

# **Open Joint-Stock Company Mobile TeleSystems**

**Financial Statements for 2012  
and Auditor's Report**  
(Translated from the Original in Russian –  
Unofficial Translation)

## REPORT ON THE FINANCIAL STATEMENTS

To the shareholders of Open Joint-Stock Company Mobile TeleSystems:

We have audited the accompanying financial statements of Open Joint-Stock Company Mobile TeleSystems (the "Company") which comprise:

- The balance sheet as at December 31, 2012;
- The statement of financial results for the year ended December 31, 2012;
- The appendices to the balance sheet and statement of financial results:
  - The statement of changes in equity for the year ended December 31, 2012;
  - The statement of cash flows for the year ended December 31, 2012;
  - The notes to the financial statements.

### Responsibility of the Audited Entity for the Financial Statements

Management of the audited entity is responsible for the preparation and fair presentation of these financial statements and their compliance with Russian accounting and reporting standards, and for the system of internal controls necessary for preparation of financial statements that are free from material misstatements, whether due to fraud or error.

### Auditor's Responsibility

Our responsibility is to express an opinion on the fair presentation of the financial statements based on our audit. We conducted our audit in accordance with federal rules (standards) of auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

Our audit involved performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The audit procedures selected depend on our judgment, which is based on the assessment of the risks of material misstatements of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the system of internal control over financial reporting in order to design audit procedures that are appropriate in the circumstances but not for the purpose of expressing an opinion on the effectiveness of the system of internal control.

The audit also included evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management of the audited entity, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained provides a reasonable basis for our opinion.

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Open Joint-Stock Company Mobile TeleSystems as of December 31, 2012, the results of its financial performance and its cash flows for 2012 in accordance with Russian accounting and financial reporting standards.

April 2, 2013

The following financial statements were prepared for use in the Russian Federation in accordance with accounting principles and reporting practices generally accepted in the Russian Federation and are not intended to present the financial position and results of operations of the audited entity in accordance with accounting principles and practices generally accepted in any other jurisdiction.

AUDITED ENTITY: OJSC Mobile TeleSystems

State Registration Certificate No.P-7882.16 issued by the State Registration Chamber of the RF Ministry of Justice on March 1, 2000.

Certificate of registration in the Unified State Register of Legal Entities No. 1027700149124 issued by the Moscow Department of the Russian Ministry of Taxes and Levies on September 2, 2002.

Address: 4 Marksistskaya St., Moscow, 109147.

AUDIT FIRM: ZAO Deloitte & Touche CIS

State Registration Certificate No. 018.482 issued by the Moscow Registration Chamber on October 30, 1992.

Certificate of registration in the Unified State Register of Legal Entities No. 1027700425444 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No.39 for Moscow on November 13, 2002.

Certificate of membership in self-regulated organization "Non-Commercial Partnership "Audit Chamber of Russia" No. 3026 dated 20 May 2009; main registration number 10201017407.

**BALANCE SHEET**  
**As at December 31, 2012**

Entity **OJSC Mobile TeleSystems**  
 Taxpayer Identification Number \_\_\_\_\_  
 Type of activity **Telecommunications services**  
 Legal status/  
 form of ownership **Open Joint-Stock Company/  
 Joint Private and Foreign Ownership**  
 Unit of measurement **Thousands of rubles**  
 Address **4 Marksistskaya Street, Moscow, 109147**

Form № 1 OKUD  
 Date (day, month, year)

CODES	
0710001	
31/12/2012	
OKPO	52686811
INN	7740000076
OKVED	64.20.11
OKOPF/ OKFS	47/34
OKEI	384

Item description	Note	December 31, 2012	December 31, 2011	December 31, 2010
<b>ASSETS</b>				
<b>I. NON-CURRENT ASSETS</b>				
Intangible assets	4	213 539	256 682	306 634
Property, plant and equipment	3, 5	141 403 393	127 037 995	101 064 823
Investment property		466 880	309 017	300 248
Investments	6	149 042 892	170 122 816	150 717 709
Deferred tax assets	3, 16	2 503 763	5 558 808	6 316 966
Other non-current assets	7	65 085 493	75 902 666	67 484 084
<b>Total Section I</b>		<b>358 715 960</b>	<b>379 187 984</b>	<b>326 190 464</b>
<b>II. CURRENT ASSETS</b>				
Inventories	8	964 773	1 799 641	2 400 908
Value-added tax receivable		124 181	147 767	153 678
Accounts receivable	3, 9	49 608 719	31 351 691	25 502 578
Investments (other than cash equivalents)	6	21 486 977	9 013 908	22 885 008
Cash and cash equivalents	10	12 820 478	47 846 480	9 600 802
Other current assets	3, 11	4 180 273	7 137 553	4 554 694
<b>Total Section II</b>		<b>89 185 401</b>	<b>97 297 040</b>	<b>65 097 668</b>
<b>TOTAL ASSETS</b>		<b>447 901 361</b>	<b>476 485 024</b>	<b>391 288 132</b>

Item description	Note	December 31, 2012	December 31, 2011	December 31, 2010
<b>EQUITY AND LIABILITIES</b>				
<b>III. EQUITY AND RESERVES</b>				
Share capital	12	206 641	206 641	199 333
Treasury shares		-	(593)	-
Additional paid-in capital (excluding revaluation)		7 387 121	7 449 170	10 731 725
Reserve capital		29 900	29 900	29 900
Retained earnings	3, 25	110 942 773	98 326 345	91 501 962
<b>Total Section III</b>		<b>118 566 435</b>	<b>106 011 463</b>	<b>102 462 920</b>
<b>IV. NON-CURRENT LIABILITIES</b>				
Long-term borrowings	13	222 748 318	258 557 782	207 867 081
Provisions	15	2 377 513	2 030 991	1 616 155
Long-term accounts payable	14	788 040	4 214 225	3 145 701
<b>Total Section IV</b>		<b>225 913 871</b>	<b>264 802 998</b>	<b>212 628 937</b>
<b>V. CURRENT LIABILITIES</b>				
Short-term borrowings	13	44 436 303	47 499 113	30 584 482
Accounts payable	3, 14	32 073 887	30 438 012	22 586 264
Dividends payable	14	3 905	5 689	18 974
Deferred income		2 573 501	2 817 920	2 535 967
Provisions	15	24 333 459	24 909 829	20 470 588
<b>Total Section V</b>		<b>103 421 055</b>	<b>105 670 563</b>	<b>76 196 275</b>
<b>TOTAL EQUITY AND LIABILITIES</b>		<b>447 901 361</b>	<b>476 485 024</b>	<b>391 288 132</b>

March 29, 2013

**STATEMENT OF FINANCIAL RESULTS**  
for the year ended December 31, 2012

			Form No. 2 OKUD	0710002
			Date (day, month, year)	31/12/2012
Entity	<b>OJSC Mobile TeleSystems</b>		OKPO	52686811
Taxpayer Identification Number			INN	7740000076
Type of activity	<b>Telecommunications services</b>		OKVED	64.20.11
Legal status/ form of ownership	<b>Open Joint-Stock Company/ Joint Private and Foreign Ownership</b>		OKOPF/ OKFS	47/34
Unit of measurement	<b>Thousands of rubles</b>		OKEI	384

Item description	Note	2012	2011
<b>INCOME AND EXPENSES FROM OPERATING ACTIVITIES</b>			
Revenue		270 828 650	246 965 174
Cost of sales	3, 17	(142 894 197)	(124 499 378)
<b>Gross profit</b>		<b>127 934 453</b>	<b>122 465 796</b>
Selling expenses	17	(33 241 387)	(36 569 705)
Administrative expenses	17	(24 502 095)	(21 300 598)
<b>Operating profit</b>		<b>70 190 971</b>	<b>64 595 493</b>
<b>OTHER INCOME AND EXPENSES</b>			
Investment income		9 718 711	23 928 792
Interest income		3 944 299	3 791 373
Interest expense	3, 13	(17 039 868)	(18 009 483)
Other income	18	10 284 962	2 525 087
Other expenses	19	(20 764 542)	(12 319 661)
<b>Profit before income tax</b>		<b>56 334 533</b>	<b>64 511 601</b>
Current income tax expense	16	(9 633 561)	(9 577 869)
including:			
Permanent tax differences	16	3 851 185	2 257 587
Deferred tax expense	3, 16	(1 994 773)	(1 443 075)
Deferred tax benefit	16	(1 546 016)	646 795
Income tax and tax penalties of prior years	16	(210,720)	(8,164)
<b>CURRENT YEAR NET INCOME</b>		<b>42 949 463</b>	<b>54 129 288</b>
<b>SUPPLEMENTARY INFORMATION</b>			
Result from valuation of non-current assets, not included in current year net income		61 983	1 136 994
Result of other transactions, not included in net profit (loss) for the period		1 925	(18 396 280)
<b>Total comprehensive income for the year</b>		<b>43 013 371</b>	<b>36 870 002</b>
Basic earnings per share (rubles)	3, 22	20.78	26.52
Diluted earnings per share (rubles)	3, 22	20.79	26.52

March 29, 2013

**STATEMENT OF CHANGES IN EQUITY**  
for the year ended December 31, 2012

Entity	<b>OJSC Mobile TeleSystems</b>
Taxpayer Identification Number	
Type of activity	<b>Telecommunications services</b>
Legal status/ form of ownership	<b>Open Joint-Stock Company/ Joint Private and Foreign Ownership</b>
Unit of measurement	<b>Thousands of rubles</b>

	CODES
Form No. 3 OKUD	0710003
Date (day, month, year)	31/12/2012
OKPO	52686811
INN	7740000076
OKVED	64.20.11
OKOPF/ OKFS	47/34
OKEI	384

**CHANGES IN EQUITY**

Item description	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Total
<b>Balance at December 31, 2010</b>	<b>199 333</b>	<b>-</b>	<b>10 731 725</b>	<b>29 900</b>	<b>91 501 962</b>	<b>102 462 920</b>
Net income	X	X	X	X	54 129 288	54 129 288
Dividends	X	X	X	X	(30 045 619)	(30 045 619)
Result from valuation of non-current assets	X	X	(1 136 994)	X	1 136 994	-
Exchange differences of foreign subsidiaries	X	X	801	X	X	801
Change in equity due to reorganization	X	1 369	(2 146 362)	X	(18 396 280)	(20 541 273)
Additional issue of shares related to reorganization	7 308	X	X	X	X	7 308
Acquisition of treasury shares	X	(1,962)	X	X	X	(1,962)
<b>Balance at December 31, 2011</b>	<b>206 641</b>	<b>(593)</b>	<b>7 449 170</b>	<b>29 900</b>	<b>98 326 345</b>	<b>106 011 463</b>
Net income for the year	X	X	X	X	42 949 463	42 949 463
Dividends	X	X	X	X	(30 395 018)	(30 395 018)
Result from valuation of non-current assets, not included in current year net income	X	X	(61,983)	X	61 983	-
Sale of treasury shares	X	593	(46)	X	X	547
Exchange differences of foreign subsidiaries	X	X	(20)	X	X	(20)
<b>Balance at December 31, 2012</b>	<b>206 641</b>	<b>-</b>	<b>7 387 121</b>	<b>29 900</b>	<b>110 942 773</b>	<b>118 566 435</b>

March 29, 2013

**STATEMENT OF CASH FLOWS**  
for the year ended December 31, 2012

			Form No. 4 OKUD	CODES
			Date (day, month, year)	0710004
Entity	<b>OJSC Mobile TeleSystems</b>		OKPO	31/12/2012
Taxpayer Identification Number			INN	52686811
Type of activity	<b>Telecommunications services</b>		OKVED	7740000076
Legal status/ form of ownership	<b>Open Joint-Stock Company/ Joint Private and Foreign Ownership</b>		OKOPF/ OKFS	64.20.11
Unit of measurement	<b>Thousands of rubles</b>		OKEI	47/34
				384

