



FOR IMMEDIATE RELEASE

April 16, 2013

## **FINANCIAL RESULTS FOR THE FOURTH QUARTER AND THE FULL YEAR ENDED DECEMBER 31, 2012**

**Moscow, Russia** – April 16, 2013 – 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, 2012.

### **FULL YEAR HIGHLIGHTS**

- Consolidated revenues up 3.9% to US\$ 34.2 billion
- Adjusted OIBDA<sup>1</sup> up 3.3% YoY to US\$ 8.5 billion, with an adjusted OIBDA margin of 25.0%
- Adjusted net income attributable to the Group<sup>2</sup> up 80% YoY to US\$ 1.8 billion
- Net debt<sup>3</sup> at the Corporate Holding level amounted to US\$ 1.0 billion as at December 31, 2012, compared to net cash of US\$ 580.5 million as at December 31, 2011, primarily due to the Company’s investments in 2012.

### **FOURTH QUARTER HIGHLIGHTS**

- Revenues up 13% YoY to US\$ 9.5 billion
- Adjusted OIBDA down 1.9% YoY to US\$ 2.1 billion, with an adjusted OIBDA margin of 21.9%
- Adjusted net income attributable to the Group up 36.9% YoY to US\$ 357.9 million

### **KEY CORPORATE HIGHLIGHTS FOR 2012**

- Acquired 100% of SG-trans OJSC, the Russian market’s largest independent operator of specialised railcars for transportation of liquefied petroleum gas, for a total cash consideration of RUB 22.77 billion.
- Acquired 50% of the authorised capital of Financial Alliance LLC, a professional railcar operator, from Bashneft for a total amount of RUB 3.41 billion.
- Completed the reorganisation of OJSC Bashkirenergo by splitting it into JSC Bashkirian Power Grid Company, which combines transmission and distribution grids, and OJSC Bashenergoactiv, which integrates power generation assets. The later was sold to INTER RAO UES for RUB 11.2 billion in cash and promissory notes.
- Completed a US\$ 145 million share repurchase programme between June 6, 2012 and October 15, 2012.

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

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

<sup>3</sup> Including highly liquid deposits.

- Acquired 3,751,844 Bashneft ordinary shares and 2,131,226 Bashneft preferred shares, which represents approximately 2.6% of the Bashneft's charter capital, for a total amount of approximately US\$ 300 million<sup>4</sup>.
- Fully paid annual dividends of RUB 0.28 per ordinary share for 2011, amounting to a total of RUB 2.7 billion.
- Established a joint venture with RZ Agro Ltd, an agricultural company controlled by certain members of the Louis-Dreyfus family. The joint venture consists of agricultural assets held by both parties totalling approximately 90,000 ha.
- Issued a US\$ 500 million Eurobond with an annual interest rate of 6.95% and a maturity in May 2019.

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

*“2012 was marked by several accomplishments and substantial progress was made on our new investment ideas. In the transportation segment, we established a leading presence in the sector only months after acting on our initial interest, whilst in our agriculture business, our partnership has delivered a promising set of maiden results. The period was also dominated by prolonged uncertainty in India. However, despite these difficulties, our perseverance paid off in the first quarter this year when we managed to secure superior licences for SSTL at no immediate cost, thereby strengthening its investment case.*

*In 2012, our businesses continued to expand as existing investments implemented their growth strategies, driving the Group's solid topline and adjusted OIBDA growth. Moreover, our net income increased 334% to US\$ 947 million, reflecting stronger profitability in a number of our smaller investments. Most of these investments delivered positive OIBDA and four businesses have now reported positive net income.*

*To reflect the strength of our financial position, management intends to seek the Board's approval for a substantially higher dividend for 2012. We have a well-established track record for consistently increasing cashflow to the holding level and for executing on our strategy for each of our portfolios, leaving us well positioned to reward our shareholders and drive higher returns in 2013.”*

### **Conference call information**

Sistema's management will host an analyst conference call today at 9 am (New York time) / 2 pm (London time) / 3 pm (CET) / 5 pm (Moscow Time) to present and discuss the fourth quarter and full year 2012 results.

The dial-in numbers for the conference call are:

UK/ International: + 44 20 8515 2301

US: +1 480 629 9819

And quote the conference call title: “Sistema Fourth Quarter and Full Year 2012 Financial Results”.

A replay of the conference call will be available on the Company's website [www.sistema.com](http://www.sistema.com) for 7 days after the event.

**For further information, please visit [www.sistema.com](http://www.sistema.com) or contact:**

Investor Relations  
Evgeniy Chuikov  
Tel: +7 (495) 692 11 00  
[ir@sistema.ru](mailto:ir@sistema.ru)

Public Relations  
Vsevolod Sementsov  
Tel: +7 (495) 730 1705  
[pr@sistema.ru](mailto:pr@sistema.ru)

<sup>4</sup> Sistema's voting stake in Bashneft is now 89%, effective ownership is 75%

## FINANCIAL SUMMARY

<i>(US\$ millions, except per share amounts)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
Revenues	<b>9,450.2</b>	8,360.2	<i>13.0%</i>	<b>34,240.7</b>	32,940.9	<i>3.9%</i>
Adjusted OIBDA	<b>2,073.5</b>	2,114.2	<i>(1.9%)</i>	<b>8,543.1</b>	8,268.5	<i>3.3%</i>
Operating income	<b>967.5</b>	299.1	<i>223.4%</i>	<b>3,718.7</b>	3,942.2	<i>(5.7%)</i>
<i>Adjusted operating income</i>	<b>1,340.1</b>	<i>1,313.9</i>	<i>2.0%</i>	<b>5,383.6</b>	<i>4,999.2</i>	<i>7.7%</i>
Net income/ (loss) attributable to Sistema	<b>200.9</b>	(530.2)	-	<b>946.8</b>	218.0	<i>334.3%</i>
<i>Adjusted net income attributable to Sistema</i>	<b>357.9</b>	<i>261.4</i>	<i>36.9%</i>	<b>1,794.5</b>	<i>996.8</i>	<i>80.0%</i>
Basic and diluted earnings per share (US cents)	<b>2.2</b>	(5.7)	-	<b>10.2</b>	2.3	<i>333.4%</i>

## GROUP OPERATING REVIEW

In 2012, Sistema's consolidated revenues increased by 3.9% and 9.9% year-on-year in US dollar and rouble terms, respectively, as a result of organic growth at MTS, higher sales at Bashneft, RTI's consolidation of NVision Group, as well as strong performance at Detsky mir and MTS Bank. In the fourth quarter, the Group's revenues were up 13.0% year-on-year.

Selling, general and administrative expenses (SG&A) decreased by 1.6% to US\$ 3,855.8 million in 2012, mainly due to the cost efficiency measures taken at MTS, as well as lower costs at the Corporate Centre's level. Depreciation, depletion and amortisation expense decreased by 3.4% to US\$ 3,159.4 million in 2012.

