated US GAAP financial results for the second quarter ended June 30, 2014.

SECOND QUARTER FINANCIAL HIGHLIGHTS

- Consolidated revenues up 4.2% YoY in dollar terms and 15.3% YoY in rouble terms to US\$ 8.8 billion
- Adjusted OIBDA¹ down 1.2% YoY in dollar terms, but grew by 9.4% YoY in rouble terms to US\$ 2.1 billion, with an adjusted OIBDA margin of 23.8%
- Adjusted net income attributable to Sistema grew by 47.7% YoY to US\$ 509.6 million
- Net debt² at the Corporate Holding level amounted to US\$ 828 million as at June 30, 2014, compared to US\$ 491 million as of March 31, 2014. The cash position at the Corporate Holding level amounted to US\$ 947 million.

KEY CORPORATE HIGHLIGHTS IN THE SECOND QUARTER OF 2014

- Sistema’s ordinary shares were included in the First Tier (top) quotation list of the Moscow Exchange.
- The Annual General Meeting of Shareholders (“AGM”) approved a total dividend payment on Sistema’s shares of RUB 19.9 billion, representing a payment of RUB 2.06 per ordinary share. The dividends were paid in full in July 2014.
- Completed the reorganisation of Sistema-Invest CJSC and eliminated the cross ownership structure of Bashneft. As a result, Sistema’s effective ownership at Bashneft now amounts to 78.8%.
- Acquired a 10.8% stake in OZON Holdings Limited (“OZON”), one of Russia’s largest e-commerce businesses, for US\$ 75 million. MTS also acquired a 10.8% stake in OZON at the same price.
- Signed binding agreements with Fresenius Kabi, a German pharmaceutical company, and Zenitco Finance Management, another shareholder³ of Binnopharm CJSC, to establish a pharmaceuticals joint venture (“JV”) for operations in Russia and the CIS. The JV will combine 100% of Binnopharm and 100% of Fresenius Kabi’s Russian and CIS business. Upon completion, Sistema will own 37% of the JV.
- Sistema’s subsidiary LLC LesInvest signed legally binding agreements with the Bank of Moscow to acquire 100% of OJSC Segezha Pulp and Paper Mill and 100% of LLC Derevoobrabotka-Proekt, together with all of their debt obligations to the Bank of Moscow.
- Acquired 49% of the ordinary shares of CJSC Business Nedvizhimost from CJSC MGTS-Nedvizhimost, for RUB 3.1 billion. As a result, Sistema’s ownership in CJSC Business Nedvizhimost increased to 100%.

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

“Our solid set of second quarter results demonstrates the resilience of our businesses in the face of changing market conditions. The key highlights for the period include an 11.5% year-on-year increase in oil production at Bashneft, the

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

² Net debt is calculated as difference between total debt and cash and cash equivalents, highly liquid deposits and liquid financial investments; based on management accounts.

³ Sistema and Zenitco Finance Management own 74% and 26% of Binnopharm, respectively.

highest annual growth rate recorded in Russia amongst oil producers; continued growth in MTS' subscriber base, as the operator maintains its leading market position; and strong margins achieved by Detsky mir, following the retailer's efforts to improve its business efficiency.

In line with our efforts to diversify our portfolio, add new growth opportunities and attract leading global companies as partners in our Russian businesses, Sistema announced several important M&A transactions in the reporting period. During the second quarter, we acquired a stake in OZON Holdings Limited, giving us an entry to the e-commerce market; we also established a joint venture with Fresenius Kabi in our pharmaceutical business; and we invested in the pulp and paper industry leaders.

Looking ahead, we are optimistic about the prospects of the Russian economy. As a long-term investor Sistema continues to see attractive domestic opportunities and by using our disciplined investment approach we are well placed to capture them”.

Conference call information

Sistema's management will host an analyst conference call today at 9.00 am (EST)/ 2.00 pm (London time) / 3.00 pm (CET) / 5.00 pm (Moscow time) to present and discuss the second quarter results.

The dial-in numbers for the conference call are:

UK/ International: +44 (0) 20 7136 2055

US: +1 212 444 0481

And quote the conference call title: “Sistema Second Quarter 2014 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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FINANCIAL SUMMARY

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|--|----------------|----------------|--------------------------------|----------------|--------------------------------------|
| Revenues | 8,827.0 | 8,472.7 | 4.2% | 8,215.1 | 7.4% |
| Adjusted OIBDA | 2,104.2 | 2,130.2 | (1.2%) | 1,893.5 | 11.1% |
| Operating income | 1,340.6 | 1,668.2 | (19.6%) | 1,156.0 | 16.0% |
| <i>Adjusted operating income</i> | 1,340.6 | 1,326.6 | 1.0% | 1,156.0 | 16.0% |
| Net income attributable to Sistema | 509.6 | 529.1 | (3.7%) | 363.3 | 40.3% |
| <i>Adjusted net income attributable to Sistema</i> | 509.6 | 345.1 | 47.7% | 363.3 | 40.3% |

GROUP OPERATING REVIEW

Sistema's consolidated revenues increased by 4.2% year-on-year in US dollar terms and by 15.3% year-on-year in rouble terms in the second quarter of 2014, largely as a result of increased oil refining volumes at Bashneft, higher prices for oil and oil products, and the acquisition of LLC Burneftegaz. The revenue increase was also driven by growing data services consumption at MTS and its expanding subscriber base. The Group's revenues were up 7.4% quarter-on-quarter in US dollar terms in the reporting period.

Selling, general and administrative expenses (SG&A) decreased by 3.8% year-on-year, but grew by 3.2% quarter-on-quarter to US\$ 1,008.9 million in the reporting quarter. Depreciation, depletion and amortisation expenses declined by 5.0% year-on-year, but increased by 3.5% quarter-on-quarter to US\$ 763.6 million in the second quarter of 2014.

In the reporting quarter, the Group's adjusted OIBDA decreased by 1.2% year-on-year in US dollar terms, but grew by 9.4% year-on-year in rouble terms, mainly as a result of increased OIBDA at Bashneft. The Group's adjusted OIBDA was up 11.1% quarter-on-quarter in US dollar terms in the second quarter of 2014.