Item description	2012	2011
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
<b>Inflows - total including:</b>	<b>257 032 664</b>	<b>225 405 223</b>
Receipts from customers	253 454 137	222 291 589
Other cash inflows	3 578 527	3 113 634
<b>Outflows - total including:</b>	<b>(164 695 799)</b>	<b>(150 105 688)</b>
Payments for acquired goods, services, raw materials and other current assets	(112 437 547)	(95 772 216)
Payments to employees	(11 834 016)	(14 104 637)
Interest paid	(16 728 937)	(18 588 464)
Income tax paid	(10 730 270)	(8 146 121)
Other taxes and duties paid	(12 936 581)	(12 811 265)
Other payments	(28 448)	(682 985)
<b>Net cash from operating activities</b>	<b>92 336 865</b>	<b>75 299 535</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
<b>Inflows - total including:</b>	<b>37 057 932</b>	<b>39 950 972</b>
Proceeds from sales of property, plant and equipment and other non-current assets	237 519	194 816
Proceeds from sales of securities and other financial investments	102 885	102 237
Dividends received	9 612 245	22 061 045
Interest received	2 961 198	1 983 604
Proceeds from repayment of loans given	23 981 472	12 693 707
Proceeds from reorganization of subsidiaries in form of merger	-	2 915 563
Proceeds from repayment of deposits	162 613	-
<b>Outflows - total including:</b>	<b>(85 466 948)</b>	<b>(101 369 252)</b>
Placement of deposits	-	(344 892)
Payments for acquisition of subsidiaries	(528,974)	(27 820 399)
Purchases of property, plant and equipment (including investment property) and other non-current assets	(60 299 783)	(58 622 647)
Loans granted	(24 638 191)	(14 581 314)
<b>Net cash used in investing activities</b>	<b>(48 409 016)</b>	<b>(61 418 280)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
<b>Inflows - total including:</b>	<b>16 730 525</b>	<b>78 968 952</b>
Proceeds from borrowings	16 730 525	78 968 952
<b>Outflows - total including:</b>	<b>(95 097 034)</b>	<b>(55 329 724)</b>
Repayment of borrowings (excluding interest)	(51 545 367)	(25 205 210)
Payments to bondholders under guarantees	(12 844 083)	-
Dividends paid (including withholding income tax)	(30 393 589)	(30 024 382)
Acquisition of treasury shares	-	(1 962)
Repayment of finance lease liabilities	(313 995)	(98 170)
<b>Net cash provided by/(used in) financing activities</b>	<b>(78 366 509)</b>	<b>23 639 228</b>
Net cash for the reporting period	(34 438 660)	37 520 483
<b>Net cash and cash equivalents at the beginning of the reporting period</b>	<b>47 846 480</b>	<b>9 600 802</b>
<b>Net cash and cash equivalents at the end of the reporting period</b>	<b>12 820 478</b>	<b>47 846 480</b>
Effect of exchange rate changes on cash and cash equivalents	(587,342)	725 195

**NOTES TO THE FINANCIAL STATEMENTS  
of Open Joint-Stock Company Mobile TeleSystems for 2012**

**1. GENERAL MATTERS**

Open Joint-Stock Company Mobile TeleSystems (hereinafter “the Company” or “OJSC MTS”) provides mobile and fixed-line communication services on the territory of the Russian Federation (“RF”). The Company is one of the leading mobile operators in the Russian Federation.

State Registration Certificate No.P-7882.16 was issued by the State Registration Chamber of the RF Ministry of Justice on March 1, 2000.

Legal and actual address: 4 Marksistskaya St., Moscow, 109147, Russian Federation.

OJSC MTS has branches and structural divisions registered in the following locations in the Russian Federation:

Moscow, the Moscow Region; the Oryol Region, Oryol; the Belgorod Region, Belgorod; the Lipetsk Region, Lipetsk; the Kursk Region, Kursk; the Voronezh Region, Voronezh; the Bryansk Region, Bryansk; Tula; Smolensk; Ryazan; Vladimir; Kaluga; Yaroslavl; Tver; Kostroma; Ivanovo; Tambov; St.-Petersburg, the Leningrad Region; Pskov; the Komi Republic, Syktyvkar; the Arkhangelsk Region, Arkhangelsk; the Vologda Region, Vologda; the Kaliningrad Region, Kaliningrad; Murmansk; Veliky Novgorod; the Republic of Karelia, Petrozavodsk; the Nizhny Novgorod Region, Nizhny Novgorod; the Kirov Region, Kirov; the Republic of Tatarstan, Kazan; the Udmurt Republic, Izhevsk; the Chuvash Republic, Cheboksary; the Republic of Mordovia, Saransk; the Mariy-El Republic, Ioshkar-Ola; Penza; Samara; Saratov; Orenburg; the Ulyanovsk Region, Ulyanovsk; the Republic of Bashkortostan, Ufa; the Krasnodar Region, Krasnodar; the Astrakhan Region, Astrakhan; the Volgograd Region, Volgograd; the Stavropol Region, Stavropol; the Rostov Region, Rostov-on-Don; Novorossiysk; Sochi; the Republic of Adygea, Maikop; the Republic of Kalmykia, Elista; the Kabardino-Balkar Republic, Nalchik; the Karachay-Cherkess Republic, Cherkessk; the Republic of Ingushetia, Magas; the Republic of North Osetia-Alania, Vladikavkaz; the Republic of Dagestan, Makhachkala; the Chechen Republic, Grozny; the Sverdlovsk Region, Ekaterinburg; the Perm Region, Perm; the Chelyabinsk Region, Chelyabinsk; the Kurgan Region, Kurgan; the Tyumen Region, Tyumen; the Khanty-Mansi Autonomous District, Surgut; the Yamalo-Nenets Autonomous District, Noyabrsk; the Novosibirsk Region, Novosibirsk; the Omsk Region, Omsk; the Kemerovo Region, Kemerovo; the Altai Region, Barnaul; the Krasnoyarsk Region, Krasnoyarsk; the Tomsk Region, Tomsk; the Republic of Khakassia, Abakan; the Altai Republic, Gorno-Altai; the Tyva Republic, Kyzyl; the Primorsky Region, Vladivostok; the Khabarovsk Region, Khabarovsk; the Amur Region, Blagoveshchensk; Chita; the Republic of Sakha (Yakutia), Yakutsk; the Irkutsk Region, Irkutsk; the Kamchatka Region, Petropavlovsk-Kamchatsky; the Magadan Region, Magadan; the Buryat Republic, Ulan-Ude; the Sakhalin Region, Yuzhno-Sakhalinsk.

OJSC MTS also has a representative office in the Republic of Belarus.

The average number of staff at the Company in 2012 and 2011 was 21 051 and 18 880 people, respectively.

The entity keeping record of title to securities is Open Joint-Stock Company Registrator NIKoil.

Information on the Company is published in the Attachment to the Newsletter of the Federal Service for Financial Markets.

**1.1. The Company generates revenue primarily from the following services:**

- Mobile radiotelephone communications;
- Lease of communication channels;
- Fixed city, intercity, and international communication services;
- Telematic services;
- Sales of handsets and accessories;
- Sales of equipment; and
- Other sources.

### **1.2. Negative factors (risks) that affected the financial results of operations in the reporting period**

Emerging markets such as the Russian Federation are subject to diverse risks that differ from those of more developed markets, including economic, political, social, legal and legislative risks. As has happened in the past, actual or perceived financial problems or an increase in the perceived risks associated with investing in emerging economies could adversely affect the investment climate in the RF and the Russian economy in general.

Laws and regulations affecting businesses in the Russian Federation continue to change rapidly. Tax, currency and customs legislation within the RF are subject to varying interpretations, and other legal and fiscal impediments contribute to the challenges faced by entities currently operating in the RF. The future economic development of the RF is heavily influenced by the economic, fiscal and monetary policies adopted by the government, together with developments in the legal, regulatory, and political environment.

The global financial system continues to exhibit signs of deep stress and many countries witnessed slowed economic growth. Additionally there is an increased uncertainty about the creditworthiness of some sovereign states in the Eurozone and financial institutions with exposure to the sovereign debt of such states. These factors could retard or disrupt the economy of the RF, adversely affect the Company's access to capital and cost of capital and, more generally, its business, results of operations, financial condition and prospects.

## **2. SIGNIFICANT ACCOUNTING POLICIES**

The financial statements of OJSC MTS are prepared in accordance with the accounting and reporting requirements of the Russian Federation.

The Company maintains its accounting records in accordance with the requirements of accounting legislation of the Russian Federation, regulations approved by the Russian Ministry of Finance and agencies authorized by federal laws to regulate accounting.

In 2012 accounting records were maintained in accordance with the Company's accounting policies as approved by Order of the President of OJSC MTS No. 01/0514 P of December 22, 2011 (with subsequent amendments).

The Company uses Oracle e-Business Suite as the principal software suite to maintain its financial and tax accounting records.

### **2.1. Going concern assumption**

In preparation of the financial statements, the Company's management assumed that the Company will continue as a going concern in the foreseeable future and has neither plans nor the necessity to discontinue or significantly reduce its activities, and that therefore its obligations will be discharged as they become due.

### **2.2. Chart of accounts**

The Company has developed and applies a chart of accounts based on the standard chart of accounts for financial and business activities of organizations as approved by Order of the Russian Ministry of Finance No. 94n dated October 31, 2000, using certain subaccounts which enable preparation of financial statements that comply with Russian accounting and tax laws and separate cost accounting requirements.

### **2.3. Stocktake**

Stocktakes are performed in accordance with the Methodological Guidelines for the Count of Property and Financial Liabilities approved by Order of the RF Ministry of Finance No. 49 dated June 13, 1995.

The stocktake of property, plant and equipment is performed by components and separate classes of property, plant and equipment at least once every 3 years. The last count of property, plant and equipment was performed as at October 1, 2011.

Counts of other assets and liabilities were performed as at October 1 and December 31, 2012 (depending on the type of assets and liabilities) as per Order of the President of OJSC MTS No. 01/0274 P On Performing Counts of Property and Financial Liabilities before Preparation of the Annual Financial Statements from August 30, 2012.

#### **2.4. Assets and liabilities denominated in foreign currencies**

When accounting for business transactions in foreign currencies, the Company uses official exchange rates of the Central Bank of Russia ("the CBR") as at the dates of the transactions.

Assets and liabilities denominated in foreign currencies are reported in amounts calculated on the basis of RUB official exchange rates established by the CBR as at December 31, 2012, 2011 and 2010.

Assets and liabilities denominated in foreign currencies or nominal units and payable both in rubles and in foreign currencies are accounted for in line with the provisions of PBU 3/2006 Accounting for assets and liabilities denominated in foreign currency approved by Order of the Russian Ministry of Finance No. 154n of November 27, 2006. According to PBU 3/2006 assets and liabilities denominated in foreign currencies or nominal units and payable in rubles are translated as at:

- The last day of the month of the reporting period;
- The date of the transaction.

Foreign currency gains and losses are reported net in the statement of financial results as either other income or other expenses.

#### **2.5. Current and non-current assets and liabilities**

Assets classified as current assets in the financial statements are expected to be used in the Company's production and other activities within 12 months of the reporting date. Liabilities classified as current liabilities in the financial statements are expected to be settled within 12 months of the reporting date. In other cases, such assets and liabilities are treated as non-current.

#### **2.6. Accounting for property, plant and equipment**

The historical cost of property, plant and equipment acquired for consideration includes actual costs incurred by the Company for acquisition, construction or production, net of value-added tax and other recoverable taxes (unless otherwise prescribed by Russian legislation).