The Group's adjusted OIBDA increased by 3.3% year-on-year in 2012, largely as a result of MTS' growing profitability, as well as improved OIBDA in Detsky mir and MTS Bank. Year-on-year decline in adjusted OIBDA by 1.9% in the fourth quarter was mainly due to higher tax expenses at Bashneft. The Group's adjusted OIBDA margin was 21.9% in the fourth quarter and 25.0% in 2012.

Adjusted consolidated net income attributable to Sistema grew by 80.0% year-on-year in 2012, reflecting excellent underlying results across most portfolio companies. The Group reported a 36.9% year-on-year increase in adjusted net income in the fourth quarter of 2012.

## OPERATING REVIEW<sup>5</sup>

### MTS

<i>(US\$ millions)</i>	4Q 2012	4Q 2011	Year on Year Change	2012	2011	Year on Year Change
Revenues	<b>3,167.6</b>	2,981.7	6.2%	<b>12,435.7</b>	12,318.7	0.9%
OIBDA	<b>1,344.9</b>	1,287.3	4.5%	<b>4,275.7</b>	5,187.0	(17.6%)
Operating income	<b>813.1</b>	731.7	11.1%	<b>2,000.8</b>	2,851.8	(29.8%)
Net income attributable to Sistema	<b>289.0</b>	208.5	38.6%	<b>533.9</b>	769.5	(30.6%)

Despite the weakening of the Russian rouble against the US dollar and the mid-year suspension of the company's operations in Uzbekistan, MTS' revenues increased by 0.9% year-on-year in 2012 primarily due to the growth in sales of handsets and data products. The total subscriber base (including Belarus subscribers) decreased to 101 million customers as of December 31, 2012, following the suspension of MTS' operations in Uzbekistan. Excluding customers in Uzbekistan, the company's subscriber base grew by 4.4% year-on-year due to resumed operations in Turkmenistan, as well as the growing subscriber base in Russia and Ukraine.

In 2012, MTS' OIBDA decreased year-on-year due to recognised loss relating to impairments and provisions in Uzbekistan. MTS' adjusted OIBDA increased slightly year-on-year in 2012 as a result of growing income from data services and a reduction in marketing expenses.

The average monthly service revenue per subscriber (ARPU) in Russia increased to RUB 306 in the fourth quarter of 2012, compared to RUB 284 in the corresponding period of 2011, as a result of MTS' on-going efforts to stimulate voice and data usage. Russian subscribers' monthly minutes of use (MOU) increased by 35.7% to 323 minutes in the fourth quarter of 2012, compared to 283 minutes in the fourth quarter of 2011, as MTS continued to focus on increasing voice usage to drive loyalty and customer value.

In the fixed broadband business, the number of households passed increased by 3.0% year-on-year to 11.7 million at the end of the fourth quarter of 2012. The Pay-TV customer base totalled 2.9 million subscribers at the end of the reporting quarter. The number of broadband Internet subscribers increased to 2.3 million year-on-year.

In November 2012, MTS announced a strategic initiative with Microsoft, the global IT leader, to promote innovative mobile solutions by launching Windows 8 "Ecosystem Demo Zones" in MTS retail stores.

In October 2012, Sistema, MTS and MTS Bank signed a non-binding indicative offer regarding the issuance of up to a 25.095% stake in MTS Bank to MTS through an additional share issue by MTS Bank. In March 2013, the transaction was concluded in line with the terms announced on October 25, 2012.

### Bashneft

<i>(US\$ millions)</i>	4Q 2012	4Q 2011	Year on Year Change	2012	2011	Year on Year Change
Revenues	<b>4,498.6</b>	4,083.0	10.2%	<b>17,125.2</b>	16,549.1	3.5%
OIBDA	<b>648.4</b>	835.2	(22.4%)	<b>3,150.1</b>	3,390.7	(7.1%)

<sup>5</sup> 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.

Operating income	<b>511.0</b>	683.3	(25.2%)	<b>2,557.7</b>	2,778.8	(8.0%)
Net income attributable to Sistema	<b>264.2</b>	265.6	(0.5%)	<b>1,279.5</b>	1,220.7	4.8%

Bashneft's revenue increased by 3.5% year-on-year in 2012 due to an increase in export volumes, and by 10.2% year-on-year in the fourth quarter of 2012, as a result of higher exports of oil products, particularly to non-CIS countries.

Bashneft's OIBDA decreased by 7.1% year-on-year in 2012, primarily due to higher tax expenses.

In 2012, Bashneft's oil production increased by 2.2% year-on-year to 15.4 million tonnes. The company sold 4.9 million tonnes of oil products in the fourth quarter of 2012, a 2.1% year-on-year increase, with exports amounting to 1.1 million tonnes of crude oil and 2.2 million tonnes of oil products.

Refining volumes from the company's refinery in 2012 slightly decreased to 20.8 million tonnes of crude oil following the planned repairs to the Ufimsky refinery plant. In 2012, the average refining depth was 84.9% and light-product yield amounted to 59.7%, while the Nelson complexity index increased from 8.3 to 8.55 as a result of the process of increasing the capacity of a delayed coking Branch "Bashneft Ufaneftekhim" from 1.2 million to 1.6 million tonnes per year.

As at December 31, 2012, Bashneft operated a total of 488 petrol stations.

In December 2012, Bashneft acquired LLC Garsar and LLC Mobil-Neft holding licences for oilfields and promising subsoil areas in the Ermekeyevsky district in the west of the Republic of Bashkortostan.

In November 2012, the Consortium comprising Bashneft (70%) and Premier Oil (30%) signed the exploration, development and production service contract (EDPSC) with South Oil Company acting on behalf of the Republic of Iraq for Block 12 in Baghdad. In accordance with the signed contract, the Consortium will conduct an obligatory geological exploration programme at Block 12 for the 2D seismic survey totalling 2,000 linear kilometres and drilling one exploration well. In addition, the Consortium will invest US\$ 120 million in geological exploration over a five-year period.

In October 2012, Bashneft completed its reorganisation through the consolidation of its subsidiaries (OJSC Ufimsky refinery plant, OJSC Novoil, OJSC Ufaneftekhim, OJSC Bashkirnefteprodukt and OJSC Orenburgnefteprodukt), resulting in the transition to a single share.

#### **Bashkirian Power Grid Company<sup>6</sup>**

<i>(US\$ millions)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
Revenues	<b>91.5</b>	96.6	(5.2%)	<b>373.1</b>	387.7	(3.8%)
OIBDA	<b>6.8</b>	0.5	1,177.4%	<b>129.0</b>	99.3	29.9%
Operating (loss)/ income	<b>(5.1)</b>	(9.5)	-	<b>84.2</b>	57.7	45.9%
Net (loss)/ income attributable to Sistema	<b>(3.6)</b>	(3.3)	-	<b>24.4</b>	20.4	19.7%

<sup>6</sup> On November 7, 2012, Bashkirenergo was split into JSC Bashkirian Power Grid Company, which combines transmission and distribution grids, and OJSC Bashkirenergoactiv, which integrates power generation assets. Sistema-Invest obtained a 92.48% voting stake in Bashkirian Power Grid Company. In accordance with US GAAP requirements all operations of the power generation segment were excluded.