Adjusted consolidated net income attributable to Sistema grew by 47.7% year-on-year in US dollar terms and increased by 63.5% in rouble terms in the second quarter of 2014, mainly due to increased net income at Bashneft and foreign currency transactions gain. Adjusted consolidated net income attributable to Sistema was up 40.3% quarter-on-quarter in US dollar terms.

OPERATING REVIEW⁴

MTS

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter |
|--|----------------|---------|---------------------|---------|--------------------|
| Revenues | 2,824.6 | 3,082.4 | (8.4%) | 2,790.8 | 1.2% |
| Adjusted OIBDA ⁵ | 1,246.2 | 1,402.4 | (11.1%) | 1,202.2 | 3.7% |
| Operating income | 724.6 | 1,153.1 | (37.2%) | 686.9 | 5.5% |
| <i>Adjusted operating income</i> | 724.6 | 807.0 | (10.2%) | 686.9 | 5.5% |
| Net income attributable to Sistema | 319.7 | 426.5 | (25.0%) | 199.2 | 60.5% |
| <i>Adjusted net income attributable to Sistema</i> | 319.7 | 243.8 | 31.2% | 199.2 | 60.5% |

MTS reported an 8.4% year-on-year revenue decrease in the second quarter of 2014 due to 10.7% depreciation of the average rouble exchange rate vs. the US dollar. The operator's revenues were up 1.2% quarter-on-quarter reflecting seasonally higher roaming revenues and increased adoption of data products. MTS' revenues in rouble terms grew by 1.5% year-on-year in the reporting quarter as a result of continued growth in data services revenue and the number of subscribers in MTS' key operating regions. The company's revenue growth was also partially offset by a devaluation of the Ukrainian hryvnia, which also led to an 11.1% year-on-year decrease in adjusted OIBDA in US dollar terms and a 1.6% year-on-year decline in rouble terms.

MTS' mobile subscriber base grew by 7.4% year-on-year to 105 million⁶ customers as of June 30, 2014. ARPU of the mobile business in Russia increased by 0.7% year-on-year to RUB 308 in the second quarter, as a result of upselling customers to tariff plans with larger data packages and higher penetration of smartphones and tablets. Russian subscribers' average monthly minutes of usage (MOU) increased by 3.0% year-on-year to 342 minutes. In the fixed broadband business, the number of households passed increased by 2.7% year-on-year to 12.4 million in the reporting quarter, while its subscriber base decreased by 7.0% year-on-year to 7.3 million due to the ongoing transfer of subscribers to digital television. Fixed-line ARPU grew by 7.8% year-on-year to RUB 330 in the reporting quarter.

In June 2014, MTS' AGM approved final annual dividends of RUB 18.6 per ordinary MTS share (RUB 37.2 per ADR), or a total of RUB 38.435 billion, based on the full-year 2013 financial results. The dividends were fully paid in July 2014.

Significant events after the end of the reporting period

In July 2014, MTS signed a settlement agreement with the Republic of Uzbekistan to resume operations in the country. According to the signed agreement, MTS will hold a 50.01% share of the newly formed company's charter capital, while the remaining 49.99% will belong to a state-owned unitary enterprise established and managed by the State Committee for Communication, Informatisation and Telecommunication Technologies of the Republic of Uzbekistan. The parties intend to finalise all procedures stipulated in the settlement agreement, and to ensure the commercial launch of the mobile network by the end of 2014.

In July 2014, Moody's Investors Service upgraded MTS' senior unsecured issuer rating from Ba2 to Baa3 with a stable outlook.

Bashneft

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|------------------------------------|----------------|---------|---------------------|---------|---------------------------|
| Revenues | 4,662.7 | 4,269.4 | 9.2% | 4,195.3 | 11.1% |
| OIBDA | 787.6 | 725.0 | 8.6% | 693.3 | 13.6% |
| Operating income | 632.7 | 578.5 | 9.4% | 559.7 | 13.1% |
| Net income attributable to Sistema | 334.9 | 333.9 | 0.3% | 301.6 | 11.0% |

In the second quarter, Bashneft's revenues increased by 9.2% year-on-year and by 11.1% quarter-on-quarter following increased export and domestic prices for oil and oil products. The acquisition of LLC Burneftegaz, a company conducting

⁴ Here and from hereon, 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.

⁵ Financial measures for the second quarter of 2013 were adjusted to exclude one-off item – a US\$ 346.1 million gain recognised as a result of a settlement of all disputes which have arisen from the investment in Bitel LLC.

⁶ Excluding Belarus subscribers.

exploration and producing oil in the Tyumen District, also contributed to higher revenues. Bashneft's OIBDA was up 8.6% year-on-year and by 13.6% quarter-on-quarter in the reporting quarter, reflecting revenue growth.

In the second quarter of 2014, Bashneft's oil production increased by 11.5% year-on-year to 4.4 million tonnes, including 184,700 tonnes and 165,000 tonnes produced at the Trebs and Titov fields and by Burneftegaz respectively, while mature fields in Bashkortostan added 4.0 million tonnes. The company reported an 8.4% year-on-year increase in sales of oil and oil products, which totalled 6.8 million tonnes, with exports amounting to 1.3 million tonnes of crude oil and 2.3 million tonnes of oil and petrochemical products.

Refining volumes were up 3.7% year-on-year to 5.5 million tonnes of crude oil. In the reporting quarter, the average refining depth increased to 86.6% and light-product yield grew to 62.3%.

In May 2014, Bashneft and OJSC Lukoil amended their joint venture agreement for Bashneft-Polyus, as a result, Bashneft received effective control in Bashneft-Polyus.

In June 2014, the AGM of Bashneft approved the distribution of RUB 37.48 billion (RUB 211 per ordinary and preferred share) as a dividend payment for the 2013 fiscal year. The dividends were fully paid in July 2014.

In June 2014, Bashneft started pilot operations at a catalytic cracking gasoline hydrotreater. The launch of the hydrotreater will enable the Company to fully transition to the production of ultra-low sulphur gasoline to meet Euro 5 emission standards. Investments in this project exceeded RUB 5 billion.

In May 2014, Bashneft and OJSC Lukoil established a new joint venture, LLC Vostok NAO Oil Company, to conduct geological exploration and prospecting and to produce hydrocarbons at the companies' licence areas in the Nenets Autonomous District.