The historical cost of property, plant and equipment includes actual transportation costs and cost to bring them to the point of being ready for use. The actual costs of acquisition, construction and manufacturing of property, plant and equipment which comprise historical cost are determined in accordance with paragraph 8 of PBU 6/01 Accounting for property, plant and equipment approved by Order of the Russian Ministry of Finance No. 26n of March 30, 2001. The historical cost includes the expenses (interest and additional expenses) related to loans incurred to finance the acquisition, construction and (or) manufacturing of investment assets. Investment assets include construction in-progress which would be subsequently recognized as property, plant and equipment and which require a period of more than 6 months to prepare for their intended use and substantial costs (more than 40 thousand rubles) for construction. Interest payable to a lender is capitalized as part of the cost of the investment asset provided that the conditions stipulated by paragraph 9 of PBU 15/2008 Accounting for debt related expenses approved by Order of the Russian Ministry of Finance No. 107n of October 6, 2008 are met.

Assets qualifying as property, plant and equipment in accordance with clause 4 of PBU 6/01 whose value does not exceed RUB 20 000 per unit are recorded and reported as inventories. To ensure control over safety of such items input into production or operation and compliance that such items are used within their useful lives they are recorded to off-balance sheet accounts. Plots of land and objects of natural resources are initially recognized as property, plant and equipment regardless of their cost.

Property, plant and equipment intended solely to be provided for temporary holding and use for a fee with the purpose of generating income, are recorded as investment property.

Changes in historical cost may be made as a result of fitting-out, furnishing with additional equipment, reconstruction, modernization and partial liquidation. Costs related to modernization and reconstruction of an item of property, plant and equipment are accounted for in the manner prescribed for capital investments. Current replacement cost of property, plant and equipment undergoing modernization and reconstruction is increased by the amount of actual costs incurred.

If the initially recorded standard performance characteristics of an item of property, plant and equipment is enhanced (increased) as a result of the completed modernization and reconstruction, the Company revises its useful life. The useful life may be increased, decreased, or remain unchanged.

Depreciation is charged on the cost of property, plant and equipment on a straight-line basis using depreciation rates determined on the basis of the asset's useful life. The straight-line depreciation method is used throughout the asset's useful life.

Non-depreciable property, plant and equipment include those items which do not change their characteristics over time (plots of land and objects of natural resources).

Depreciation rates for property, plant and equipment are determined based on the asset's useful life in accordance with the property, plant and equipment register of OJSC MTS.

Groups of property, plant and equipment	Useful lives, years	
	From (minimum)	To (maximum)
Network and base station equipment, telephone communication equipment	5	17
Office equipment, computers	3	5
Buildings	5	50
Vehicles	3	7

Expenses incurred for repair and maintenance of property, plant and equipment are recognized as expenses in the reporting period in which they are incurred.

If capital investments with respect to real estate items have been completed but title to such items has not yet been registered in the manner prescribed by applicable legislation, such real estate items are recognized as property, plant and equipment using a separate subaccount of the property, plant and equipment account. Such items are depreciated in accordance with the general procedure from the first day of the month following the month of recognition.

The value of a property, plant and equipment item which is being disposed or which is unable to generate future economic benefits (income) is subject to derecognition.

Income and losses on disposal or sale of property, plant and equipment are recognized in the statement of financial results as other income and other expenses on a gross basis.

Useful lives of property, plant and equipment are reviewed on a regular basis. If the new useful life estimate differs significantly from the previous estimates, the useful life and depreciation charge for the current and subsequent periods are adjusted.

Property, plant and equipment are not revalued.

If a property, plant and equipment item is expected to be sold, according to the decision made, for example, in accordance with an order, directive (provided that certain conditions indicating that the sale is highly probable are met), the item of property, plant and equipment is recorded in account 41 *Goods* at its net book value.

Depreciation of the item ceases from the first day of the month following the month of disposal of the item from account 01 "Property, plant and equipment".

## 2.7. Accounting for intangible assets

Assets acquired by the Company are recognized as intangible assets provided that all of the conditions specified by paragraph 3 of PBU 14/2007 Accounting for intangible assets approved by Order of the Russian Ministry of Finance No.153n of December 27, 2007 are met.

The actual (historical) cost of intangible assets upon their acquisition or creation is determined as per Section II of PBU 14/2007. In particular, the actual (historical) cost of an intangible asset is recognized for the amount of consideration paid, or the amount of accounts payable that was paid or accrued by the Company when acquiring or creating the intangible asset and providing conditions for using it for its intended purpose.

Expenses incurred on the acquisition of an intangible asset comprise the following:

- Amounts paid under agreements for the transfer of exclusive rights for the results of intellectual activity or means of individualization to the rights-holder (seller);
- Customs duties and fees, non-recoverable taxes, and state, patent and other duties paid to acquire an intangible asset;
- Consideration paid to the intermediaries and other persons through which an intangible asset was acquired;
- Consideration paid for the information and advisory services related to the acquisition of an intangible asset;
- Other expenses directly related to the acquisition of an intangible asset and ensuring the conditions for its use for intended purposes.

An inventory item is an accounting unit of intangible assets.

Intangible assets with definite useful lives are amortized on a straight-line basis over their useful life.

Useful lives of intangible assets are determined upon their initial recognition. Useful lives of intangible assets are determined based on:

- The validity of the Company's rights for the results of intellectual activity or means of individualization and period of control over the asset (validity of the patent, license agreement, certificate and other limitations on the useful lives of intellectual assets in accordance with legislation of the Russian Federation); and
- The estimated period during which the asset will be used and the Company expects to receive economic benefits (receive profits from its operation) determined in accordance with an agreement or internal supporting document.

Useful lives of intangible assets are reviewed on a regular basis. If the new useful life estimate differs significantly from previous estimates the useful life and depreciation charge for the current and subsequent periods are adjusted. The resulting adjustments are recorded and reported as at the beginning of the reporting year as changes in accounting estimates.

If an intangible asset is expected to be sold, according to the decision made, for example, in accordance with an order, directive (provided that certain conditions indicating that the sale is highly probable are met), the asset is recorded in account 41 Goods at its net book value.

## **2.8. Accounting for investments**

The historical cost of investments acquired for consideration includes actual costs incurred, net of value added tax and other recoverable taxes (unless otherwise prescribed by Russian tax legislation).

For debt securities for which no current market value can be determined, the difference between historical cost and par value according to the terms of issuance is recognized evenly in the statement of financial position as other income or expenses until the disposal of such securities.

Investments for which current market value is determinable are presented in the financial statements at current market value as at the end of the reporting year through adjustment of their value as at the previous reporting date, with the difference recognized in other income or expenses. This revaluation is performed on a quarterly basis.

The value of investments disposed for which current market value is not determinable is determined based on the historical cost of each investment.

Investments for which the current market value is not determinable are tested for impairment as at the last date of the reporting quarter. The Company makes an allowance for the impairment of investments if, after a review, there is evidence of any sustained significant impairment of such items. The allowance is made for the amount of the difference between the recorded and estimated value of the respective investments determined as at the end of the reporting quarter.

**2.9. Accounting for inventories**

The following items are recognized as inventories:

- Raw materials and supplies;
- Merchandise;
- Finished goods.

The cost of inventories acquired for consideration includes actual costs incurred by the Company for acquisition, net of value added tax ("VAT") and other recoverable taxes (unless otherwise prescribed by Russian legislation).

Accounting for the procurement of equipment, materials, and goods is performed using accounts 15 "Procurement of inventories" and 16 "Variances in cost of inventories". Inventories are recognized in the inventories and equipment accounts at standard cost, which is based on the purchase price. If no price is specified in the accompanying supporting documents, the market value of acquired inventories is determined, which corresponds to the prices set by suppliers for similar inventories.

Variances between the standard price of inventories and their actual purchase price are recognized in account 16 "Variances in cost of inventories". At the end of the month, variances recognized in account 16 are transferred (or reversed in case of a negative variance) to the accounts used for expense recognition of the respective inventories (cost of services accounts, cost of sales, sales, overheads, shortages, etc.) pro rata to the cost of the inventories sold or used as a component of self-constructed property, plant or equipment. The procedures for the valuation and write-off of inventories are set out in the Company's internal documents.

Upon input into operation or other disposal of inventories they are measured at average rolling cost, which is based on the estimation of the cost of an inventory item at the time of its issuance.

Overalls, personal protective clothing and shoes with a value in excess of RUB 20 000 and useful lives of more than 12 months are depreciated on a straight-line basis based on their useful lives.

Finished goods are recorded in account 43 "Finished goods" at their actual production cost without using account 40 "Production of goods and services".

Merchandise is recorded in account 41 "Goods at book value".

Inventories that are obsolete, have fully or partially lost their original quality or whose current market value has decreased are reported in the balance sheet at the end of the reporting year net of an allowance for inventory obsolescence.

**2.10. Accounting for cash and cash equivalents**

Highly liquid investments with original maturities of less than three months which may be easily converted into a known amount of cash and which are subject to an insignificant risk of value fluctuation are recognized as cash and cash equivalents in the balance sheet.

**2.11. Accounting for revenue**

Based on the nature, conditions of receipt and type of operations, the revenue of OJSC MTS is divided into:

- Revenue from operating activities;
- Other revenue.

Revenue from operating activities includes:

- Revenue from the sales of telecommunication services and connection fees:
  - Subscription fees;
  - Air-time revenue;
  - Fixed intracity, intercity, and international communication services;
  - Data transmission services (Internet);
  - Pay-TV;
  - Other services;
  - Roaming revenue;
  - Connection fees;
  - Revenue from interconnection and traffic transmission services;
  - Other revenue, including from property lease services;
- Revenue from sales of equipment and accessories for handsets.

Revenue other than revenue from operating activities represents other revenue.

Revenues for accounting purposes are recognized on an accrual basis.

Income from the sale of telecommunication services is determined on the basis of data from the billing system on the volume and types of services provided for the reporting period and approved tariffs for telecommunication services, taking into account discounts as provided by the Company's marketing policy. Revenues from the sale of telecommunications services are recognized when invoices are issued to subscribers in the billing system.

Revenues from connection fees and other non-recurring services are recognized as deferred revenue at the time of a subscriber's connection to the network with subsequent recognition using the straight-line method throughout the expected subscriber life or marketing campaign period.

Revenue from the sale of goods is recognized when legal title passes to the buyer.

## **2.12. Accounting for expenses**

Based on the nature, origin and type of operations, the Company's expenses are divided into:

- Expenses related to operating activities;
- Other expenses.

The accounting of expenses related to operating activities is performed on expense accounts.

A functional division is a cost center.

Expenses incurred during the reporting period are credited to the property, settlements and other accounts and debited to the relevant accounts used for recording of expenses related to the provision of services (performance of works etc.) on a monthly basis with subdivision into direct and indirect (overheads) expenses (debited to clearing accounts according to the structure of the Company's internal activities).

Direct expenses are recorded in separate subaccounts of account 20 "Work in progress". Indirect expenses are recorded in account 26 "General expenses". Expenses accumulated in account 26 are recognized as expenses of the reporting period and are fully transferred to account 90 "Sales" as operating expenses on a monthly basis.

Expenses related to the remuneration of the Board of Directors are recorded as administrative expenses using general expense accounts.

Commercial expenses are recorded in account 44 "Commercial expenses". Expenses accumulated in account 44 are recognized as expenses of the reporting period and are fully transferred to account 90 "Sales as operating expenses on a monthly basis".

Expenses related to production, performance of work, and provision of services are grouped by budget expense items. Expenses grouped as described above are fully charged against operating revenue on a monthly basis.

Other expenses include:

- Expenses from recognition of the allowance for impairment of investments;
- Expenses from recognition of the allowance for doubtful accounts;
- Expenses from disposal of investments;
- Loss on swaps;
- Debt issuance cost;
- Loss on sale and disposal of property, plant and equipment;
- Loss on sale and disposal of other property;
- Accounts receivable written off on the expiry of limitation period;
- Expenses from recognition of the allowance for inventory obsolescence;
- Write-off of value-added tax receivable;
- Loss recognized based on the stock count results;
- Loss on revaluation of securities to current market value;
- Bank charges;
- Penalties for canceling lease agreements;
- Penalties and fines;
- Other expenses.

### **2.13. Accounting for borrowings and related expenses**

Interest payable to a lender is capitalized as part of the cost of the investment asset or other expenses on a straight-line basis regardless of the loan conditions.