Bashkirian Power Grid Company's revenues decreased by 5.2% year-on-year in the fourth quarter and by 3.8% year-on-year in 2012, mainly due to changes in the payment procedure for power transmission services effective from July 1, 2012, as well as rouble depreciation against the US dollar.

The company's OIBDA grew significantly year-on-year in the reporting quarter and increased by 29.9% year-on-year in 2012, mainly due to the optimisation of the company's organisational structure and decreased operating expenses. The OIBDA margin expanded to 34.6% in 2012, compared to 25.6% in 2011.

In 2012, distribution grid losses decreased by 0.6 p.p. year-on-year as a result of the reduced commercial losses, an increased number of installed electricity meters, and tests conducted to detect non-contractual and non-metered consumption and control over electricity meter readings. Transmission grid losses increased in 2012 mainly due to decline in consumer demand and operational factors.

The effective transmission grid output remained stable year-on-year in the fourth quarter of 2012, while the effective distribution power output was up 2.6% year-on-year.

In July 2012, the EGM of Bashkirenergo's shareholders approved the decision to reorganise the company by splitting it into two companies: generating company Bashenergoactiv, and Bashkirian Power Grid Company. Following the completion of the reorganisation process in November, Sistema-Invest obtained a 92.48% voting stake in Bashkirian Power Grid Company and received RUB 11.2 billion in cash and promissory notes from INTER RAO UES, payable in installments by September 29, 2013. Sistema no longer has any interest in the power generation assets.

#### **Sistema Shyam TeleServices Ltd. (SSTL)**

<i>(US\$ millions)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
Revenues	<b>72.0</b>	76.1	(5.3%)	<b>303.0</b>	262.3	15.5%
OIBDA	<b>(113.8)</b>	(437.4)	-	<b>(546.5)</b>	(730.0)	-
Operating loss	<b>(132.4)</b>	(463.3)	-	<b>(621.2)</b>	(828.1)	-
Net loss attributable to Sistema	<b>(114.4)</b>	(318.7)	-	<b>(462.9)</b>	(636.1)	-

In 2012, SSTL's revenues increased by 15.5% year-on-year in US dollar terms and by 31.0% in local currency terms mainly due to the growth in revenue share from non-voice and mobile value-added services (VAS).

SSTL's total wireless (voice and data) subscriber base reached 15 million customers as of December 31, 2012. Blended mobile ARPU for the fourth quarter and the full year of 2012 amounted to US\$ 1.48 and US\$ 1.52, respectively. The data card subscriber base increased by 36.9% year-on-year in 2012 and amounted to 1.78 million subscribers.

Non-voice revenues from both data and VAS in 2012 increased to US\$ 109 million. The share of non-voice revenue as a percentage of total revenue stood at 36%.

In February 2012, the Supreme Court of India revoked 122 licences issued to eight Indian operators in 2008, including 21 out of 22 licences held by SSTL.

In October 2012, Indian mobile operators were due to submit their applications to bid in the country's upcoming 2G spectrum auction. SSTL did not submit its application.

In March 2013, SSTL participated in new spectrum auctions, acquiring licences in eight circles, resulting in a nine circle footprint, including Rajasthan circle.

**Sistema Mass Media<sup>7</sup> (SMM)**

<i>(US\$ millions)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
Revenues	<b>22.9</b>	23.7	<i>(3.4%)</i>	<b>81.8</b>	101.9	<i>(19.8%)</i>
OIBDA	<b>7.8</b>	(56.8)	-	<b>20.5</b>	(32.0)	-
Operating loss	<b>(2.7)</b>	(74.1)	-	<b>(14.7)</b>	(73.7)	-
Net loss attributable to Sistema	<b>(3.0)</b>	(57.0)	-	<b>(11.1)</b>	(63.9)	-

Sistema Mass Media's revenues decreased by 19.8% year-on-year in 2012 largely due to the closure of studio in Moscow as a result of business restructuring, changes in the accounting methods for revenue at the advertising segment and the rouble depreciation against the US dollar.

Sistema Mass Media's OIBDA stabilised in 2012 due to the cost optimisation programme, business restructuring and organic growth in key high-margin segments.

The Stream-TV subscriber base increased by 21.0% in 2012 to 7.5 million subscribers, while the share of revenue from advertising on Stream-TV as a percentage of total revenue grew by 0.6 p.p. year-on-year to 15.4%. In 2012, the RWS content library grew by 7.3% to 1,600 hours. RWS produced 109 hours of content in-house and sold 140 hours of content in the reporting year.

In the third quarter of 2012, SMM continued its business restructuring and closed its film studio in Moscow. The studio production business was divided into OJSC ORK (studios) and RWS (production).

In June 2012, SMM began managing the multimedia content portal Stream.ru (formerly Omlet.ru).

**RTI<sup>8</sup>**

<i>(US\$ millions)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
Revenues	<b>1,068.3</b>	765.8	<i>39.5%</i>	<b>2,376.3</b>	2,093.0	<i>13.5%</i>
OIBDA	<b>(49.8)</b>	63.4	-	<b>12.5</b>	154.4	<i>(91.9%)</i>
Operating (loss)/ income	<b>(74.9)</b>	30.5	-	<b>(83.2)</b>	50.4	-
Net loss attributable to Sistema	<b>(87.0)</b>	(1.7)	-	<b>(129.9)</b>	(18.3)	-

RTI consolidates SITRONICS, NVision Group and RTI Systems and is comprised of four principal business units ("BU") – Defence Solutions BU, Comprehensive Security Systems BU, Microelectronics Solutions BU and System Integration BU.

RTI revenues were up 13.5% year-on-year in 2012 due to the consolidation of NVision Group in the third quarter of 2012 and growing revenue in Defence Solutions BU.

<sup>7</sup> Financial results of Stream.ru are included into SMM segment for all periods presented.

<sup>8</sup> Financial results of OJSC "Concern "RTI Systems" and OJSC SITRONICS are included into RTI segment for all periods presented.

The OIBDA loss in the fourth quarter and in 2012 is the result of recognised loss from impairment of investments in INTRACOM in Greece, as well as higher operating expenses following the restructuring.

In December 2012, RTI, X5 Retail Group N.V. and RUSNANO launched the trial operation of Perekrestok Store of the Future. The project benefited from the interaction of NVision Group, and NIIME<sup>9</sup> and Micron.

In November 2012, RTI and its subsidiaries acquired 83.54% of the voting shares in OJSC NIIDAR. Following the transaction, RTI made a mandatory offer to acquire up to 100% of NIIDAR's ordinary shares.

In September 2012, RTI completed the strategic integration of the assets of RTI Group and NVision Group for IT and communication technologies. Following the transaction, RTI became the owner of 50%+0.5 shares of NVision Group.