Significant events after the end of the reporting period

In August 2014, Bashneft completed the acquisition of a network of filling stations operating under the OPTAN brand name and comprising 92 filling stations and 11 land plots in 12 regions of Russia.

In August 2014, Bashneft signed a production sharing contract for oil Block EP-4 with Myanmar Oil and Gas Enterprise to implement a three-year geological exploration programme, including seismic surveys and the drilling of two exploration wells in the Central Burma Basin. Investments in this geological exploration programme will total US\$ 38.3 million.

In July 2014, Moody's Investors Service changed the outlook on the Ba2 corporate family rating (CFR) of OJSC Bashneft to positive from stable, following robust improvements to the company's business profile alongside a fairly stable financial profile over the past 24 months.

In July 2014, ordinary shares of JSOC Bashneft were included in the First Tier (top) quotation list of the Moscow Exchange.

Bashkirian Power Grid Company (BPGC)

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|------------------------------------|----------------|----------------|----------------------------|----------------|----------------------------------|
| Revenues | 89.9 | 91.9 | (2.2%) | 108.1 | (16.9%) |
| OIBDA | 35.2 | 27.7 | 27.0% | 44.8 | (21.5%) |
| Operating income | 22.8 | 14.8 | 54.3% | 32.1 | (28.8%) |
| Net income attributable to Sistema | 17.9 | 14.6 | 22.5% | 21.1 | (15.2%) |

BPGC's revenues were down 2.2% year-on-year in US dollar terms, and grew by 8.3% year-on-year in rouble terms, mainly due to an increase in organic consumption, as well as a 10% rise in regional tariffs effective from July 1, 2013. A quarter-on-quarter revenue decrease reflects a seasonal decline in consumption. BPGC's OIBDA grew by 27.0% year-on-year in the second quarter of 2014 largely as a result of increased revenues and gains from the disposal of non-core assets.

The volume of electricity transmitted through distribution grids increased by 3.3% year-on-year reflecting organic consumption growth. Distribution grid losses decreased by 0.07 p.p. year-on-year to 5.19% as a result of installing a power metering system and monitoring off-the-meter usage. The effective transmission grid output was up 6.8% year-on-year.

In the second quarter of 2014, BPGC's Board of Directors approved a RUB 3.5 billion project to reconstruct grids in Ufa using Smart Grid technology during the period of 2014-2019.

Sistema Shyam TeleServices Ltd. (SSTL)

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|----------------------------------|---------|---------|---------------------|---------|---------------------------|
| Revenues | 55.9 | 51.9 | 7.8% | 51.6 | 8.3% |
| OIBDA | (22.8) | (39.3) | - | (15.8) | - |
| Operating loss | (30.2) | (56.0) | - | (37.9) | - |
| Net loss attributable to Sistema | (29.1) | (83.3) | - | (24.8) | - |

SSTL's revenues grew by 7.8% year-on-year and 8.3% quarter-on-quarter in the reporting quarter, reflecting an increase in data services usage. The company narrowed its OIBDA loss year-on-year as a result of the on-going cost optimisation programme.

As of June 30, 2014, SSTL's total wireless (voice and data) subscriber base expanded by 1.4% quarter-on-quarter to 9.2 million customers as a result of an increase in data services subscribers. In the second quarter, subscribers' MOU increased by 0.5% quarter-on-quarter to 416 minutes. Blended mobile ARPU in rupees grew by 7.7% quarter-on-quarter to an equivalent of US\$ 1.92. Non-voice revenues from both data and VAS accounted for 38.6% of the company's total revenues in the reporting quarter.

Sistema Mass Media⁷ (SMM)

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|----------------------------------|---------|---------|---------------------|---------|---------------------------|
| Revenues | 17.8 | 22.9 | (22.4%) | 24.7 | (28.0%) |
| OIBDA | 3.9 | 4.6 | (15.7%) | 7.3 | (46.7%) |
| Operating income | 0.6 | 0.02 | 3,115.0% | 1.1 | (43.4%) |
| Net loss attributable to Sistema | (0.3) | (2.1) | - | (1.4) | - |

SMM's revenues fell by 22.4% year-on-year and by 28.0% quarter-on-quarter in the reporting period, as a result of rescheduling deadlines for World Russian Studios' (WRS) TV series, along with the impact the events in Ukraine has had on the operations of WRS and Maxima. SMM's OIBDA also decreased year-on-year and quarter-on-quarter following a decline in revenues.

In the second quarter of 2014, the Stream-TV subscriber base grew by 24.1% year-on-year reaching 10.8 million subscribers as a result of growth in the penetration of large operators' networks. The WRS content library was up 10.6% year-on-year to 1,787 hours as of June 30, 2014.

In the second quarter, Maxima started a partnership with Posterscope Russia communications. United Russian Studios (URS) launched a filmmaking project commissioned by the "Russia" channel.

RTI⁸

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|---|---------|---------|---------------------|---------|---------------------------|
| Revenues | 411.3 | 444.5 | (7.5%) | 344.0 | 19.6% |
| Adjusted OIBDA ⁹ | 18.4 | 22.2 | (17.1%) | (0.8) | - |
| Adjusted operating loss | (4.7) | (2.5) | - | (18.1) | - |
| Adjusted net loss attributable to Sistema | (42.8) | (30.3) | - | (35.0) | - |

RTI generated quarter-on-quarter revenue growth of 19.6% in the second quarter of 2014. The company's revenues declined by 7.5% year-on-year in US dollar terms, but grew by 2.4% year-on-year in rouble terms mainly due to increased sales in Defence Solutions BU. Defence Solutions BU demonstrated growth of 12.4% year-on-year in US dollars and by 24.8% year-on-year in rouble terms, the segment's revenues were up 16.9% in US dollars and 17.1% in rouble terms quarter-on-quarter.

⁷ Stream CJSC is owned by Sistema (55%) and MTS (45%). For reporting purposes, Stream's financial results were allocated to SMM segment.

⁸ RTI consolidates OJSC Concern RTI Systems, Mikron group of companies and 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.

⁹ Financial measures for the second quarter were adjusted to exclude one-off item – gain from sale of non-core assets.

In the second quarter of 2014, RTI reported significant quarter-on-quarter adjusted OIBDA growth. A 17.1% year-on-year decrease in adjusted OIBDA mainly resulted from lower revenues in US dollar terms.