Additional expenses in excess of 1 million rubles are charged to other expenses on a straight-line basis over the term of the loan (loan agreement).

Borrowings and liabilities that mature in more than 12 months are recognized as part of long-term liabilities. Long-term liabilities are reclassified to short-term liabilities when, under a loan agreement, their maturity is less than 365 days from the reporting date.

### **2.14. Accounting for allowances and provisions**

The Company creates the following allowances:

- Allowance for doubtful accounts (monthly);
- Allowance for impairment of investments (quarterly);
- Allowance for inventory obsolescence (monthly).
- Allowance for obsolescence of other assets if it is more likely than not that the asset will not generate economic benefits in an amount equal to its carrying amount.

Doubtful accounts are the Company's receivables which have not been repaid at the date specified in a contractual agreement and are not secured by related guarantees.

Accounts receivable may be deemed uncollectible (before expiry of the payment terms) based on performance of the Company's specified investigative procedures if costs required to collect these receivables exceed potential economic benefits.

The allowance for impairment of investments in securities for which the current market value is not determinable is made at the end of the quarter in the amount of the excess of the recorded value over the estimated value of the investments, if there is evidence of a sustained significant impairment of investments.

The allowance for inventory obsolescence is made in the amount of the difference between current market value and carrying value of inventories if the latter exceeds the former, and is charged to other expenses.

The following provisions are recognized in the Company's financial statements:

- Provision for unused vacations;
- Provision for performance bonuses;
- Provision for actual expenses related to the purchase of goods, work, or services rendered for which primary documents have not been received at the reporting date;
- Provision for asset retirement obligations;
- Other provisions meeting the criteria specified in paragraphs 4 and 5 of PBU 8/2010 Provisions, contingent liabilities and contingent assets approved by Order of the Russian Ministry of Finance No. 167n of December 13, 2010.

Asset retirement obligations and associated asset retirement costs are calculated when the Company has a legal or constructive obligation in connection with the retirement of tangible long-lived assets. Obligations of OJSC MTS relate primarily to the costs of removing its equipment from leased sites. The Company recorded the present value of its asset retirement obligations in its financial statements in the line "Provisions" of Section IV Non-current liabilities of the balance sheet.

### ***2.15. Accounting for prepaid expenses***

Prepaid expenses are recognized in account 97 Prepaid expenses on the basis of actual costs incurred.

Prepaid expenses are included in the lines Other non-current assets and Other current assets depending on their useful life determined as at the reporting date. Prepaid expenses are amortized monthly on a straight-line basis by debiting related expense accounts during the period to which they relate, starting from the month of their original recognition for a full month's charge. Amortization period is determined on the basis of the expense type and purpose.

Prepaid expenses include:

- Expenses related to the acquisition of any licenses to be amortized over the validity of the respective certificate or license agreement;
- Expenses related to the obtaining of non-exclusive rights to databases and computer software, licenses (keys) to use software, to be amortized over their useful life;
- Expenses related to the obtaining of non-exclusive rights to use trademarks;
- Expenses related to the provision of connection points to the Company (services related to the connection of mobile cellular communication network to the public communication network) and organization of communication channels to be amortized over 8 years;
- Expenses related to state duties for numbering capacity to be amortized over the period stipulated in the agreement in respect of the numbering capacity; If the useful life of the numbering capacity is not stipulated in the agreement, the expenses are not amortized by the Company, and are tested for impairment;
- Expenses related to electromagnetic compatibility (EMC), expenses incurred to obtain permits for the use of radio frequencies and/or radio frequency channels to be amortized over the period stipulated in the permits and/or licenses;
- Expenses related to audio- and video-clips obtained under agreements for production of audio- and video-materials and used via mass media and telecommunication networks;
- Other expenses incurred in the reporting period but relating to subsequent reporting periods.

**2.16. Deferred income tax**

Under PBU 18/02 *Accounting for income tax* approved by Order of the Russian Ministry of Finance No. 114n of November 19, 2011, the Company records and reports deferred income tax (deferred tax assets and deferred tax liabilities), i.e. amounts that can affect income tax in subsequent periods.

The amount of current income tax is calculated based on accounting data and must correspond to income tax specified in the income tax return.

Deferred tax assets and deferred tax liabilities are reported on a net basis in the balance sheet.

**3. CHANGES IN ACCOUNTING POLICY**

In the reporting year, the Company changed its accounting policy with respect to the classification of assets under construction as investment assets. Previously, investment assets included assets that necessarily took a substantial period of time (more than 2 years) and which incurred substantial costs (more than 1 billion rubles) to prepare for their intended use. From January 1, 2012 the Company has recorded in investment assets items which require a period of more than 6 months to prepare for their intended use and substantial costs (more than 40 thousand rubles) for construction and as a result the corresponding figures of the Company's financial statements as at December 31, 2011 and 2010 were restated to ensure comparability with the figures as at December 31, 2012. The summary of the changes is as follows:

Financial information as of December 31, 2011 and for the year then ended, restated for the effects of changes in accounting policies in the reporting year:

	(RUB '000)		
Item description	<u>As Originally Reported</u>	<u>As Restated</u>	<u>Difference</u>
<b>BALANCE SHEET</b>			
Property, plant and equipment	122 125 099	127 037 995	4 912 896
Deferred tax assets	6 541 387	5 558 808	(982 579)
Retained earnings	(94 396 028)	(98 326 345)	(3 930 317)
<b>STATEMENT OF FINANCIAL RESULTS</b>			
Cost of sales	(123 778 406)	(124 499 378)	(720 972)
Interest expense	(20 323 164)	(18 009 483)	2 313 681
Profit before income tax	62 918 892	64 511 601	1 592 709
Deferred tax expense	(1 124 533)	(1 443 075)	(318 542)
<b>CURRENT YEAR NET INCOME</b>			
Basic earnings per share (rubles)	25.89	26.52	0.63
Diluted earnings per share (rubles)	25.89	26.52	0.63
<b>Historical cost of property, plant and equipment</b>			
Machines and equipment	169 148 351	175 385 404	6 237 053
<b>Depreciation of property, plant and equipment</b>			
Machines and equipment	99 899 193	101 223 351	1 324 158

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Financial information as of December 31, 2010, restated for the effects of changes in accounting policies in the reporting year:

Item description	(RUB '000)		
	<u>As Originally Reported</u>	<u>As Restated</u>	<u>Difference</u>
<b>BALANCE SHEET</b>			
Property, plant and equipment	97 744 636	101 064 823	3 320 187
Deferred tax assets	6 981 003	6 316 966	(664 037)
Retained earnings	(88 845 812)	(91 501 962)	(2 656 150)
<b>Historical cost of property, plant and equipment</b>			
Machines and equipment	150 844 849	154 768 221	3 923 372
<b>Depreciation of property, plant and equipment</b>			
Machines and equipment	84 933 572	85 536 757	603 185

Changes in accounting policies for 2012 also resulted in changes in the presentation of certain line items in the Statement of cash flows and, therefore, the data for 2011 was restated retrospectively.

In the reporting year the Company changed its disclosure policy for outstanding amounts of advances paid/received (prepayments) with respect to VAT and as a result, the comparative information of the Company's financial statements as at December 31, 2011 and 2010 was restated to ensure comparability with the information as at December 31, 2012.

Financial information as of December 31, 2011, restated for the effects of the disclosure requirements for outstanding amounts of advances paid/received (prepayments):

Item description	(RUB '000)		
	<u>Initial amount</u>	<u>Restated amount</u>	<u>Difference</u>
<b>BALANCE SHEET</b>			
Accounts receivable	31 528 874	31 351 691	(177 183)
Other current assets	8 795 959	7 137 553	(1 658 406)
Accounts payable	(32 273 601)	(30 438 012)	1 835 589

At December 31, 2010, restated for the effects of the disclosure requirements for outstanding amounts of advances paid/received (prepayments):

Item description	(RUB '000)		
	<u>Initial amount</u>	<u>Restated amount</u>	<u>Difference</u>
<b>BALANCE SHEET</b>			
Accounts receivable	25 785 530	25 502 578	(282 952)
Other current assets	5 879 230	4 554 694	(1 324 536)
Accounts payable	(24 193 752)	(22 586 264)	1 607 488

In 2012 the Company also changed the presentation of cash flows with related parties in Note 27.3 in the line "Dividends paid", and recognizes them including dividend tax.

## DISCLOSURE OF FINANCIAL STATEMENT ITEMS

## 4. INTANGIBLE ASSETS

Movements in the historical cost of the main classes of intangible assets were as follows:

Item description				(RUB '000)
	At December 31, 2011	Additions	Disposals	At December 31, 2012
Exclusive rights for intellectual property	206 935	2 183	(80 346)	128 772
Numbering capacity and other	1 023 455	-	(24 617)	998 838
<b>Total</b>	<b>1 230 390</b>	<b>2 183</b>	<b>(104 963)</b>	<b>1 127 610</b>

Item description				(RUB '000)
	At December 31, 2010	Additions	Disposals	At December 31, 2011
Exclusive rights for intellectual property	217 910	44 687	(55 662)	206 935
Numbering capacity and other	1 016 602	6 853	-	1 023 455
<b>Total</b>	<b>1 234 512</b>	<b>51 540</b>	<b>(55 662)</b>	<b>1 230 390</b>

The amount of accumulated amortization by main classes of intangible assets as at December 31, 2012, 2011 and 2010 was as follows:

Item description				(RUB '000)
	At December 31, 2012	At December 31, 2011	At December 31, 2010	At December 31, 2010
Intellectual property items (exclusive rights for intellectual property)	79 794	145 925		130 148
Numbering capacity and other	834 277	827 783		797 730
<b>Total</b>	<b>914 071</b>	<b>973 708</b>		<b>927 878</b>

## 5. PROPERTY, PLANT AND EQUIPMENT

Movements in historical cost of the main classes of property, plant and equipment were as follows:

Item description				(RUB '000)
	At December 31, 2011	Additions	Disposals	At December 31, 2012
Buildings	9 319 800	453 679	(224 823)	9 548 656
Telecommunication network towers	52 198 784	12 225 255	(1 825 208)	62 598 831
Machines and equipment	175 385 404	45 694 635	(25 596 568)	195 483 471
Vehicles	1 333 063	802 465	(271 782)	1 863 746
Production and support tools	613 835	12 942	(129 022)	497 755
Plots of land and natural resources	237 214	37 791	-	275 005
Other property, plant and equipment	3 846 150	1 625 083	(254 246)	5 216 987
<b>Total</b>	<b>242 934 250</b>	<b>60 851 850</b>	<b>(28 301 649)</b>	<b>275 484 451</b>

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Item description				(RUB '000)
	At December 31, 2010	Additions	Disposals	At December 31, 2011
Buildings	8 443 388	877 766	(1 354)	9 319 800
Telecommunication network towers	29 803 971	23 683 121	(1 288 308)	52 198 784
Machines and equipment	154 768 221	38 771 753	(18 154 570)	175 385 404
Vehicles	989 453	416 037	(72 427)	1 333 063
Production and support tools	584 854	98 980	(69 999)	613 835
Plots of land and natural resources	195 084	42 205	(75)	237 214
Other property, plant and equipment	1 763 289	2 153 421	(70 560)	3 846 150
<b>Total</b>	<b>196 548 260</b>	<b>66 043 283</b>	<b>(19 657 293)</b>	<b>242 934 250</b>

The amount of accumulated amortization by main classes of property, plant and equipment as at December 31, 2012, 2011 and 2010 was as follows:

Item description				(RUB '000)
	At December 31, 2012	At December 31, 2011	At December 31, 2010	At December 31, 2010
<b>Accumulated depreciation</b>				
Buildings	1 857 795	1 600 053		1 257 012
Telecommunication network towers	14 651 656	10 476 606		6 845 773
Machines and equipment	114 412 134	101 223 351		85 536 757
Vehicles	1 084 348	965 507		743 827
Production and support tools	417 165	498 778		478 420
Plots of land and natural resources	-	-		-
Other property, plant and equipment	1 657 960	1 131 960		621 648
<b>Total</b>	<b>134 081 058</b>	<b>115 896 255</b>		<b>95 483 437</b>