In August 2012, after a mandatory buyout process, RTI became the owner of 100% of the shares of SITRONICS. Following the buyout, SITRONICS was delisted from the London Stock Exchange, and the depositary receipts and Depositary Agreements were terminated.

In June 2012, RTI was included in the Defence News TOP 100 list of the largest defence companies in the world.

In February 2012, RUSNANO and SITRONICS launched the production of microchips on the basis of the 90 nm technology. The project is budgeted at RUB 16.5 billion, including co-financing from RUSNANO in the amount of RUB 6.5 billion.

### Binnopharm

<i>(US\$ millions)</i>	4Q 2012	4Q 2011	Year on Year Change	2012	2011	Year on Year Change
Revenues	<b>20.1</b>	14.7	36.7%	<b>73.8</b>	38.5	91.5%
OIBDA	<b>(3.8)</b>	4.2	-	<b>16.0</b>	1.3	1103.2%
Operating (loss)/ income	<b>(10.2)</b>	3.0	-	<b>6.1</b>	(3.6)	-
Net (loss)/ income attributable to Sistema	<b>(9.1)</b>	2.4	-	<b>2.1</b>	(4.4)	-

Binnopharm's revenues increased by 36.7% year-on-year in the fourth quarter and nearly doubled in 2012, reflecting the higher sales of Binnopharm's own products, and the expansion of its distribution volumes.

Binnopharm's OIBDA demonstrated significant growth in 2012, mainly due to improvements in operating efficiency, and as a result of completing the government contract for delivering the Hepatitis B vaccine ahead of schedule.

During the reporting year, a new bio-technology product Erythropoietin  $\beta$  2000 ME was added to the company's product portfolio. In 2012, Binnopharm also reopened the production lines for tablets and aerosols.

In 2012, Binnopharm agreed on a merger with Alium, a leading pharmaceutical company. As part of the agreement Sistema's shareholding decreased to 74%, while 26% is held by Zenitco Finance Management Ltd. The integration was completed in April 2013.

<sup>9</sup> Molecular Electronics Research Institute



## MTS Bank<sup>10</sup>

<i>(US\$ millions)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
Revenues	<b>211.1</b>	150.8	<i>40.0%</i>	<b>712.3</b>	560.8	<i>27.0%</i>
OIBDA	<b>53.4</b>	25.7	<i>107.7%</i>	<b>50.7</b>	(6.2)	-
Operating income/ (loss)	<b>49.4</b>	21.1	<i>134.0%</i>	<b>32.3</b>	(23.5)	-
Net income/ (loss) attributable to Sistema	<b>46.8</b>	16.8	<i>178.5%</i>	<b>15.7</b>	(19.9)	-

MTS Bank's revenues increased by 40.0% year-on-year in the fourth quarter and by 27.0% year-on-year in 2012. The loan portfolio from joint projects with MTS grew by 57% quarter-on-quarter to US\$ 234 million. MTS Bank reported significant growth year-on-year in OIBDA in 2012 and 107.7% rise in the fourth quarter, largely due to the increased interest and commission income from its retail business.

MTS Bank's loan portfolio, excluding leases, increased by 11.8% to US\$ 5,593 million in 2012, compared to US\$ 5,004 million in 2011. Despite the relatively small increase in the loan portfolio before provisions, the structure of the portfolio changed significantly in 2012 with higher volume of retail loans, including mortgages, consumer loans and credit cards. The volume of mortgage loans grew by 38% to US\$ 623 million, while the consumer loans portfolio more than doubled to US\$ 558 million. In the fourth quarter of 2012, interest income from retail and corporate client transactions grew by 18.4% quarter-on-quarter and amounted to US\$ 161.6 million. In 2012, interest income grew by 20.3% year-on-year to US\$ 575.2 million.

In October 2012, Sistema, MTS and MTS Bank signed a non-binding indicative offer. Under the terms of the indicative offer, MTS would acquire up to 25.095% stake in MTS Bank through an additional share issue by MTS Bank for up to RUB 5.09 billion. The proceeds from the transaction would be added to MTS Bank's charter capital. In March 2013, the transaction was concluded in line with the terms announced on October 25, 2012.

In April 2012, the EGM of MTS Bank's shareholders initiated the reorganisation of MTS Bank through a merger with Dalcombank.

## Detsky mir

<i>(US\$ millions)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
Revenues	<b>313.8</b>	253.7	<i>23.7%</i>	<b>892.5</b>	782.9	<i>14.0%</i>
OIBDA	<b>49.7</b>	34.6	<i>43.9%</i>	<b>54.3</b>	27.4	<i>97.9%</i>
Operating income	<b>44.7</b>	30.4	<i>47.2%</i>	<b>35.6</b>	9.8	<i>264.5%</i>
Net income/ (loss) attributable to Sistema	<b>23.4</b>	18.6	<i>25.8%</i>	<b>11.1</b>	(5.6)	-

Detsky mir's revenues increased by 23.7% year-on-year in the fourth quarter and by 14.0% in 2012 as a result of regional store expansion and higher like-for-like sales. OIBDA increased by 43.9% year-on-year in the reporting quarter and by 97.9% in 2012, which was primarily driven by higher revenues and the cost optimisation programme.

<sup>10</sup> In February 2012, MBRD changed its name to OJSC MTS Bank.

The network of retail outlets amounted to 216 stores, including 20 Early Learning Centre's (ELC) franchised stores acquired in the third quarter of 2012, located in 96 cities across Russia and Kazakhstan. The aggregate retail space was 291 th.sq.m. as of December 31, 2012. In the fourth quarter of 2012, Detsky mir opened 23 new stores. The online store's delivery network expanded to all the cities covered by the Detsky mir retail chain, with revenues more than tripling to US\$ 4.1 million.

In October 2012, the Board of Directors appointed Vladimir Chirakhov as CEO of Detsky mir.

### Intourist

<i>(US\$ millions)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
Revenues	<b>24.1</b>	21.1	<i>14.3%</i>	<b>87.5</b>	276.6	<i>(68.4%)</i>
OIBDA	<b>(17.2)</b>	(2.0)	-	<b>(13.5)</b>	43.8	-
Operating (loss)/ income	<b>(20.2)</b>	(3.6)	-	<b>(23.2)</b>	34.5	-
Net (loss)/ income attributable to Sistema	<b>(14.6)</b>	(2.6)	-	<b>(24.7)</b>	8.9	-

Intourist reported a decrease in revenues for the full year of 2012, as a result of the change in accounting method for the company's tour operating and retail sales businesses following the transaction with Thomas Cook. Year-on-year revenue growth by 14.3% in the fourth quarter was mainly due to the success of the company's hotel division, which saw an increase in sales and improved quality of services.

Intourist reported an OIBDA loss in 2012 due to recognised losses from the tour operating business in its JV with Thomas Cook.

The termination of a management contract with the owners of Oktyabrskaya Hotel (Nizhniy Novgorod) and Severnaya Hotel (Petrozavodsk) led to a decrease in the number of rooms owned, managed and rented in 2012. The number of tourists travelling through the Thomas Cook JV fell by 19.4% in 2012, mainly due to a decrease in package sales to travel agencies as a result of the growing trend for tourists to make their travel arrangements independently.