In June 2014, RTI started exploratory research and development of key technologies to create a range of its own air drone systems.

As a result of converting RUSNANO's 37.67% stake in Sitronics-Nano LLC into additional shares in Mikron in May 2014, RUSNANO obtained a 25.1% stake in Mikron.

In May 2014, Mikron became a partner of the Silicon Trust international marketing programme, which comprises more than 20 companies, including the world's microelectronics industry leaders such as Gemalto, Giesecke & Devrient and Infineon Technologies.

Binnopharm

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|------------------------------------|---------|---------|---------------------|---------|---------------------------|
| Revenues | 21.6 | 27.6 | (22.0%) | 15.0 | 43.8% |
| OIBDA | 6.2 | 7.6 | (18.8%) | 3.1 | 97.0% |
| Operating income | 4.7 | 5.9 | (19.7%) | 1.7 | 173.8% |
| Net income attributable to Sistema | 2.4 | 6.6 | (62.9%) | 0.8 | 189.8% |

In the second quarter, Binnopharm's revenues grew by 43.8% quarter-on-quarter largely as a result of increased sales of its own products and the active development of its distribution segment. The rise in production revenue was attributable to a two-fold increase in sales of Binnopharm's main product, the Regevak B vaccine. A 22.0% year-on-year revenue decline resulted from a decrease in procurement of the government in 2014.

Binnopharm's OIBDA nearly doubled quarter-on-quarter in the reporting period with its OIBDA margin reaching 28.7%.

MTS Bank

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|----------------------------------|---------|---------|---------------------|---------|---------------------------|
| Revenues | 207.9 | 202.8 | 2.5% | 192.9 | 7.8% |
| OIBDA | (10.9) | (20.0) | - | (18.0) | - |
| Operating loss | (15.8) | (24.9) | - | (22.6) | - |
| Net loss attributable to Sistema | (6.5) | (14.0) | - | (15.2) | - |

MTS Bank's interest income increased by 6.7% year-on-year and by 5.6% quarter-on-quarter to US\$ 182.0 million. In the reporting quarter, MTS Bank's gross loan portfolio remained stable quarter-on-quarter.

In the Internet Banking Rank 2014 (an annual review of Russian retail Internet banks) issued in April 2014 by the analytical agency Marksw Webb Rank & Report, MTS Bank's Internet Banking system was assigned a "BBB+" rating.

In June, MTS Bank redeemed its series 05 bonds in the amount of RUB 2.4 billion, with a coupon rate of 9.75% per annum.

In June, MTS Bank securitised its mortgage portfolio in the amount of RUB 3.9 billion.

Detsky Mir

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|--|---------|---------|---------------------|---------|---------------------------|
| Revenues | 256.4 | 238.5 | 7.5% | 261.5 | (1.9%) |
| OIBDA | 18.1 | 10.0 | 81.0% | 1.9 | 851.0% |
| Operating income /(loss) | 13.1 | 5.1 | 158.1% | (3.1) | - |
| Net income /(loss) attributable to Sistema | 3.4 | 0.9 | 286.5% | (12.4) | - |

In the second quarter, Detsky Mir's revenues increased by 7.5% year-on-year in US dollar terms and by 19.0% year-on-year in rouble terms, reflecting like-for-like sales growth of 12.0% in the reporting quarter. The slight quarter-on-quarter decrease in revenue resulted from seasonal factors.

Detsky Mir's OIBDA increased by 81.0% year-on-year as a result of optimising personnel and rent expenses. Detsky Mir's

SG&A expenses declined as a percentage of revenue to 30.0% in the second quarter, compared to 32.2% in the corresponding period of 2013. In the reporting quarter, the company's like-for-like average ticket increased by 3.8% year-on-year in rouble terms, while the like-for-like number of purchases was up 8.0% year-on-year. Detsky Mir's own label products accounted for 21% of total sales in the second quarter of 2014.

In the second quarter of 2014, Detsky Mir opened six new Detsky Mir stores and two ELC stores, increasing the size of the company's retail network to 265 stores, with the aggregate retail space expanding by 11.9% year-on-year to 328,000 sq.m. as of June 30, 2014.

Intourist

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|--|---------|---------|---------------------|---------|---------------------------|
| Revenues | 21.1 | 24.4 | (13.8%) | 17.1 | 23.1% |
| OIBDA | 3.8 | 5.2 | (27.7%) | (2.4) | - |
| Operating income / (loss) | 2.4 | 4.4 | (46.0%) | (3.8) | - |
| Net (loss)/ income attributable to Sistema | (0.1) | 0.3 | - | (4.1) | - |

In the second quarter of 2014, Intourist's revenues increased by 23.1% quarter-on-quarter, primarily driven by increased seasonal demand for the company's hotels abroad. The company's revenues declined by 13.8% year-on-year in US dollar terms and by 4.5% year-on-year in rouble terms. This was largely a result of a sharp decline in the number of tourists from Russia and due to the rouble weakening against foreign currencies, as well as a decrease in inbound tourism in Russia. Intourist's OIBDA fell by 27.7% year-on-year in the second quarter of 2014. As of June 30, 2014, Intourist owned, managed and rented 2,947 rooms.

Medsi

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|---|---------|---------|---------------------|---------|---------------------------|
| Revenues | 70.2 | 72.4 | (3.0%) | 71.5 | (1.7%) |
| OIBDA | 8.9 | 5.2 | 71.1% | 12.1 | (26.7%) |
| Operating income | 5.5 | 3.3 | 66.8% | 9.0 | (38.7%) |
| Net income / (loss) attributable to Sistema | 4.4 | (0.3) | - | 8.2 | (46.4%) |

Medsi's revenues decreased by 3.0% year-on-year in US dollar terms in the second quarter 2014, but were up 7.3% year-on-year in rouble terms following a higher average bill and increased sales of more expensive and complex services. A 1.7% quarter-on-quarter revenue decrease was mainly due to US dollar appreciation. OIBDA grew by 71.1% year-on-year in the reporting quarter, with the OIBDA margin expanding to 12.6% as a result of continuing cost optimisation.

The number of patient visits remained at the level of the second quarter of 2013, while the number of services provided slightly decreased by 1.3% year-on-year. The average bill was up 6.6% year-on-year in rouble terms and totalled RUB 1,620.