Additional information about property, plant and equipment as at December 31, 2012, 2011 and 2010 was as follows:

Item description				(RUB '000)
	At December 31, 2012	At December 31, 2011	At December 31, 2010	At December 31, 2010
Estate property put into operation and under the process of state registration	21 494 954	28 022 937		26 764 438
Non-depreciable property, plant and equipment	278 495	253 063		202 011
Fixed property, plant and equipment obtained under lease agreements	7 426 606	3 003 264		2 510 936
including:				
- under finance lease (at carrying amount)	437 934	126 363		122 701
- other	6 988 672	2 876 901		2 388 235
property, plant and equipment recorded as investment property (at carrying amount)	466 880	309 017		300 248
Changes in cost of property, plant and equipment as a result of completions, additions, reconstruction and partial liquidation	1 209 399	1 378 706		1 246 580

## 6. INVESTMENTS

## 6.1. Long-term investments

As at December 31, 2012, 2011 and 2010 long-term investments consisted of the following:

	At December 31, 2012	At December 31, 2011	(RUB '000) At December 31, 2010
<b>Debt securities</b>			
LLC System of Telecommunications, Informatics and Communication	639 500	1 221 200	1 221 200
LLC Digital Television and Radio Broadcasting	18 747	16 966	15 353
<b>Total</b>	<b>658 247</b>	<b>1 238 166</b>	<b>1 236 553</b>
Allowance for impairment of debt securities	(16 831)	-	-
<b>Loans receivable</b>			
CJSC Russian Telephone Company	6 820 930	-	8 943 200
MTS Bermuda Ltd.	2 734 946	9 600 011	4 186 347
Mr. Pierre and Mr. Moussa Fattouch	2 733 543	2 897 649	2 742 921
OJSC MTS Bank	2 100 000	-	-
International Cell Holding Ltd.	1 312 096	2 500 284	42 668
FE Uzdurobita	546 709	-	501 809
CJSC Metro-Telecom	210 201	166 201	-
Narico Holdings Limited	2 126	-	2 133
LLC STV	1 000	-	-
LLC Bastion	1 000	672 841	4 725 241
MCT Sibi Corp.	304	-	305
Mobile TeleSystems B.V.	-	-	12 705
Mobile TeleSystems Finance S.A.	-	-	5 410 000
MTS NEW HORIZONS Ltd.	-	32	30
CJSC Comstar-Regions	-	10 846 000	3 030 300
CJSC K-Telecom	-	-	548 530
CJSC T.RU	-	-	140 295
CJSC T.RU2	-	-	345 440

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	At December 31, 2012	At December 31, 2011	At December 31, 2010
CJSC Telephone.ru	-	-	894 157
OJSC MTS P	-	-	158 545
CJSC SWEET-COM	-	196 396	255 396
<b>Total</b>	<b>16 462 855</b>	<b>26 879 414</b>	<b>31 940 022</b>
Allowance for impairment of long-term loans receivable	(4 879 965)	(362 629)	(5 836 677)
<b>Investments in share capital of subsidiaries and affiliates</b>			
OJSC MGTS	26 590 092	22 947 547	-
LLC Telecom Projects	21 000 010	21 000 010	-
MTS Bermuda Ltd.	14 251 229	14 251 229	5 905 192
CJSC Russian Telephone Company	13 640 116	13 640 116	5 440 116
CJSC Comstar-Regions	11 967 648	11 967 648	-
PrJSC MTS Ukraine	11 625 862	11 625 862	11 625 862
LLC Tovarnye znaki	11 614 192	11 614 928	11 613 475
International Cell Holding Ltd.	11 266 226	11 266 226	11 266 226
FE Uzdurobita	9 995 499	9 995 499	9 995 499
OJSC TRC TVT	5 107 144	5 107 317	-
COMSTAR ONE LIMITED	3 716 777	3 716 777	-
Narico Holding Ltd.	3 130 128	3 130 128	3 129 655
ANTEL METROKOM LIMITED	2 178 202	2 178 202	-
JIR Broadcast, Inc	1 918 578	1 918 578	-
Barash CommunicationsTechnologies, Inc.	1 317 569	1 317 569	1 317 569
CJSC Sibintertelecom	1 156 613	1 156 613	1 156 613
Vostok Mobile B.V.	1 063 988	1 063 988	1 063 988
LLC MC Altair Tula	549 696	551 026	-
LLC Stream	405 910	405 910	-
Coral/Sistema Strategic Fund	362 266	362 266	274 694
CJSC SWEET-COM	344 789	344 789	344 789
CJSC Metro-Telecom	340 048	340 048	340 048
OJSC Sistema Mass-media	309 734	309 734	-
LLC Bastion	308 300	308 300	308 300
CJSC ZheIGorTeleCom	152 159	-	-
Callnet Enterprises Ltd.	141 381	141 381	-
LLC Elf	110 000	-	-
LLC Efcom	109 143	-	-
LLC PTT Telecom Kiev	106 403	106 403	106 403
LLC Unitel	100 153	100 153	-
LLC Universal TV	100 666	100 000	-
LLC Altair Telecompany	100 675	100 000	-
LLC Intercom	90 000	-	-
JLLC MTS	77 827	77 827	77 827
CJSC Operator Svyazi <sup>1</sup>	-	-	44 098 859
OJSC COMSTAR-UTS <sup>1</sup>	-	-	7 823 749
CJSC Capital <sup>1</sup>	-	-	6 710 833
OJSC Evrotel <sup>1</sup>	-	-	3 265 173
CJSC Dagtelecom <sup>1</sup>	-	-	2 195 632
Eldorado Group of Companies <sup>2</sup>	-	-	782 037
CJSC Mobile TeleSystems <sup>1</sup>	-	-	282 160
OJSC TS-Retail <sup>2</sup>	-	-	86 100
OJSC Firma Novitel <sup>2</sup>	-	-	83 831
Other	102 072	120 536	37 324
<b>Total</b>	<b>155 351 095</b>	<b>151 266 610</b>	<b>129 331 954</b>
Allowance for impairment of long-term investments	(18 532 509)	(8 898 745)	(5 954 143)
<b>Total long-term investments</b>	<b>149 042 892</b>	<b>170 122 816</b>	<b>150 717 709</b>

<sup>1</sup> In 2011 the companies were merged into OJSC MTS.

<sup>2</sup> In 2011 the investment in the share capitals of the companies were sold to CJSC Russian Telephone Company.

**6.2. Short-term investments**

As at 31 December 2012, 2011 and 2010, short-term investments comprised the following:

	At December 31, 2012	At December 31, 2011	(RUB '000) At December 31, 2010
<b>Bank deposits</b>			
OJSC Priorbank, Minsk	-	189 754	-
OJSC Belgazprombank Republic of Belarus, Minsk	-	1 255	-
<b>Total</b>	<b>-</b>	<b>191 009</b>	<b>-</b>
<b>Debt securities</b>			
LLC System of Telecommunications, Informatics and Communication	300 000	-	-
LLC Unitel	-	26 201	-
LLC Siberian Networks Novokuznetsk	-	1 134	-
<b>Total</b>	<b>300 000</b>	<b>27 335</b>	<b>-</b>
Allowance for impairment of debt securities	-	(26 201)	-
<b>Loans receivable</b>			
CJSC Comstar-Regions	13 632 650	-	1 885 000
MTS Bermuda Ltd.	7 511 338	2 029 744	15 789 446
Mobile TeleSystems Finance S.A.	5 391 504	5 715 178	-
FE Uzdurobita	894 939	1 495 999	748 208
CJSC BETALINK	817 294	817 294	817 294
CJSC SWEET-COM	112 379	-	-
International Cell Holding Ltd.	42 522	45 075	2 419 986
Mobile TeleSystems B.V.	13 477	13 960	-
CEZANNE B.V.	2 096	1 674	670
LLC Bastion	467	4 088 000	-
MTS NEW HORIZONS Ltd.	196	-	-
OJSC GPB	-	-	761 538
CJSC United TeleSystems	-	-	8 400
OJSC Evrotel <sup>1</sup>	-	-	896 000
CJSC Capital <sup>1</sup>	-	-	285 000
JLLC Mobile TeleSystems	-	-	91 431
CJSC Russian Telephone Company <sup>3</sup>	-	1 036 930	-
CJSC Telephone.ru <sup>2</sup>	-	894 157	-
OJSC TS-Retail <sup>2</sup>	-	789 257	770 346
CJSC T.RU <sup>2</sup>	-	345 440	-
OJSC MTS P	-	158 545	-
CJSC T.RU <sup>2</sup>	-	140 295	-
CJSC Sky-Link	-	125 695	-
CJSC Metro-Telecom	-	25 000	-
Narico Holdings Limited	-	2 254	-
MCT Sibi Corp.	-	322	-
<b>Total</b>	<b>28 418 862</b>	<b>17 724 819</b>	<b>24 473 319</b>
Allowance for impairment of short-term loans receivable	(7 231 885)	(8 903 054)	(1 588 311)
<b>Total</b>	<b>21 486 977</b>	<b>9 013 908</b>	<b>22 885 008</b>

<sup>1</sup> In 2011 the companies were merged into OJSC MTS.

<sup>2</sup> In 2012 loans issued to these companies were disclosed in loans receivable from CJSC Russian Telephone Company as a successor.

<sup>3</sup> In 2012 the loan was classified as long-term investments based on the additional agreement.

**6.3. Revaluation of market securities**

Item description	(RUB '000)		
	December 31,		
	2012	2011	2010
<b>OJSC MGTS</b>			
<b>Ordinary shares</b>			
Cost of shares, thousand rubles	26 587 025	22 945 040	-
Number of shares	53 388 673	53 388 672	-
Market price per share, rubles	497.99	429.77	-
<b>Preferred shares</b>			
Cost of shares, thousand rubles	3 067	2 579	-
Number of shares	6 000	6 000	-
Market price per share, rubles	511.17	429.83	-
<b>OJSC Rostelecom (OJSC Volgatelecom)*</b>			
<b>Ordinary shares</b>			
Cost of shares, thousand rubles	3 635	4 331	1 233
Number of shares	30 351	30 351	8 821
Market price per share, rubles	119.75	142.7	139.8
<b>Preferred shares</b>			
Cost of shares, thousand rubles	-	-	2 543
Number of shares	-	-	23 191
Market price per share, rubles	-	-	109.66

\* OJSC Volgatelecom was reorganized through a merger with OJSC Rostelecom in 2011.

**6.4. Provision for impairment of financial investments**

In accordance with the Company's accounting policy the allowance for impairment of long-term and short-term investments comprised the following:

Allowance for impairment of loans receivable comprises the following:

Allowance for investments	(RUB '000)						
	As at December 31, 2010	Charge of allowance and other movements	Use of allowance	As at December 31, 2011	Charge of allowance and other movements	Use of allowance	As at December 31, 2012
Mobile TeleSystems Finance S.A.	(5 410 000)	(305 178)	-	(5 715 178)	323 674	-	(5 391 504)
CJSC Russian Telephone Company	-	-	-	-	(4 120 929)	-	(4 120 929)
FE Uzdunrobita	-	-	-	-	(1 441 647)	-	(1 441 647)
CJSC BETALINK	(817 294)	-	-	(817 294)	-	-	(817 294)
CJSC Metro-Telecom	-	(191 201)	-	(191 201)	(19 000)	-	(210 201)
CJSC SWEET-COM	(255 396)	59 000	-	(196 396)	84 017	-	(112 379)
LLC Digital Television and Radio Broadcasting	-	-	-	-	(16 831)	-	(16 831)
Mobile TeleSystems B.V.	(12 705)	(1 255)	-	(13 960)	483	-	(13 477)
Narico Holdings Limited	-	(2 254)	-	(2 254)	128	-	(2 126)
CEZANNE B.V.	(670)	(1 004)	-	(1 674)	(422)	-	(2 096)
MTS NEW HORIZONS LTD	(32)	-	-	(32)	(165)	-	(197)
CJSC Telephone.ru	-	(894 157)	-	(894 157)	894 157*	-	-
OJSC TS-Retail	(770 346)	(18 911)	-	(789 257)	789 257*	-	-
CJSC T.RU2	-	(345 440)	-	(345 440)	345 440*	-	-
OJSC MTS P	(158 545)	-	-	(158 545)	158 545	-	-
CJSC T.RU	-	(140 295)	-	(140 295)	140 295*	-	-
LLC Unitel	-	(26 201)	-	(26 201)	26 201	-	-
<b>Total</b>	<b>(7 424 988)</b>	<b>(1 866 896)</b>	<b>-</b>	<b>(9 291 884)</b>	<b>(2 836 797)</b>	<b>-</b>	<b>(12 128 681)</b>

\* In 2012 the loans issued to these companies were disclosed in loans receivable from CJSC Russian Telephone Company as a successor.