### Medsii

<i>(US\$ millions)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
Revenues	<b>81.9</b>	51.9	<i>57.7%</i>	<b>223.9</b>	199.0	<i>12.5%</i>
OIBDA	<b>9.9</b>	10.4	<i>(5.7%)</i>	<b>29.1</b>	31.1	<i>(6.4%)</i>
Operating income	<b>6.7</b>	7.5	<i>(10.0%)</i>	<b>12.0</b>	19.6	<i>(38.8%)</i>
Net income attributable to Sistema	<b>4.0</b>	5.4	<i>(25.5%)</i>	<b>0.6</b>	6.7	<i>(90.1%)</i>

Medsii revenues increased by 57.7% year-on-year in the fourth quarter and by 12.5% in 2012, reflecting the wider range of services provided and growth in patient's visits.

Medsii's OIBDA declined year-on-year in the fourth quarter and for 2012, due to increased expenses relating to the integration with the assets of Medical Center for the Mayor and Government of Moscow (MCMGM), and consultancy services expenses.

In 2012, the number of patient visits and services provided increased by 20.9% and by 47.6% year-on-year, respectively, while the average cheque amounted to RUB 1,400. In the fourth quarter of 2012, the number of services provided increased by 77.0% year-on-year, while the number of patient visits were up 25.5%, and the average cheque grew by 28.6% to RUB 1,800. This is mainly due to an increase in the range of services and an expansion in the number of hospitals, clinics and rehabilitation centres operated by Medsi.

In April 2012, Medsi agreed on a merger of its assets with SUE, a large group of healthcare institutions in Moscow, which now holds a 25% share in the enlarged company. Following the completion of the merger in the fourth quarter of 2012, Medsi manages 22 medical clinics in Moscow and 11 clinics in the regions, 3 in-patient clinics with a total bed count of 1160, more than 80 first aid stations across Russia, an ambulance service, 3 wellness centres in Moscow and 3 sanatoriums in Moscow and Crimea. As of December 31, 2012, the total floor space of healthcare facilities was over 230,000 sq.m.

## CORPORATE

<i>(US\$ millions)</i>	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>Year on Year Change</b>	<b>2012</b>	<b>2011</b>	<b>Year on Year Change</b>
OIBDA <sup>11</sup>	<b>(190.1)</b>	(129.5)	-	<b>(240.7)</b>	(219.0)	-
Net loss	<b>(196.1)</b>	(72.2)	-	<b>(251.7)</b>	(380.6)	-
Indebtedness	<b>1,646.8</b>	1,246.8	32.1%	<b>1,646.8</b>	1,246.8	32.1%

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

In the fourth quarter of 2012, Corporate segment's OIBDA loss increased to US\$ 190.1 million due to sale of Sistema-Inventure (MGTS) to MTS in December, 2011. In the fourth quarter of 2011, OIBDA loss included the positive effect of the equity income from MGTS.

In addition, in the fourth quarter of 2012, the net loss at Corporate level increased to US\$ 196.1 million year-on-year, as Sistema recognised deferred income tax benefit resulting from the sale of SITRONICS shares in the fourth quarter of 2011.

The dividends declared by subsidiaries to Sistema's Corporate segment in the second quarter of 2012, amounted to US\$ 842.0 million.

In 2012, the Corporate Centre's SG&A decreased by 18.1% to US\$ 225.7 million.

In October 2012, Sistema replaced Deutsche Bank Trust Company Americas with Deutsche Bank Aktiengesellschaft as the depository for its GDR programme, effective from October 22, 2012.

In September 2012, the Board of Directors approved a new composition of Sistema's Management Board. The Board also approved a decision to place a new bond issue by public subscription, comprising series 01, 02 and 03 three-year unconvertible interest-bearing bonds. Each series will consist of 10 million bonds with a face value of RUB 1,000 per bond. The EGM later approved the amendments to the Company's Charter in order to allow the Company to increase share capital by issuing additional 386 million ordinary shares with a par value of RUB 0.09 per share.

In August 2012, Sistema paid its annual dividends of RUB 0.28 per ordinary share for 2011, amounting to a total of RUB 2.7 billion.

## FINANCIAL REVIEW

Net cash provided by operations in the fourth quarter year-on-year decreased by 36.5% to US\$ 1,312.3 and slightly increased by 4.9% for the full year of 2012 to US\$ 5,844.3 million.

<sup>11</sup> Here and further, OIBDA and net income (loss) of the Corporate & Other category are shown without an effect of intragroup dividends.

Net cash used in investing activities totalled US\$ 4,672.3 million in 2012, compared to US\$ 5,185.9 million in 2011, and totalled US\$ 209.6 million of outflow in the fourth quarter 2012 compared to outflow of US\$ 2,203.6 million in the fourth quarter 2011.

The Group spent US\$ 4,209.6 million on capital expenditure in the reporting year, compared to US\$ 4,132.1 million spent in 2011, as a result of MTS' planned investment in further deploying its networks, and as it develops its LTE network. The Group paid US\$ 889.4 million for the acquisition of businesses, net of cash received, in 2012 including the purchase of SG-trans by Sistema, the cash consideration for the completion of the transaction with NVision paid by RTI, the acquisition the Russian franchise of the Early Learning Centre by Detsky mir and also purchases made by MTS and Bashneft. The Group also used US\$ 367.3 million for increase in banking assets and US\$ 3,438.4 million to increase short-term and long-term investments.

Net cash outflow from financing activities amounted to US\$ 3,098.6 million in 2012, compared to US\$ 481.9 million in 2011. In the fourth quarter of 2012 cash outflow from financing activities amounted to US\$ 1,353.2 million compared to cash inflow of US\$ 1,157.3 million in the corresponding quarter of 2011. The Group's proceeds from borrowings in 2012 totalled US\$ 3,057.4 million, whereas the principal payments on long-term and short-term borrowings amounted to US\$ 4,444.2 million. In addition, cash outflow from financial activities in 2012 resulted from the payments to shareholders of subsidiaries of US\$ 575.8 million compared to US\$ 871.0 million in 2011, and dividends paid by Sistema of US\$ 82.3 million compared to US\$ 89.4 million in 2011.

The Group's cash balances of continuing operations stood at US\$ 1,872.7 million as of December 31, 2012 (excluding an amount of US\$ 769.4 million which comprises the Group's banking activities and cash and equivalents of discontinued operations US\$ 0.9 million) compared to US\$ 2,919.2 million as of December 31, 2011 (excluding an amount of US\$ 1,315.1 million which comprises the Group's banking activities and cash and equivalents of discontinued operations US\$ 88.4 million). The Group's net debt (short-term and long-term debt less cash and cash equivalents and highly liquid deposits) amounted to US\$ 13,509.0 million as of December 31, 2012, compared to US\$ 12,454.5 million as of December 31, 2011.