As of June 30, 2014, Medsi's network consisted of 25 medical clinics, a clinical and diagnostic centre, 3 hospitals, an ambulance service, 3 wellness centres and 3 sanatoriums.

In the second quarter of 2014, Medsi continued implementing its investments projects, including the construction of a new consultation and diagnostic clinic, and purchases of new equipment.

CORPORATE

| <i>(US\$ millions)</i> | 2Q 2014 | 2Q 2013 | Year on Year Change | 1Q 2014 | Quarter on Quarter Change |
|------------------------|---------|---------|---------------------|---------|---------------------------|
| OIBDA ¹⁰ | (68.2) | (30.1) | - | (72.5) | - |
| Net loss | (98.2) | (149.6) | - | (83.1) | - |
| Indebtedness | 1,774.7 | 1,746.8 | 1.6% | 1,710.6 | 3.8% |

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

¹⁰ Here and further, OIBDA and net income (loss) of the Corporate category are shown without an effect of intragroup dividends.

The dividends declared by Sistema's subsidiaries in the second quarter of 2014, which are assigned to the Corporate segment, amounted to US\$ 1,442.2 million.

In the second quarter of 2014, the Corporate's SG&A expenses amounted to US\$ 68.4 million, including a non-cash share award for Sistema's senior management. The Corporate's interest expense grew by 23.9% year-on-year and 10.9% quarter-on-quarter to US\$ 48.1 million.

In June 2014, the AGM approved a total dividend payment on Sistema's shares of RUB 19.9 billion, representing a payment of RUB 2.06 per ordinary share. The dividends were paid in full in July 2014. The AGM also approved the composition of the Board of Directors previously nominated by the Board.

Significant events after the end of the reporting period

In July 2014, Sistema and the subsidiaries of Sistema - CJSC Sistema-Invest and OJSC United Petrochemical Company - received a notice from OJSC REESTR about restrictions on transactions with the shares of OJSC Ufaorgsintez owned by the Companies. Sistema and Sistema-Invest also received a notice from OJSC REESTR about restrictions on transactions with the shares of Bashneft OJSC. The restrictions do not limit Sistema's and its subsidiaries voting rights, rights to receive dividends or any other shareholder rights.

In July 2014, Moody's Investors Service upgraded Sistema's credit rating to 'Ba2' from 'Ba3' with a positive outlook, while Standard & Poor's Ratings Services raised Sistema's corporate credit rating to 'BB+' from 'BB' with a stable outlook.

In line with the remuneration structure for the members of Sistema's Board of Directors, in July 2014, seven members' shareholdings in the Company increased by 75,833 shares, with one member receiving shares for the first time. The remaining six board members were allocated 72,500 shares. Each allocation represents approximately 0.0008% of the 9,650,000,000 total shares issued.

FINANCIAL REVIEW

Net cash provided by operations in the second quarter of 2014 increased by 66.3% year-on-year and by 44.8% quarter-on-quarter to US\$ 2,303.1 million, due to changes in working capital.

Net cash used in investing activities totalled US\$ 971.1 million in the reporting quarter, compared to US\$ 878.3 million in the corresponding period of 2013. This year-on-year increase was mainly due to the growing investment programmes of MTS and Bashneft totalling US\$ 817.0 million in the second quarter of 2014 compared to US\$ 707.2 million in the corresponding period of 2013. In the second quarter of 2014, the Group also spent US\$ 150 million on purchasing a 21.5% stake in OZON, and placed US\$ 120.9 million of free funds into deposits (compared to proceeds of US\$ 215.4 million in the second quarter of 2013).

Net cash outflow from financing activities amounted to US\$ 383.1 million in the second quarter of 2014, compared to cash inflow of US\$ 474.8 million in the corresponding quarter of 2013. The Group's net proceeds from borrowings in the reporting quarter was US\$ 548.8 million compared to US\$ 176.5 million of net payments in the second quarter of 2013. Deposits from customers in the banking segment of the Group decreased by US\$ 413.8 million compared to the growth of US\$ 683.0 in the corresponding period of 2013. In addition, Bashneft spent approximately US\$ 495 million during the reorganisation to purchase its own common and preferred shares.

The Group's cash and cash equivalents stood at US\$ 3,577.2 million as of June 30, 2014 (excluding an amount of US\$ 1,402.7 million attributable to the Group's banking activities) compared to US\$ 2,056.7 million as of June 30, 2013 (excluding an amount of US\$ 1,809.2 million attributable to the Group's banking activities). The Group's short-term and long-term debt less cash and cash equivalents and highly liquid deposits amounted to US\$ 12,161.1 million as of June 30, 2014, compared to US\$ 12,716.5 million as of June 30, 2013.

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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\$ 8.8 billion for the second quarter of 2014, and total assets of US\$ 45.2 billion as at June 30, 2014. 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
UNAUDITED CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2014 AND 2013
(Amounts in thousands of U.S. dollars, except per share amounts)

| | Six months ended June 30, | | Three months ended June 30, | |
|---|------------------------------|---------------------|--------------------------------|-------------------|
| | 2014 | 2013 | 2014 | 2013 |
| Sales | \$ 16,644,455 | \$ 16,426,551 | \$ 8,619,791 | \$ 8,284,536 |
| Revenues from banking activities | 397,597 | 391,682 | 207,205 | 188,162 |
| TOTAL REVENUES | 17,042,052 | 16,818,233 | 8,826,996 | 8,472,698 |
| Cost of sales, exclusive of depreciation, depletion and amortization shown separately below | (6,372,501) | (6,330,841) | (3,335,573) | (3,170,938) |
| Cost related to banking activities, exclusive of depreciation and amortization shown separately below | (235,416) | (264,201) | (115,235) | (121,834) |
| Selling, general and administrative expenses | (1,987,015) | (2,113,420) | (1,008,934) | (1,048,543) |
| Depreciation, depletion and amortization | (1,501,150) | (1,615,384) | (763,647) | (803,573) |
| Transportation costs | (450,979) | (461,393) | (239,969) | (239,129) |
| Taxes other than income tax | (3,773,089) | (3,448,711) | (1,922,929) | (1,721,023) |
| Equity in results of affiliates | 23,772 | 41,057 | 16,680 | 34,711 |
| Gain on Bitel case resolution | - | 346,100 | - | 346,100 |
| Other operating expenses, net | (249,166) | (148,417) | (116,851) | (80,257) |
| OPERATING INCOME | 2,496,508 | 2,823,023 | 1,340,538 | 1,668,212 |
| Interest income | 168,046 | 122,975 | 84,138 | 71,318 |
| Change in fair value of derivative instruments | - | (1,315) | - | (665) |
| Interest expense, net of amounts capitalized | (572,364) | (643,255) | (307,626) | (317,406) |
| Foreign currency transactions (losses)/income | (42,672) | (205,076) | 120,042 | (175,069) |
| Income from continuing operations before income tax | 2,049,518 | 2,096,352 | 1,237,092 | 1,246,390 |
| Income tax expense | (564,864) | (545,950) | (358,330) | (305,270) |
| Income from continuing operations | 1,484,654 | 1,550,402 | 878,762 | 941,120 |
| Income from discontinued operations, net of income tax effect | 6,293 | - | 6,293 | - |
| NET INCOME | \$ 1,490,947 | \$ 1,550,402 | \$ 885,055 | \$ 941,120 |
| Noncontrolling interest | (618,035) | (670,262) | (375,464) | (412,061) |
| NET INCOME attributable to Sistema JSFC | \$ 872,912 | \$ 880,140 | \$ 509,591 | \$ 529,059 |
| Income per share, basic and diluted, U.S. cent | 9.36 | 9.55 | 5.44 | 5.74 |