The provision for Mobile TeleSystems Finance S.A. in the amount of RUB 5 395 251 thousand comprised the following:

- Allowance for impairment of loan issued to Mobile TeleSystems Finance S.A. in the amount of 5 391 504 thousand rubles for acquiring 51% of the shares of Tarino Ltd. which owned 100% of LLC Bitel through its subsidiaries, as well as for covering the cost of litigation as regards LLC Bitel;
- Allowance for impairment of the investment in share capital in the amount of 3 747 thousand rubles.

In accordance with the loan agreement, Mobile TeleSystems Finance S.A. should repay the loan on May 31, 2013. However as of today, there is an uncertainty as to the recoverability of this loan as Mobile TeleSystems Finance S.A. does not conduct operating activities and has no available assets.

Allowance for impairment of investments in share capital of the following subsidiaries and affiliates comprises the following:

	(RUB '000)				
Company name	December 31, 2011	(Charge)/ reversal of allowance	Other	Use of allowance	December 31, 2012
<b>Interest in subsidiaries and associates</b>					
FE Uzdurobita	-	(9 995 499)	-	-	(9 995 499)
Narico Holdings Limited	(3 130 128)	-	-	-	(3 130 128)
JIR Broadcast, Inc	(1 918 578)	-	-	-	(1 918 578)
Barash Communications Technologies, Inc.	(1 317 569)	-	-	-	(1 317 569)
COMSTAR ONE LIMITED	(1 004 414)	436 407	-	-	(568 007)
The Coral/Sistema Strategic Fund	(362 266)	-	-	-	(362 266)
CJSC SWEET-COM	(344 789)	-	-	-	(344 789)
CJSC Metro-Telecom	(340 048)	-	-	-	(340 048)
LLC Bastion	(308 300)	-	-	-	(308 300)
Callnet Enterprises Ltd.	-	(141 381)	-	-	(141 381)
Other	(172 653)	(520)	-	67 229	(105 944)
<b>Total</b>	<b>(8 898 745)</b>	<b>(9 700 993)</b>	<b>-</b>	<b>67 229</b>	<b>(18 532 509)</b>

	(RUB '000)				
Company name	December 31, 2010	(Charge)/ reversal of allowance	Other*	Use of allowance	December 31, 2011
<b>Interest in subsidiaries and associates</b>					
Narico Holdings Limited	(3 129 655)	(473)	-	-	(3 130 128)
JIR Broadcast, Inc	-	(522 232)	(1 396 346)	-	(1 918 578)
Barash Communications Technologies, Inc.	(1 317 569)	-	-	-	(1 317 569)
COMSTAR ONE LIMITED	-	2 557 683	(3 562 097)	-	(1 004 414)
The Coral/Sistema Strategic Fund	(274 694)	-	(87 572)	-	(362 266)
CJSC SWEET-COM	(344 789)	-	-	-	(344 789)
CJSC Metro-Telecom	-	(340 048)	-	-	(340 048)
LLC Bastion	-	(308 300)	-	-	(308 300)
LLC Unitel	-	-	(100 153)	-	(100 153)
LLC Comstar-Ukraine	-	-	(66 944)	-	(66 944)
Eldorado Group of Companies	(782 037)	-	-	782 037	-
OJSC TS-Retail	(86 100)	-	(51 660)	137 760	-
NPF Sistema	(14 084)	-	-	14 084	-
Other	(5 215)	-	(341)	-	(5 556)
<b>Total</b>	<b>(5 954 143)</b>	<b>1 386 630</b>	<b>(5 265 113)</b>	<b>933 881</b>	<b>(8 898 745)</b>

\*Change as a result of the Company's reorganization through a merger with subsidiaries in 2011.

## 7. OTHER NON-CURRENT ASSETS

As at December 31, 2012, 2011 and 2010 other non-current assets comprised the following:  
(RUB '000)

Account	December 31,			
	2012	2011	2010	
<b>Other non-current assets</b>				
Construction in progress of telecommunication equipment	08	24 295 501	23 672 416	12 450 084
Numbering capacity, expenses related to the EMC assessment, non-exclusive rights to use software products, and expenses incurred to obtain permits for the use of radio frequencies	97	20 237 950	18 195 485	14 568 312
Equipment for installation	07	9 682 606	15 110 657	9 392 389
Debt issuance costs	97	4 326 393	5 117 676	3 594 209
Accrued interest on loans receivable	58	5 284 907	5 651 464	5 069 223
Allowance for accrued interest on loans receivable	59	(2 171 905)	(129 920)	(246 252)
Advances given for acquisition of property, plant and equipment and construction services	60, 63	3 330 004	8 112 075	22 521 387
Securities acquisition-related costs	58	-	78 004	26 960
Other		100 037	94 809	107 772
<b>Total</b>		<b>65 085 493</b>	<b>75 902 666</b>	<b>67 484 084</b>

Due to the development of next-generation 3G and LTE networks, the Company performed an analysis of idle equipment aimed at determining the expedience of its further use. The stocktake and analysis resulted in identifying equipment which was obsolete, unfit for operation or lacking in demand. As at December 31, 2012, 2011 and 2010 the allowance for unused equipment amounted to 66 400 thousand rubles, 474 107 thousand rubles and 501 026 thousand rubles, respectively. The allowance is incorporated in the line *Other non-current assets* of the balance sheet.

## 8. INVENTORIES

As at 31 December 2012, 2011 and 2010 inventories comprised the following:  
(RUB '000)

	December 31,		
	2012	2011	2010
<b>Inventories</b>			
Finished goods and goods for resale	981 455	1 440 889	1 191 967
Raw materials	338 405	1 008 538	1 246 650
Work in-progress	11 367	11 367	16 331
Allowance for inventory obsolescence	(366 454)	(661 153)	(54 040)
<b>Total</b>	<b>964 773</b>	<b>1 799 641</b>	<b>2 400 908</b>

As at December 31, 2012, 2011 and 2010 the Company had no inventory in transit or pledged as collateral.

**9. ACCOUNTS RECEIVABLE**

As at 31 December 2012, 2011 and 2010 accounts receivable comprised the following:

	December 31,		
	2012	2011	2010
	(RUB '000)		
<b>Accounts receivable</b>			
Trade receivables	18 544 847	19 276 313	18 526 075
Allowance for trade receivables	(4 999 952)	(5 715 697)	(7 584 601)
Receivables from roaming partners	10 744 270	5 464 558	4 971 050
Allowance for receivables – roaming partners	-	(19 116)	-
Interest on loans receivable	5 978 993	5 060 742	3 854 078
Allowance for interest on loans receivable	(428 382)	(816 038)	(263 399)
Receivables from dealers	1 621 806	2 936 604	1 570 743
Allowance for receivables from dealers	(153 053)	(216 692)	(247 689)
Prepayments on taxes and duties	3 483 245	2 574 261	1 985 190
Advances paid	1 577 061	1 621 589	2 195 496
Allowance for advances paid	(193 893)	(93 427)	(109 251)
Settlements with the Social Security Fund	74 737	114 774	184 083
Other	1 503 885	1 314 826	730 367
Allowance for other receivables	(779 888)	(151 006)	(309 564)
Accounts receivable from MTS Finance S.A. under the exercised guarantee	12 635 043	-	-
<b>Total</b>	<b>49 608 719</b>	<b>31 351 691</b>	<b>25 502 578</b>

\* From 2012 inter-operator discounts provide for cash payments and are recognized in the line "Receivables from roaming partners" due to changes in agreements with roaming partners. In prior periods a part of discounts in favour of OJSC MTS settled by decrease of accounts payable, reduced the line Accounts payable or was recorded in the line Other current assets of the balance sheet (Note 11 Other current assets).

**10. CASH AND CASH EQUIVALENTS**

As at 31 December 2012, 2011 and 2010 cash and cash equivalents comprised the following:

	December 31,		
	2012	2011	2010
	(RUB '000)		
<b>Cash and cash equivalents</b>			
Current accounts with banks	8 373 614	14 646 263	9 594 385
Deposits with initial maturity of less than 3 months	4 418 635	33 187 414	-
Petty cash	27 671	12 144	6 237
Other	558	659	180
<b>Total</b>	<b>12 820 478</b>	<b>47 846 480</b>	<b>9 600 802</b>

**11. OTHER CURRENT ASSETS**

As at December 31, 2012, 2011 and 2010 other non-current assets comprised the following:

	(RUB '000)		
	2012	December 31, 2011	2010
<b>Other current assets</b>			
Value-added tax receivable on advances paid	839 170	1 341 931	2 259 475
Value-added tax receivable on goods, products, works and services purchased	3 275 345	3 742 556	1 216 465
Discounts receivable*	-	1 934 930	613 117
Equipment for sale	-	-	366 734
Other	65 758	118 136	98 903
<b>Total</b>	<b>4 180 273</b>	<b>7 137 553</b>	<b>4 554 694</b>

\* Note 9 *Accounts receivable*

**12. SHARE CAPITAL**

As at December 31, 2012, 2011 and 2010, the Company's share capital comprised the following:

Types of shares	Par value RUB	Number of shares			Of these, number of treasury shares acquired by subsidiaries and affiliates		
		2012	2011	2010	2012	2011	2010
Ordinary shares	0.1	2 066 413 562	2 066 413 562	1 993 326 138	77 491 498	77 496 725	76 456 877
<b>Total</b>		<b>2 066 413 562</b>	<b>2 066 413 562</b>	<b>1 993 326 138</b>	<b>77 491 498</b>	<b>77 496 725</b>	<b>76 456 877</b>

The shareholder structure as at December 31, 2012, 2011 and 2010 was as follows:

	Ownership interest, %		
	2012	2011	2010
CJSC ING Bank (Eurasia) (nominal holder)	39.31	38.78	39.74
JSFC Sistema	30.79	30.79	31.92
LLC Sistema Telecom Aktiv	10.67	10.67	-
Non-banking credit organization CJSC National Settlement Depository (nominal holder)	8.71	5.02	-
CJSC Invest-Svyaz	-	-	8.04
LLC Deutsche Bank (nominal holder)	8.17	9.36	9.71
CJSC Depository Clearing Company (nominal holder)	-	3.49	2.57
Other shareholders	2.35	1.89	8.02
<b>Total</b>	<b>100</b>	<b>100</b>	<b>100</b>

As at December 31, 2012, 2011 and 2010 JSFC Sistema controls over 50% of shares in the Company's share capital.

As at December 31, 2012, 2011 and 2010, the Company holds net assets of 121 139 936 thousand rubles, 108 829 383 thousand rubles and 104 998 887 thousand rubles, respectively.