## **SIGNIFICANT EVENTS FOLLOWING THE END OF THE REPORTING PERIOD**

### *MTS*

In April 2013, MTS successfully placed its first exchange-traded rouble bond on the Moscow Interbank Currency Exchange (MICEX). The bond is worth RUB 10 billion and has a maturity of ten years.

In February 2013, MTS' Extraordinary General Meeting of Shareholders elected three new members to the company's Board of Directors - Michel Combes, Thomas Holtrop and Alexander Gorbunov. The EGM also approved MTS' participation in the National Payments Council Association.

In January 2013, Uzdunrobita FE LLC, MTS's wholly-owned subsidiary in Uzbekistan, filed a petition to declare bankruptcy in the Tashkent Commercial Court. The petition was filed due to the company's inability to fulfil obligations pursuant to the verdict of the Tashkent City Criminal Court from September 17, 2012, in relation to the criminal case against Uzdunrobita's employees and to the decision of the Appeals Court of the Tashkent City Criminal Court from November 08, 2012, which determined the total amount of fines and penalties to be paid by Uzdunrobita to be at approximately US\$ 600 million. Uzdunrobita continues to defend its rights in accordance with the laws of the Republic of Uzbekistan. MTS also reserves the right to use all legal options in the international arena in order to claim damages incurred as a result of an unwarranted attack on its subsidiary in Uzbekistan.

### *Bashneft*

In March 2013, Bashneft established an oilfield service holding company on the basis of LLC Bashneft-Service Assets, its wholly owned subsidiary. The newly established oilfield service holding company comprises 11 oilfield service organizations with market development potential.

In February 2013, the Board of Directors of OJSC United Petrochemical Company, a wholly owned subsidiary of JSOC Bashneft, appointed Kirill Tyurdenev as President of the company.

In January 2013, Bashneft opened a new oil deposit located in the Khasanovskoye licence area.

In January 2013, the Extraordinary Meeting of Shareholders of Bashneft approved the decision to increase a number of members of the company's Board of Directors from 10 to 12. The number of independent directors on the Board has also been increased.

#### *Binnopharm*

In April 2013, Binnopharm and Alium Group of Companies, a producer of infusion solutions and blood substitutes, completed a deal that combines their assets.

#### *SG-trans*

In February 2013, the Board of Directors of SG-trans, which is 100% owned by Sistema, approved the company's reorganisation, which is intended to separate SG-trans' trading assets into a standalone business.

#### *Corporate*

In February 2013, Sistema successfully completed a secondary placement of Series 03 bonds with a par value of RUB 1,000. The bonds will mature on November 24, 2016. The Series 03 bonds were placed at the price of 100.65% of the nominal value, which corresponds to an effective yield to maturity of 8.72% per annum. The secondary placement raised RUB 10 billion at its nominal value.

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**For further information, please visit [www.sistema.com](http://www.sistema.com) or contact:**

Investor Relations  
Evgeniy Chuikov  
Tel: +7 (495) 692 1100  
[ir@sistema.ru](mailto:ir@sistema.ru)

Public Relations  
Vsevolod Sementsov  
Tel: +7 (495) 730 1705  
[pr@sistema.ru](mailto:pr@sistema.ru)

**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\$ 34.2 billion for the full year of 2012, and total assets of US\$ 44.7 billion as at December 31, 2012. 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 MICEX-RTS Stock Exchange, and under the symbol "SIST" on the Moscow Stock Exchange (MSE). Sistema was ranked number 315 in the 2011 edition of the Fortune Global 500 list. Website: [www.sistema.com](http://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 THREE AND THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
*(Amounts in thousands of U.S. dollars except per share amounts)*

	Year ended December 31,		Three months ended December 31,	
	2012	2011	2012	2011
Sales	\$ 33,572,283	\$ 32,411,864	\$ 9,260,915	\$ 8,222,268
Revenue from banking activities	668,384	529,012	189,285	137,916
<b>TOTAL REVENUES</b>	<b>34,240,667</b>	<b>32,940,876</b>	<b>9,450,200</b>	<b>8,360,184</b>
Cost of sales, exclusive of depreciation, depletion and amortization shown separately below	(13,492,237)	(13,007,420)	(4,042,463)	(3,378,378)
Cost related to banking activities, exclusive of depreciation and amortization shown separately below	(372,921)	(310,332)	(96,470)	(52,946)
Selling, general and administrative expenses	(3,855,771)	(3,917,623)	(1,114,190)	(998,370)
Depreciation, depletion and amortization	(3,159,433)	(3,269,374)	(733,360)	(800,383)
Transportation costs	(861,933)	(789,785)	(222,624)	(187,457)
Impairment of goodwill	(108,544)	(348,679)	(22,879)	(348,679)
Impairment of long-lived assets other than goodwill and provisions for other assets	(1,222,402)	(818,550)	(377,200)	(667,910)
Provisions for claims	(496,504)	(11,816)	10,464	(9,936)
Taxes other than income tax	(6,790,244)	(6,257,642)	(1,812,752)	(1,546,577)
Other operating expenses, net	(165,214)	(450,937)	(110,550)	(87,047)
Equity in results of affiliates	(9,138)	120,929	17,620	9,381
Gain on disposal of interests in subsidiaries	12,394	62,514	21,720	7,254
<b>OPERATING INCOME</b>	<b>3,718,720</b>	<b>3,942,161</b>	<b>967,516</b>	<b>299,136</b>
Interest income	274,818	176,584	41,987	46,088
Change in fair value of derivative instruments	(2,144)	(2,268)	(295)	(587)
Interest expense, net of amounts capitalized	(1,351,239)	(1,740,774)	(328,406)	(419,578)
Foreign currency transactions gains/(losses)	93,797	(326,415)	13,848	(98,616)
Income from continuing operations before income tax	2,733,952	2,049,288	694,650	(173,557)
Income tax expense	(1,153,673)	(1,084,384)	(290,445)	(285,160)
Income from continuing operations	1,580,279	964,904	404,205	(458,717)
(Loss)/gain from discontinued operations, net of tax effect	(50,422)	61,206	(104,442)	(12,393)
Gain on disposal of discontinued operations, net of tax effect	131,039	161,817	117,227	12,337
<b>NET INCOME</b>	<b>\$ 1,660,896</b>	<b>\$ 1,187,927</b>	<b>\$ 416,990</b>	<b>\$ (458,773)</b>
Noncontrolling interest	(714,137)	(969,925)	(216,107)	(71,459)
<b>NET INCOME attributable to Sistema JSFC</b>	<b>\$ 946,759</b>	<b>\$ 218,002</b>	<b>\$ 200,883</b>	<b>\$ (530,232)</b>
Income per share, basic and diluted, U.S. cent	10.18	2.35	2.18	(5.72)