SISTEMA JSFC AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014 AND DECEMBER 31, 2013
(Amounts in thousands of U.S. dollars, except share amounts)

| | June 30, 2014 | December 31, 2013 |
|--|--------------------------|------------------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,577,178 | \$ 2,059,092 |
| Short-term investments | 1,559,772 | 1,719,223 |
| Assets from banking activities, current portion (including cash and cash equivalents of \$1,402,717 and \$1,132,368) | 3,053,772 | 3,898,740 |
| Accounts receivable, net | 2,243,995 | 2,173,972 |
| VAT receivable | 774,784 | 720,181 |
| Inventories and spare parts | 1,926,917 | 1,848,145 |
| Deferred tax assets, current portion | 372,765 | 390,238 |
| Disposal group held for sale | 88,646 | - |
| Other current assets | 1,727,865 | 1,756,082 |
| Total current assets | <u>15,325,694</u> | <u>14,565,673</u> |
| NON-CURRENT ASSETS: | | |
| Property, plant and equipment, net | 21,198,564 | 19,945,701 |
| Advance payments for non-current assets | 187,540 | 187,850 |
| Goodwill | 1,292,386 | 1,327,779 |
| Other intangible assets, net | 2,145,558 | 2,225,927 |
| Investments in affiliates | 550,849 | 946,759 |
| Assets from banking activities, net of current portion | 2,761,132 | 2,554,229 |
| Debt issuance costs | 86,025 | 87,226 |
| Deferred tax assets, net of current portion | 370,812 | 344,965 |
| Long-term investments | 607,305 | 249,071 |
| Other non-current assets | 662,990 | 813,814 |
| Total non-current assets | <u>29,863,161</u> | <u>28,683,321</u> |
| TOTAL ASSETS | <u>\$ 45,188,855</u> | <u>\$ 43,248,994</u> |

SISTEMA JSFC AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF JUNE 30, 2014 AND DECEMBER 31, 2013 (CONTINUED)
(Amounts in thousands of U.S. dollars, except share amounts)

| | June 30, 2014 | December 31, 2013 |
|---|--------------------------|------------------------------|
| LIABILITIES AND SHAREHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 2,221,326 | \$ 3,144,233 |
| Liabilities from banking activities, current portion | 2,750,232 | 3,864,415 |
| Taxes payable | 1,080,885 | 812,880 |
| Deferred tax liabilities, current portion | 241,950 | 229,038 |
| Subscriber prepayments, current portion | 496,728 | 620,281 |
| Accrued expenses and other current liabilities | 4,085,321 | 2,225,913 |
| Short-term loans payable | 276,548 | 40,836 |
| Current portion of long-term debt | 2,583,842 | 2,470,058 |
| Disposal group held for sale | 73,315 | - |
| Total current liabilities | <u>13,810,147</u> | <u>13,407,654</u> |
| LONG-TERM LIABILITIES: | | |
| Long-term debt, net of current portion | 12,967,354 | 10,764,278 |
| Subscriber prepayments, net of current portion | 95,079 | 101,240 |
| Liabilities from banking activities, net of current portion | 396,007 | 772,525 |
| Deferred tax liabilities, net of current portion | 2,160,597 | 1,956,472 |
| Asset retirement obligations | 186,106 | 184,261 |
| Postretirement benefits obligations | 95,083 | 91,640 |
| Property, plant and equipment contributions | 70,838 | 74,174 |
| Other long-term liabilities | 1,021,476 | 595,909 |
| Total long-term liabilities | <u>16,992,540</u> | <u>14,540,499</u> |
| TOTAL LIABILITIES | <u>30,802,687</u> | <u>27,948,153</u> |
| Commitments and contingencies | - | - |
| Redeemable noncontrolling interests | <u>795,577</u> | <u>805,130</u> |
| SHAREHOLDERS' EQUITY: | | |
| Share capital (9,650,000,000 shares issued; 9,375,021,253 and 9,274,755,045 shares outstanding with par value of 0.09 Russian Rubles, respectively) | 30,057 | 30,057 |
| Treasury stock (274,978,747 and 375,244,955 shares with par value of 0.09 Russian Rubles, respectively) | (312,040) | (426,715) |
| Additional paid-in capital | 2,661,102 | 2,616,608 |
| Retained earnings | 9,259,829 | 8,993,469 |
| Accumulated other comprehensive loss | (1,373,500) | (906,718) |
| Total Sistema JSFC shareholders' equity | <u>10,265,448</u> | <u>10,306,701</u> |
| Non-redeemable noncontrolling interests | 3,325,143 | 4,189,010 |
| TOTAL EQUITY | <u>13,590,591</u> | <u>14,495,711</u> |
| TOTAL LIABILITIES AND EQUITY | <u>\$ 45,188,855</u> | <u>\$ 43,248,994</u> |