### 13. BORROWINGS

Maturities of the main types of debt outstanding as at December 31, 2012 are presented as follows:

Borrowings				(RUB '000)
	Up to 1 year	1 year to 5 years	Over 5 years	Total
Notes	31 461 843	64 542 168	22 842 851	118 846 862
Loans	12 974 460	124 064 838	9 296 074	146 335 372
Promissory notes	-	-	2 002 387	2 002 387
<b>Total</b>	<b>44 436 303</b>	<b>188 607 006</b>	<b>34 141 312</b>	<b>267 184 621</b>

A number of notes of the Company are subject to put options as the holders have the unilateral right to demand repurchase of the notes at par value prior to maturity. The notes in the accompanying financial statements are disclosed as maturing in the period, when put options may be exercised.

Subject to certain exceptions and qualifications, loans contain covenants limiting the ability of the Company and its subsidiaries to incur debt, enter into loan transactions with affiliates, merge or consolidate with another person or convey its properties and assets to another person, and sell or transfer any of its GSM licenses for the Moscow, St. Petersburg, Krasnodar and Ukraine license areas, undertake certain types of reorganizations or a change in control.

If the Company fails to meet these covenants, after certain notice and expiration of cure periods, the creditors can accelerate the debt to be immediately due and payable.

A number of loan agreements contain provisions with regard to early repayment upon the creditor's demand in case of judgment against the Company and its subsidiaries requiring payment of money or recovery against property in an amount in excess of certain limits determined by the agreements and the continuance of any such judgment unsatisfied and in effect for any period of 60 consecutive calendar days without a stay of execution.

Loan agreements also contain cross default provisions with other loan agreements of OJSC MTS and its subsidiaries.

As at December 31, 2012, the Company was in full compliance with all covenants of notes and loan agreements.

Available credit facilities:

				(RUB '000)
	1 year	1 year to 5 years	Over 5 years	Total
Loans	6 034 290	10 000 000	-	16 034 290
Notes	7 101 212	16 948 244	1 330 624	25 380 080
<b>Total</b>	<b>13 135 502</b>	<b>26 948 244</b>	<b>1 330 624</b>	<b>41 414 370</b>

Borrowing costs (interest and other additional expenses) for 2012 and 2011 amounted to 17 871 351 and 18 811 800 thousand rubles, respectively, including:

- 17 039 868 and 18 009 483 thousand rubles recognized in the line *Interest payable* of the statement of financial results for 2012 and 2011;
- 831 483 and 802 317 thousand rubles recognized in the line *Other expenses* of the statement of financial results (debt issuance costs) for 2012 and 2011;

The costs capitalized:

- as debt issuance included in the line "Other non-current" assets for 2012 and 2011 amounted to 28 219 and 2 309 682 thousand rubles, respectively;
- on investment assets included in the line "Property, plant and equipment" for 2012 and 2011 amounted to 2 614 795 and 2 313 681 thousand rubles.

**14. ACCOUNTS PAYABLE**

As at 31 December 2012, 2011 and 2010, the Company's accounts payable comprised the following:

	(RUB '000)		
	2012	December 31, 2011	2010
<b>Long-term payables</b>			
Trade payables	788 040	4 214 225	3 145 701
<b>Short-term payables</b>			
Trade payables	9 813 198	15 300 798	7 295 911
Advances received	10 826 366	10 454 650	9 497 377
Taxes and duties payable	4 529 836	3 525 468	3 408 300
Wages and salaries payable	3 534 264	867 165	1 765 245
Social contributions payable	1 064	943	13 921
Other	3 369 159	288 988	605 510
<b>Total short-term payables</b>	<b>32 073 887</b>	<b>30 438 012</b>	<b>22 586 264</b>
Dividends payable	3 905	5 689	18 974
<b>Total</b>	<b>32 865 832</b>	<b>34 657 926</b>	<b>25 750 939</b>

**15. PROVISIONS**

Movements of provisions for the years 2012, 2011 and 2010 were as follows:

	(RUB '000)						
	Mid-year and annual performance bonuses	Unused vacations	Rendered services	Asset retirement obligations	Exercise of the put option of MTS Finance S.A.	Other accrued liabilities	Total
<b>Balance as at December 31, 2010</b>	<b>1 748 725</b>	<b>933 175</b>	<b>12 517 087</b>	<b>1 616 155</b>	<b>6 423 311</b>	<b>597 015</b>	<b>23 835 468</b>
Increase in provisions	3 296 940	-	16 670 021	414 836	464 973	372 175	21 218 945
Use of provisions	(4 196 932)	(210 076)	(12 156 483)	-	-	(701 369)	(17 264 860)
<b>Balance as at December 31, 2011</b>	<b>848 733</b>	<b>723 099</b>	<b>17 030 625</b>	<b>2 030 991</b>	<b>6 888 284</b>	<b>267 821</b>	<b>27 789 553</b>
Increase in provisions	3 744 054	71 854	16 768 547	349 566	(285 311)	133 066	20 781 776
Use of provisions	(1 093 399)	-	(16 931 145)	(3 044)	-	(333 381)	(18 360 969)
<b>Balance at December 31, 2012</b>	<b>3 499 388</b>	<b>794 953</b>	<b>16 868 027</b>	<b>2 377 513</b>	<b>6 602 973</b>	<b>67 506</b>	<b>30 210 360</b>

Provisions as at December 31, 2012, 2011 and 2010 are classified in accordance with their scheduled maturity:

	(RUB '000)		
	2012	December 31, 2011	2010
Non-current provisions	2 377 513	2 030 991	1 616 155
Current provisions	24 333 459	24 909 829	20 470 588
Short-term accounts payable	3 499 388	848 733	1 748 725
<b>Total</b>	<b>30 210 360</b>	<b>27 789 553</b>	<b>23 835 468</b>

## 16. INCOME TAX

Current income tax expense for 2012 and 2011 comprised the following:

	<u>2012</u>	<u>(RUB '000) 2011</u>
<b>Profit before income tax</b>	<b>56 334 532</b>	<b>64 511 601</b>
including:		
dividends received	9 718 711	23 928 792
<b>Income tax expense at statutory rates</b>	<b>9 323 164</b>	<b>8 116 562</b>
<b>Permanent tax expense:</b>		
non-deductible expenses	3 122 774	294 009
dividends received from foreign subsidiaries	582 461	1 735 651
expenses in excess of allowable limits	126 133	107 421
other	20 178	121 090
<b>Total</b>	<b>3 851 564</b>	<b>2 258 171</b>
<b>Permanent tax income:</b>		
other	(360)	(584)
<b>Total</b>	<b>(360)</b>	<b>(584)</b>
<b>(Decrease)/increase in deferred tax assets:</b>		
property, plant and equipment, including due to:		
- different periods and methods of depreciation for accounting and tax purposes	194 823	735 588
- other operations with property, plant and equipment	7 746	2 128
provision for contingent liabilities	(1 523 004)	258 320
difference in methods of revenue recognition	(154 981)	76 193
allowance for doubtful accounts	(156 582)	(86 450)
allowance for inventory obsolescence	(133 235)	116 621
provision for contingent liabilities	13 210	(133 481)
other	206 007	(322 124)
<b>Total</b>	<b>(1 546 016)</b>	<b>646 795</b>
<b>Increase in deferred tax liabilities for:</b>		
prepaid expenses and capitalized debt issuance costs	(696 506)	(554 660)
property, plant and equipment, due to:		
- different periods and methods of depreciation for accounting and tax purposes	(753 805)	161 034
- other operations with property, plant and equipment	(586 686)	(576 000)
prior year profit / loss	-	(466 361)
other	42 224	(7 088)
<b>Total</b>	<b>(1 994 773)</b>	<b>(1 443 075)</b>
<b>Total current income tax expense</b>	<b>9 633 561</b>	<b>9 577 869</b>

Permanent tax assets and liabilities are recorded on a net basis in the financial statements.

The line Income tax and tax penalties of prior years in the statement of financial results comprises the following:

	<u>2012</u>	<u>(RUB '000) 2011</u>
Adjusted income tax returns for prior periods	743 296	227 871
Reimbursement of deductible temporary differences due to adjustment of tax returns for prior periods	(485 743)	(158 902)
Arbitration court's ruling in favor of the Company	-	12 343
Income tax arrears	(71 343)	(83 772)
Tax penalties of prior periods	17 051	(3 600)
Other tax penalties	7 459	(2 104)
<b>Total</b>	<b>210 720</b>	<b>(8 164)</b>

**17. OPERATING EXPENSES**

	<b>2012</b>	<b>(RUB '000) 2011</b>
<b>Operating expenses</b>		
Raw materials and supplies	7 106 593	8 822 230
Payroll	15 745 142	14 368 733
Social contributions	3 537 337	2 315 988
Depreciation and amortization	49 989 021	41 058 760
Other expenses	124 259 586	115 803 970
<b>Total</b>	<b>200 637 679</b>	<b>182 369 681</b>

Expenses related to operating activities for 2012 and 2011 included energy consumption expenses amounting to 2 452 701 thousand rubles and 2 108 432 thousand rubles, respectively.

**18. OTHER INCOME**

	<b>2012</b>	<b>(RUB '000) 2011</b>
<b>Other income</b>		
Foreign exchange gain and loss, net	4 455 352	-
Gain on revaluation of securities to current market value	3 641 564	90 315
Gain on sale and disposal of other property	584 524	639 456
Accounts payable written off as unclaimed	418 074	314 610
Penalties and fines	272 907	121 420
Gain on sale and disposal of property, plant and equipment	256 062	322 641
Royalty	235 448	266 648
Interest receivable on bank accounts	167 595	314 462
Gain on disposal of investments	101 385	102 787
Gain recognized based on stock count results	53 099	8 118
Income from discounting	1 781	1 612
Other	97 171	343 018
<b>Total</b>	<b>10 284 962</b>	<b>2 525 087</b>

**19. OTHER EXPENSES**

	<b>2012</b>	<b>(RUB '000) 2011</b>
<b>Other expenses</b>		
Allowance for impairment of investments	14 580 345	524 668
Allowance for doubtful accounts	2 363 378	2 305 469
Debt issuance cost	831 483	802 317
Loss on sale and disposal of other property	544 746	1 326 441
Loss on swaps	532 292	781 348
Expenses related to charity activities	326 697	293 107
Write-off of value-added tax receivable	258 847	292 932
Asset retirement obligations	249 524	177 341
Accounts receivable written off as unrecoverable	191 846	359 661
Loss on sale and disposal of property, plant and equipment	176 069	230 399
Loss on disposal of investments	108 144	84 533
Loss recognized based on inventory count results	97 577	70 214
Bank charges	95 124	85 021
Penalties and fines	53 216	3 416
Allowance for inventory obsolescence	(235 613)	584 404
Foreign exchange gain and loss, net	-	3 986 089
Other	590 867	412 301
<b>Total</b>	<b>20 764 542</b>	<b>12 319 661</b>

**20. FOREIGN EXCHANGE DIFFERENCES**

The rates of the Central Bank of the Russian Federation effective at the reporting date were as follows:

Currency	December 31,		
	2012	2011	2010
USD	30.3727	32.1961	30.4769
EUR	40.2286	41.6714	40.3331
			(RUB '000)
		2012	2011
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in foreign currency		3 986 585	(3 849 102)
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in rubles		468 767	(136 987)
<b>Total</b>		<b>4 455 352</b>	<b>(3 986 089)</b>

**21. DERIVATIVE FINANCIAL INSTRUMENTS**

During the period from 2006 to 2012 the Company entered into a number of derivative agreements aimed at hedging the currency/interest rate risks associated with the Company's borrowings.

The fair value of the Company's liabilities/(assets) as at December 31, 2012, 2011 and 2010 was as follows (in rubles at the exchange rate as at the reporting date):

Derivative financial instruments	As at December 31		
	2012	2011	2010
Options	-	(28 770)	72 063
Swaps	29 772	413 884	958 401
<b>Total</b>	<b>29 772</b>	<b>385 114</b>	<b>1 030 464</b>

In 2012 and 2011 expenses from swap transactions amounted to 532 292 thousand rubles and 781 348 thousand rubles, respectively. The swaps mature in 2013-2019.

The Company does not use derivative financial instruments for speculative purposes.