**SISTEMA JSFC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2012 AND 2011**

*(Amounts in thousands of U.S. dollars, except share amounts)*

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
	<u>                    </u>	<u>                    </u>
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,872,741	\$ 2,919,189
Short-term investments	1,214,869	767,560
Assets from banking activities, current portion (including cash and cash equivalents of \$769,411 and \$1,315,075)	4,342,984	4,204,961
Accounts receivable, net	2,265,127	1,748,028
VAT receivable	611,097	709,099
Inventories and spare parts	1,814,022	1,627,336
Deferred tax assets, current portion	348,773	311,891
Disposal group held for sale	105,327	1,571,996
Other current assets	1,678,992	1,703,361
	<u>14,253,932</u>	<u>15,563,421</u>
NON-CURRENT ASSETS:		
Property, plant and equipment, net	21,205,611	18,397,951
Advance payments for non-current assets	239,707	324,709
Goodwill	1,699,881	1,511,178
Other intangible assets, net	2,211,266	2,219,331
Investments in affiliates	1,482,721	1,553,651
Assets from banking activities, net of current portion	2,255,709	2,303,120
Debt issuance costs, net	155,895	171,951
Deferred tax assets, net of current portion	348,558	348,589
Long-term investments	269,180	1,060,912
Other non-current assets	603,827	461,684
	<u>30,472,355</u>	<u>28,353,076</u>
TOTAL ASSETS	<u>\$ 44,726,287</u>	<u>\$ 43,916,497</u>



**SISTEMA JSFC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**  
**AS OF DECEMBER 31, 2012 AND 2011 (CONTINUE)**  
*(Amounts in thousands of U.S. dollars, except share amounts)*

	<b>December 31, 2012</b>	<b>December 31, 2011</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 2,508,831	\$ 2,170,725
Liabilities from banking activities, current portion	4,131,390	3,152,989
Taxes payable	764,683	794,117
Deferred tax liabilities, current portion	139,842	168,545
Subscriber prepayments, current portion	615,651	605,545
Accrued expenses and other current liabilities	2,908,468	2,259,508
Short-term loans payable	292,260	278,110
Current portion of long-term debt	2,909,729	4,097,076
Disposal group held for sale	73,132	333,498
<b>Total current liabilities</b>	<b>14,343,986</b>	<b>13,860,113</b>
<b>LONG-TERM LIABILITIES:</b>		
Long-term debt, net of current portion	12,462,339	12,006,322
Subscriber prepayments, net of current portion	112,805	106,586
Liabilities from banking activities, net of current portion	1,057,072	1,644,478
Deferred tax liabilities, net of current portion	2,046,603	1,404,846
Asset retirement obligation	228,627	214,121
Postretirement benefits obligation	89,038	77,591
Property, plant and equipment contributions	88,380	86,081
Other long-term liabilities	250,599	86,577
<b>Total long-term liabilities</b>	<b>16,335,463</b>	<b>15,626,602</b>
<b>TOTAL LIABILITIES</b>	<b>30,679,449</b>	<b>29,486,715</b>
Commitments and contingencies	-	-
Redeemable noncontrolling interests	731,661	723,819
<b>SHAREHOLDERS' EQUITY:</b>		
Share capital (9,650,000,000 shares issued; 9,209,574,962 and 9,267,985,025 shares outstanding with par value of 0.09 Russian Rubles, respectively)	30,057	30,057
Treasury stock (440,425,038 and 382,014,975 shares with par value of 0.09 Russian Rubles, respectively)	(501,109)	(467,198)
Additional paid-in capital	2,882,819	2,575,601
Retained earnings	7,111,088	6,418,649
Accumulated other comprehensive loss	(327,622)	(518,354)
<b>Total Sistema JSFC shareholders' equity</b>	<b>9,195,233</b>	<b>8,038,755</b>
Non-redeemable noncontrolling interests	4,119,944	5,667,208
<b>TOTAL EQUITY</b>	<b>13,315,177</b>	<b>13,705,963</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>\$ 44,726,287</b>	<b>\$ 43,916,497</b>

**SISTEMA JSFC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
*(Amounts in thousands of U.S. dollars)*

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Net income	\$ 1,660,896	\$ 1,187,927
Gain on disposal of discontinued operations	(131,039)	(161,817)
Loss/(income) from discontinued operations	<u>50,422</u>	<u>(61,206)</u>
Income from continuing operations	1,580,279	964,904
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation, depletion and amortization	3,159,433	3,269,374
Equity in results of affiliates	9,138	(120,929)
Deferred income tax expense/(benefit)	114,730	(14,934)
Foreign currency transactions (gains)/losses	(93,797)	326,415
Impairment of goodwill	108,544	348,679
Impairment of long-lived assets other than goodwill and provisions for other assets	1,222,402	818,550
Provisions for claims	496,504	11,816
Loss on disposal of property, plant and equipment	12,802	24,160
Dividend income from Russneft	(42,155)	-
Amortization of connection fees	(73,568)	(96,676)
Allowance for loan losses	60,672	10,563
Dividends received from affiliates	92,322	42,328
Non-cash compensation to employees of subsidiaries	24,015	51,037
Gain on disposal of subsidiaries	(12,394)	(62,514)
Other non-cash items	55,212	80,922
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(30,044)	(121,253)
Accounts receivable	(640,181)	(165,462)
VAT receivable	99,452	(167,818)
Inventories and spare parts	(417,944)	(170,760)
Other current assets	105,855	(129,451)
Accounts payable	323,158	562,841
Subscriber prepayments	61,965	99,340
Taxes payable	(99,951)	97,105
Accrued expenses and other liabilities	<u>(248,770)</u>	<u>(245,596)</u>
Net cash provided by operating activities of continuing operations	5,867,679	5,412,641
Net cash provided by operating activities of discontinued operations	<u>(23,385)</u>	<u>158,717</u>
Net cash provided by operating activities	<u>\$ 5,844,294</u>	<u>\$ 5,571,358</u>