SISTEMA JSFC AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(Amounts in thousands of U.S. dollars)

| | Six months ended June 30, | |
|--|----------------------------------|--------------------|
| | 2014 | 2013 |
| | <hr/> | <hr/> |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net income | \$ 1,490,947 | \$ 1,550,402 |
| Income from discontinued operations | (6,293) | - |
| Net income from continuing operations | <hr/> \$ 1,484,654 | <hr/> 1,550,402 |
| Adjustments to reconcile net income to net cash provided by operations: | | |
| Depreciation, depletion and amortization | 1,501,150 | 1,615,384 |
| Equity in results of affiliates | (23,772) | (41,057) |
| Deferred income tax expense | 53,655 | 235,027 |
| Foreign currency transactions losses | 42,672 | 205,076 |
| Gain on Bitel case resolution, net of cash received of \$125,000 | - | (221,100) |
| (Gain)/loss on disposal of property, plant and equipment | (128,553) | 6,669 |
| Amortization of connection fees | (16,446) | (15,438) |
| Allowance for loan losses | 111,401 | 133,426 |
| Dividends received from affiliates | 40,139 | 29,884 |
| Non-cash compensation to employees | 42,341 | 11,014 |
| Other non-cash items | 256,415 | 118,081 |
| Changes in operating assets and liabilities, net of effects from purchase of businesses: | | |
| Trading securities | 172,228 | (182,261) |
| Accounts receivable | (146,485) | (472,218) |
| VAT receivable | (754) | 37,402 |
| Inventories and spare parts | (112,127) | (233,167) |
| Other current assets | 21,283 | (329,121) |
| Accounts payable | (661,014) | 74,300 |
| Subscriber prepayments | (96,910) | (49,935) |
| Taxes payable | 216,708 | 46,699 |
| Long-term prepayment on oil products supply agreement | 515,810 | - |
| Accrued expenses and other liabilities | <hr/> 624,631 | <hr/> 63,921 |
| Net cash provided by operating activities of continuing operations | 3,897,026 | 2,582,988 |
| Net cash used in operating activities of discontinued operations | <hr/> (3,336) | <hr/> (17,288) |
| Net cash provided by operating activities | <hr/> \$ 3,893,690 | <hr/> \$ 2,565,700 |

SISTEMA JSFC AND SUBSIDIARIES
UNAUDITED CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013 (CONTINUED)
(Amounts in thousands of U.S. dollars)

| | Six months ended June 30, | |
|--|---------------------------|---------------------|
| | 2014 | 2013 |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Payments for purchases of property, plant and equipment | \$ (1,446,051) | \$ (1,283,727) |
| Payments for purchases of intangible assets | (189,704) | (202,447) |
| (Payments for)/proceeds from purchases of businesses, (net of)/including cash acquired | (1,013,559) | 42,188 |
| Purchase of investments in affiliated companies | (260,180) | (304,388) |
| Payments for purchases of long-term investments | (484,425) | (27,011) |
| Payments for purchases of short-term investments | (927,039) | (839,090) |
| Payments for purchases of other non-current assets | - | (7,568) |
| Increase in restricted cash | (9,314) | (15,049) |
| Proceeds from sale of subsidiaries, net of cash disposed | - | 389,011 |
| Proceeds from sale of property, plant and equipment | 125,620 | 46,874 |
| Proceeds from loans given to affiliated companies | 89,608 | - |
| Proceeds from sale of long-term investments | 90,000 | - |
| Proceeds from sale of other non-current assets | - | 1,863 |
| Proceeds from sale of short-term investments | 857,450 | 676,507 |
| Net decrease in loans to customers of the banking segment | 686,630 | 54,740 |
| Net cash used in investing activities | <u>(2,480,964)</u> | <u>(1,468,097)</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Proceeds from short-term borrowings, net | 225,624 | 25,205 |
| Net (decrease)/increase in deposits from customers of the banking segment | (1,393,962) | 371,897 |
| Proceeds from long-term borrowings | 3,090,353 | 2,326,315 |
| Debt issuance costs | - | (4,690) |
| Principal payments on long-term borrowings | (1,020,963) | (2,482,583) |
| Acquisition of non-controlling interests in existing subsidiaries | (578,926) | (27,073) |
| Dividends paid | (1,591) | - |
| Proceeds from capital transactions with shares of existing subsidiaries | 41,142 | 8,623 |
| Net cash provided by financing activities | <u>361,677</u> | <u>217,694</u> |
| Effect of foreign currency translation on cash and cash equivalents | 14,032 | (77,294) |
| Net increase in cash and cash equivalents | 1,788,435 | 1,238,003 |
| Cash and cash equivalents at the beginning of the period (including cash of discontinued operations) | 3,191,460 | 2,629,544 |
| Cash and cash equivalents at the end of the period (including cash of discontinued operations) | 4,979,895 | 3,867,547 |
| Cash and cash equivalents of discontinued operations at the end of the period | - | (1,598) |
| Cash and cash equivalents of continuing operations at end of the period * | <u>\$ 4,979,895</u> | <u>\$ 3,865,949</u> |
| <i>* Cash and cash equivalents at the end of the period comprised of the following:</i> | | |
| Non-banking activities | \$ 3,577,178 | \$ 2,056,725 |
| Banking activity | 1,402,717 | 1,809,224 |
| | <u>\$ 4,979,895</u> | <u>\$ 3,865,949</u> |

SISTEMA JSFC AND SUBSIDIARIES
UNAUDITED SEGMENTAL BREAKDOWN FOR THE SIX MONTHS ENDED JUNE 30, 2014 AND 2013
(Amounts in thousands of U.S. dollars)