**SISTEMA JSFC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
*(Amounts in thousands of U.S. dollars)*

	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for purchases of property, plant and equipment	(3,853,968)	(3,680,939)
Payments for purchases of intangible assets	(355,583)	(451,151)
Payments for purchases of businesses, net of cash acquired	(889,373)	(375,245)
Purchase of investments in affiliated companies	(136,073)	-
Payments for purchases of long-term investments	(539,299)	(929,097)
Payments for purchases of short-term investments	(2,899,100)	(893,682)
Payments for purchases of other non-current assets	(11,214)	(173,816)
Decrease/(increase) in restricted cash	70,073	(45,299)
Cash disposed on loss of control less consideration received	(49,238)	-
Proceeds from sale of subsidiaries, net of cash disposed	132,123	184,596
Proceeds from sale of property, plant and equipment	60,941	170,178
Proceeds from sale of long-term investments	934,434	165,629
Proceeds from sale of other non-current assets	92,259	-
Proceeds from sale of short-term investments	3,139,025	1,184,068
Net decrease in loans to customers and banks	(367,321)	(341,126)
	<u>                    </u>	<u>                    </u>
Net cash used in investing activities	\$ (4,672,314)	\$ (5,185,884)
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Principal payments on short-term borrowings, net	(93,749)	(276,885)
Net increase/(decrease) in deposits from customers of the banking division	77,046	(1,108,968)
Proceeds from sale of treasury stock	73,083	-
Proceeds from long-term borrowings, net of debt issuance costs	3,057,463	6,421,015
Debt issuance costs	(16,056)	(69,860)
Principal payments on long-term borrowings	(4,350,409)	(4,350,610)
Acquisition of non-controlling interests in existing subsidiaries	(1,118,653)	(261,295)
Dividends paid	(658,144)	(960,486)
Proceeds from capital transactions with shares of existing subsidiaries	73,987	153,710
Purchases of treasury shares	(143,201)	(28,559)
	<u>                    </u>	<u>                    </u>
Net cash used in financing activities	\$ (3,098,633)	\$ (481,938)
Effect of foreign currency translation on cash and cash equivalents	\$ 247,013	\$ (154,384)
Net decrease in cash and cash equivalents	\$ (1,679,640)	\$ (250,848)
Cash and cash equivalents at the beginning of the period (including cash of discontinued operations)	4,322,708	4,573,556
Cash and cash equivalents at the end of the period (including cash of discontinued operations)	2,643,068	4,322,708
Cash and cash equivalents of discontinued operations at the end of the period	(916)	(88,444)
	<u>                    </u>	<u>                    </u>
Cash and cash equivalents of continuing operations at end of the period *	\$ 2,642,152	\$ 4,234,264
<b>CASH PAID DURING THE PERIOD FOR:</b>		
Interest paid, net of amounts capitalized	\$ (1,384,730)	\$ (1,802,826)
Income taxes paid	(1,125,941)	(1,069,790)
* <i>Cash and cash equivalents at the end of the period comprised of the following:</i>		
<i>Non-banking activities</i>	\$ 1,872,741	\$ 2,919,189
<i>Banking activity</i>	769,411	1,315,075
	<u>                    </u>	<u>                    </u>
	\$ 2,642,152	\$ 4,234,264

**SISTEMA JSFC AND SUBSIDIARIES**  
**UNAUDITED SEGMENTAL BREAKDOWN FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011**  
*(Amounts in thousands of U.S. dollars)*

For the year ended December 31, 2012							Total		
	MTS	Bashneft	SSTL	MTS Bank	RTI	Corporate	reportable segment	Other	Total
Net sales to external customers <sup>(a)</sup>	12,426,353	17,113,023	303,032	668,384	1,826,969	38,876	32,376,637	1,864,030	34,240,667
Intersegment sales	9,302	12,210	-	43,887	549,366	38,889	653,654	23,120	676,774
Equity in net loss/(net income) of affiliates	27,929	(11,610)	-	-	(15,745)	-	574	(9,712)	(9,138)
Net interest expense <sup>(b)</sup>	-	-	-	21,393	-	-	21,393	-	21,393
Depreciation, depletion and amortization	2,222,256	592,384	74,653	18,470	95,683	12,350	3,015,796	143,637	3,159,433
Operating income/(loss)	2,053,438	2,557,696	(621,167)	32,266	(83,154)	(253,001)	3,686,078	82,476	3,768,554
Interest income	84,359	179,344	6,423	-	6,680	136,718	413,524	5,070	418,594
Interest expense	568,184	353,173	176,481	-	86,362	153,860	1,338,060	108,946	1,447,006
Income tax expense/(benefit)	589,353	465,896	-	16,125	18,364	(25,144)	1,064,594	89,079	1,153,673
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	3,336,508	2,629,385	44,438,485	4,631,302	49,069,787
Indebtedness <sup>(c)</sup>	7,631,207	3,601,385	1,046,717	-	1,338,205	1,646,799	15,264,313	400,015	15,664,328
Capital expenditures <sup>(d)</sup>	2,902,768	890,472	83,500	31,210	102,782	11,651	4,022,383	187,168	4,209,551

For the year ended December 31, 2011							Total		
	MTS	Bashneft	SSTL	MTS Bank	RTI	Corporate	reportable segment	Other	Total
Net sales to external customers <sup>(a)</sup>	12,312,501	16,537,117	262,264	529,012	1,355,363	37,551	31,033,808	1,907,068	32,940,876
Intersegment sales	6,187	11,969	-	31,894	737,676	26,998	814,724	27,537	842,261
Equity in net loss/(net income) of affiliates	49,443	75,245	-	-	-	-	124,688	(3,759)	120,929
Net interest revenue <sup>(b)</sup>	-	-	-	(1,912)	-	-	(1,912)	-	(1,912)
Depreciation, depletion and amortization	2,293,021	611,876	99,424	17,339	104,010	9,399	3,135,069	134,305	3,269,374
Operating income/(loss)	2,893,938	2,778,789	(1,196,084)	(23,510)	50,382	(228,712)	4,274,803	(128,673)	4,146,130
Interest income	62,559	74,021	34,152	-	13,028	102,685	286,445	74,310	360,755
Interest expense	656,898	559,806	162,442	-	83,403	274,569	1,737,118	108,768	1,845,886
Income tax expense/(benefit)	613,681	527,117	(6,747)	(5,118)	28,854	(82,225)	1,075,562	8,822	1,084,384
Investments in affiliates	176,659	1,108,601	-	-	214,625	37,239	1,537,124	16,527	1,553,651
Segment assets	15,928,150	13,530,524	1,113,191	6,978,934	2,629,665	3,135,691	43,316,155	4,084,583	47,400,738
Indebtedness <sup>(c)</sup>	8,700,407	3,393,314	1,573,523	-	1,126,471	1,246,786	16,040,501	341,007	16,381,508
Capital expenditures <sup>(d)</sup>	2,584,467	877,442	178,156	34,360	127,166	8,797	3,810,388	321,702	4,132,090

- 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.
- 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.
- Represents the sum of short-term and long-term debt.
- 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. OIBDA can be reconciled to our consolidated statements of operations as follows:

### *Operating income and OIBDA reconciliation*

	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>2012</b>	<b>2011</b>
Operating Income	967.5	299.1	3,718.7	3,942.2
<i>One off items</i>	<i>372.6</i>	<i>1,014.8</i>	<i>1,664.9</i>	<i>1,057.0</i>
Adjusted operating income	1,340.1	1,313.9	5,383.6	4,999.2
<i>Depreciation, depletion and amortization</i>	<i>(733.4)</i>	<i>(800.4)</i>	<i>(3,159.4)</i>	<i>(3,269.4)</i>
Adjusted OIBDA	2,073.5	2,114.2	8,543.1	8,268.5

### *Net income reconciliation*

	<b>4Q 2012</b>	<b>4Q 2011</b>	<b>2012</b>	<b>2011</b>
Net income	200.9	(530.2)	946.8	218.0
<i>One off items</i>	<i>157.1</i>	<i>791.6</i>	<i>847.7</i>	<i>778.8</i>
Adjusted net income	357.9	261.4	1,794.5	996.8