| For the six months ended June 30, 2014 | <u>MTS</u> | <u>Bashneft</u> | <u>SSTL</u> | <u>MTS Bank</u> | <u>RTI</u> | <u>Corporate</u> | <u>Total reportable segment</u> | <u>Other</u> | <u>Total</u> |
|---|-------------------|------------------------|--------------------|----------------------------|-------------------|-------------------------|--|---------------------|---------------------|
| Net sales to external customers (a) | 5,592,737 | 8,652,349 | 107,541 | 397,597 | 635,596 | 22,487 | 15,408,307 | 1,633,745 | 17,042,052 |
| Intersegment sales | 22,580 | 205,630 | - | 3,173 | 119,628 | 17,166 | 368,177 | 116,316 | 484,493 |
| Equity in results of affiliates | 32,970 | 1,683 | - | - | - | - | 34,653 | (10,881) | 23,772 |
| Net interest expense (b) | - | - | - | (27,913) | - | - | (27,913) | - | (27,913) |
| Depreciation, depletion and amortization | 1,016,169 | 288,472 | 29,531 | 9,531 | 40,433 | 8,397 | 1,392,533 | 108,617 | 1,501,150 |
| Operating income/(loss) | 1,432,251 | 1,192,372 | (68,100) | (38,375) | 123,689 | (149,074) | 2,492,763 | 36,008 | 2,528,771 |
| Interest income | 66,219 | 70,424 | 3,937 | - | 23,405 | 55,215 | 219,200 | 36,231 | 255,431 |
| Interest expense | 229,034 | 142,626 | 44,677 | - | 69,908 | 93,007 | 579,252 | 35,631 | 614,883 |
| Income tax expense/(benefit) | 361,785 | 238,271 | - | (13,481) | 29,845 | (69,883) | 546,537 | 18,327 | 564,864 |
| Segment assets | 15,831,335 | 14,968,735 | 897,389 | 6,221,894 | 3,191,016 | 4,515,362 | 45,625,731 | 5,257,318 | 50,883,049 |
| Indebtedness (c) | 6,652,102 | 4,889,863 | 600,657 | - | 1,323,867 | 1,774,721 | 15,241,210 | 586,534 | 15,827,744 |
| Capital expenditures (d) | 824,882 | 542,834 | 14,719 | 12,331 | 50,102 | 28,099 | 1,472,967 | 162,788 | 1,635,755 |

| For the six months ended June 30, 2013 | <u>MTS</u> | <u>Bashneft</u> | <u>SSTL</u> | <u>MTS Bank</u> | <u>RTI</u> | <u>Corporate</u> | <u>Total reportable segment</u> | <u>Other</u> | <u>Total</u> |
|---|-------------------|------------------------|--------------------|----------------------------|-------------------|-------------------------|--|---------------------|---------------------|
| Net sales to external customers (a) | 6,125,868 | 8,394,627 | 116,868 | 391,682 | 690,446 | 22,037 | 15,741,528 | 1,076,705 | 16,818,233 |
| Intersegment sales | 9,638 | 3,483 | - | 17,908 | 235,189 | 19,040 | 285,258 | 73,659 | 358,917 |
| Equity in results of affiliates | 22,495 | 4,602 | - | - | (13,819) | - | 13,278 | 19,053 | 32,331 |
| Net interest expense (b) | - | - | - | (29,551) | - | - | (29,551) | - | (29,551) |
| Depreciation, depletion and amortization | 1,152,150 | 289,045 | 33,600 | 9,676 | 47,807 | 7,907 | 1,540,185 | 75,199 | 1,615,384 |
| Operating income/(loss) | 1,898,972 | 1,144,162 | (111,866) | (40,444) | (41,212) | (71,774) | 2,777,838 | 70,142 | 2,847,980 |
| Interest income | 48,228 | 82,685 | 5,022 | - | 17,874 | 43,393 | 197,202 | 6,166 | 203,368 |
| Interest expense | 273,370 | 156,786 | 68,246 | - | 67,493 | 80,046 | 645,941 | 57,839 | 703,780 |
| Income tax expense/(benefit) | 323,787 | 239,367 | - | (8,224) | (23,837) | 2,114 | 533,207 | 12,743 | 545,950 |
| Segment assets | 16,012,426 | 14,756,183 | 917,573 | 7,520,115 | 3,569,388 | 3,203,095 | 45,978,780 | 3,986,727 | 49,965,507 |
| Indebtedness (c) | 7,531,759 | 3,223,608 | 692,743 | - | 1,441,156 | 1,746,834 | 14,636,100 | 302,040 | 14,938,140 |
| Capital expenditures (d) | 841,282 | 460,413 | 9,575 | 11,991 | 46,219 | 68,224 | 1,437,704 | 48,470 | 1,486,174 |

(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, operating income and net income attributable to Sistema. The Company uses adjusted OIBDA, operating income and net income attributable to Sistema to comment on its financial performance. These adjusted measures are used internally to evaluate performance and represent underlying financial measures adjusted for a number of one-off gains and losses which are of an exceptional nature. We believe that adjusted measures provide investors with additional useful information to measure our underlying financial performance, particularly from period to period, because these measures are exclusive of certain exceptional gains and losses.

Adjusted operating income and OIBDA can be reconciled to our consolidated statements of operations as follows:

| | 2Q 2014 | 2Q 2013 | 1Q 2014 |
|---|----------------|----------------|----------------|
| Operating income | 1,340.5 | 1,668.2 | 1,156.0 |
| Gain from settlement of all disputes arisen from investment in Bitel LLC (at MTS) | - | (341.6) | - |
| Adjusted operating income | 1,340.5 | 1,326.6 | 1,156.0 |
| Depreciation, depletion and amortisation | 763.6 | 803.6 | 737.5 |
| Adjusted OIBDA | 2,104.2 | 2,130.2 | 1,893.5 |

Adjusted net income attributable to Sistema is calculated as net income attributable to Sistema adjusted for the impacts of the one-off items described above in the amounts attributable to the parent company.

Net debt at the Corporate Holding level. We define net debt as indebtedness less cash, cash equivalents and other highly liquid deposits and financial instruments. The indebtedness is defined as long-term debt, including its current portion, and short-term debt. We believe that the presentation of net debt at the Corporate Holding level provides useful information to investors because our management reviews this measure as part of its management of our liquidity, financial flexibility, capital structure and leverage. The US GAAP financial measure most directly comparable to net debt at the Corporate Holding level is the indebtedness of our Corporate segment as reported in our segment disclosures. Net debt at the Corporate Holding level can be reconciled to the indebtedness of our Corporate segment as follows:

Corporate Centre's net debt reconciliation

| | 2Q 2014 | 2Q 2013 | 1Q 2014 |
|---|----------------|----------------|----------------|
| Indebtedness | 1,774.7 | 1,746.8 | 1,710.6 |
| Cash and cash equivalents | (608.1) | (157.1) | (651.7) |
| Highly liquid deposits and liquid financial instruments | (338.9) | (164.9) | (567.9) |
| Net debt | 827.7 | 1,424.8 | 491.0 |