**22. BASIC AND DILUTED EARNINGS PER SHARE**

Basic and diluted earnings per share for the years 2012 and 2011 were as follows:

	2012	2011
Basic earnings, thousand rubles	42 949 463	54 129 288
Weighted average number of outstanding ordinary shares	2 066 411 222	2 041 343 066
<b>Basic earnings per share, RUB</b>	<b>20.78</b>	<b>26.52</b>
Diluted earnings, thousand rubles	42 949 563	54 129 288
Weighted average number of outstanding ordinary shares	2 066 320 341	2 041 343 066
<b>Diluted earnings per share, RUB</b>	<b>20.79</b>	<b>26.52</b>

**23. BOARD OF DIRECTORS**

As at December 31, 2012, the Board of Directors consisted of the following members:

Ron Sommer	Chairman of the Board of Directors
Anton Vladimirovich Abugov	Member of the Board of Directors
Alexei Nikolaevich Buyanov	Member of the Board of Directors
Andrei Anatolievich Dubovskov	Member of the Board of Directors
Felix Vladimirovich Evtushenkov*	Member of the Board of Directors
Stanley Miller	Member of the Board of Directors
Paul James Ostling*	Member of the Board of Directors
Vsevolod Valeryevich Rozanov	Member of the Board of Directors
Mikhail Valerievich Shamolin*	Member of the Board of Directors
Harter Gregor*	Member of the Board of Directors

\* According to the Decision the Extraordinary General Shareholders' Meeting No. 206 dated February 14, 2013, amendments were made to the composition of the Board of Directors. In place of these members the following new members were elected: Alexander Evgenyevich Gorbunov, Michel Combes, Thomas Holtrop.

The total amount of compensation paid to the members of the Board of Directors in 2012 and 2011 totaled 83 716 thousand rubles and 140 580 thousand rubles, respectively.

**24. MANAGEMENT BOARD**

As at December 31, 2012 the Management Board consisted of the following members:

Andrei Anatolievich Dubovskov	President
Frederic Vanoosthuyze	Vice-President, Information Technology
Vasily Igorevich Latsanykh	Vice President, Marketing
Ruslan Sultanovich Ibragimov	Vice-President, Corporate and Legal Issues
Alexey Valeryevich Kornya	Vice-President of Finance and Investments
Ivan Alexandrovich Zolocheskiy	General Director of MTS Ukraine
Alexander Valeryevich Popovskiy	Vice President, Chief Operating Officer
	Vice-President, Director of MTS Foreign Companies Business Unit
Oleg Yurievich Raspopov	Vice President, Sales and Customer Service
Vadim Eduardovich Savchenko	Director of Macro-region Moscow
Konstantin Viktorovich Markov	Vice-President of Strategy, Mergers, Acquisitions, and Corporate Development
Michael Hecker	Vice-President of Technology
Andrei Eduardovich Ushatskiy	

The total amount of compensation paid to the Management Board members in 2012 and 2011 totaled 360 435 thousand rubles and 443 903 thousand rubles, respectively.

**25. DISTRIBUTION OF RETAINED EARNINGS**

The annual meeting of shareholders which took place on June 27, 2012 voted to use part of the profit retained by the Company in 2011 to pay dividends to shareholders in the amount of 30 396 943 thousand rubles.

In 2012 dividends declared earlier in the amount of 1 925 thousand rubles were written off as unclaimed to the line "Dividends" of the statement of changes in equity.

The annual meeting of shareholders which took place on June 27, 2011 voted to use part of the profit retained by the Company in 2010 to pay dividends to shareholders in the amount of 30 045 619 thousand rubles.

**26. REORGANIZATION OF THE COMPANY**

According to the Decision of the Board of Directors (Minutes No. 201 dated October 24, 2012), the following issues were submitted for consideration at the General Shareholders' Meeting:

- Reorganization of the Company through the merger of CJSC KR-1 established through reorganization in the form of separation of CJSC COMSTAR-Regions into OJSC MTS;
- Reorganization of the Company through the merger of CJSC SWEET-COM, CJSC Universal TV, CJSC MC Altair-Tula, CJSC Altair Telecompany, CJSC Altair-Tula, CJSC Tambov MultiCable Networks, CJSC Infocenter, CJSC SibGroupInvest Company, CJSC Skif-Line, CJSC Skif-Oryol, CJSC Skif-Tambov, OJSC TK-Spectrum.

The Decision was approved by the Extraordinary General Shareholders' Meeting on January 14, 2013 (Minutes No. 29 dated January 15, 2013).

**27. RELATED PARTIES**

Related parties of OJSC MTS are represented by its subsidiaries and associates, JFC Sistema, all the companies controlled by or significantly influenced by JFC Sistema, and key management personnel and other individuals or legal entities which have significant influence on the decisions concerning management of OJSC MTS and the above-mentioned companies through participation in their share capital and/or other circumstances.

**27.1. Related party transactions****Interest expense**

	<b>2012</b>	<b>(RUB '000) 2011</b>
MTS International Funding Ltd.	2 028 787	1 931 405
OJSC MGTS	679 278	353 149
LLC Bastion	393 378	402 703
Vostok Mobile B.V.	256 364	229 601
CJSC Sibintertelecom	189 811	124 285
Mobile TeleSystems Finance S.A.	103 694	937 261
CJSC K-Telecom	57 635	54 674
Dega Retail Holding Ltd	643	-
CJSC AMT	-	50 832
CJSC Petrodvor	-	50 632
Other	-	117 023
<b>Total</b>	<b>3 709 590</b>	<b>4 251 565</b>

**Interest income**

	<b>2012</b>	<b>(RUB '000) 2011</b>
CJSC Comstar-Regions	822 436	546 140
Mobile TeleSystems Bermuda Ltd.	638 755	1 093 194
CJSC Russian Telephone Company	397 320	592 150
LLC Bastion	274 268	494 677
FE Uzdurobita	106 671	149 464
International Cell Holding Ltd.	103 850	126 010
OJSC MTS Bank	55 541	-
CJSC Telephone.ru	-	106 964
CJSC K-Telecom	-	19 864
CJSC Metro-Telecom	-	11 811
OJSC TS-Retail	-	69
Other	62 649	49 395
<b>Total</b>	<b>2 461 490</b>	<b>3 189 738</b>

**Purchase of equipment, goods, work, and services**

	<b>2012</b>	<b>(RUB '000) 2011</b>
CJSC Russian Telephone Company	10 278 907	12 138 542
OJSC MGTS	4 885 266	3 418 263
LLC Sitronics Information Technologies	4 778 698	6 882 450
CJSC Sitronics Telecom Solutions	2 448 061	3 352 685
CJSC Sibintertelecom	1 748 043	1 475 862
PrJSC MTS Ukraine	1 705 941	1 309 091
OJSC Advertising Agency Maxima	1 635 753	1 786 326
CJSC Comstar-Regions	1 210 681	707 803
CJSC K-Telecom	997 326	494 643
LLC Sitronics Smart Technologies	801 491	2 740 076
JLLC Mobile TeleSystems	413 942	297 348
CJSC Metro-Telecom	77 709	69 878
CJSC AMT	70 021	80
LLC Network Systems	28 329	515 916
LLC Intracom Svyaz	-	4 815 708
CJSC Dagtelecom	-	516 163
LLC Media Planning Group	-	315 997
OJSC COMSTAR-UTS	-	139 429
Other	1 446 001	1 112 160
<b>Total</b>	<b>32 526 169</b>	<b>42 088 420</b>

Income of OJSC MTS from the sale of subsidiaries to CJSC Comstar-Ukraine amounted to 102 million rubles.

**Sale of equipment, goods, work and services**

	<b>2012</b>	<b>(RUB '000) 2011</b>
CJSC Russian Telephone Company	3 981 612	5 681 194
OJSC MGTS	1 262 243	2 560 201
CJSC Sibintertelecom	1 730 298	1 209 664
PrJSC MTS Ukraine	906 323	625 622
JLLC Mobile TeleSystems	194 133	182 238
CJSC AMT	34 643	-
OJSC MTS P	544	11 120
OJSC COMSTAR-UTS	-	425 649
CJSC Dagtelecom	-	178 819
CJSC COMSTAR-Direct	-	64 769
Other	1 518 051	1 016 613
<b>Total</b>	<b>9 627 847</b>	<b>11 955 889</b>

**Dividends received**

	<b>2012</b>	<b>(RUB '000) 2011</b>
PrJSC MTS Ukraine	8 299 681	10 538 031
JLLC MTS	1 304 995	1 876 807
PTT Telecom Kiev	112 368	68 622
CJSC City Telecom	1 524	1 904
OJSC Rostelecom	143	-
OJSC MGTS	-	10 568 941
Barash Communications Technologies, Inc.	-	874 487
<b>Total</b>	<b>9 718 711</b>	<b>23 928 792</b>

**27.2. Amounts of outstanding balances with related parties****Loans payable, including interest payable**

	December 31, 2012	December 31, 2011	December 31, 2010	(RUB '000) Period of settlement of 2012 operations
MTS International Funding Ltd.	22 828 643	24 193 357	22 906 962	2020
Mobile TeleSystems Finance S.A.	12 636 866	13 323 694	12 617 677	2012
OJSC MGTS	8 957 382	8 575 057	1 407 432	2013-2014
LLC Bastion	5 507 459	5 505 276	5 258 065	2013-2018
CJSC Sibintertelecom	4 895 357	3 883 205	2 291 093	2015
Vostok Mobile B.V.	3 581 519	3 325 155	3 095 544	2014
LLC System of Telecommunications, Informatics and Communication	2 002 387	2 002 387	2 002 387	2049-2056
CJSC K-Telecom	1 211 606	1 224 459	1 102 389	2013
Dega Retail Holding Ltd	49 219	-	-	2020
CJSC AMT	-	-	1 407 432	-
CJSC Petrodvor	-	-	1 407 432	-
OJSC COMSTAR-UTS	-	-	1 100 701	-
CJSC MTS	-	-	450 228	-
Other	-	-	128 156	-
<b>Total</b>	<b>61 670 438</b>	<b>62 032 590</b>	<b>55 175 498</b>	

**Loans receivable, including interest receivable**

	December 31, 2012	December 31, 2011	December 31, 2010	(RUB '000) Period of settlement of 2012 operations
Mobile TeleSystems Bermuda Ltd.	15 545 883	16 290 745	23 543 587	2013-2015
CJSC Comstar-Regions	15 174 870	11 565 784	1 931 132	2013-2015
CJSC Russian Telephone Company	8 979 773	3 059 381	10 560 331	2012-2016
Mobile TeleSystems Finance S.A.	5 469 179	5 797 517	5 487 942	2013
OJSC MTS Bank	2 115 652	-	-	2022
International Cell Holding Ltd.	1 962 878	3 067 465	2 843 735	2012-2014
FE Uzdurobita	1 688 383	1 646 469	1 497 896	2012-2014
LLC Bastion	1 164 466	5 744 572	6 280 295	2013-2016
LLC System of Telecommunications, Informatics and Communication	939 500	1 221 200	1 221 200	on demand
CJSC Metro Telecom	225 534	206 534	-	2014-2015
CJSC SWEET-COM	220 993	311 530	364 382	2013
CJSC Telephone.ru	-	1 171 468	1 064 504	-
OJSC TS-Retail	-	1 039 128	1 014 274	-
CJSC T.Ru2	-	435 061	415 056	-
OJSC MTS P	-	217 244	217 244	-
CJSC T.Ru	-	177 377	171 945	-
CJSC K-Telecom	-	189	1 028 155	-
CJSC Multiregion	-	-	3 130 263	-
OJSC Evrotel	-	-	942 777	-
CJSC Capital	-	-	316 566	-
JLLC Mobile TeleSystems	-	-	91 431	-
Other	38 824	45 605	25 327	-
<b>Total</b>	<b>53 525 935</b>	<b>51 997 269</b>	<b>62 148 042</b>	

**Accounts receivable**

		(RUB '000)		
<u>Type of transaction</u>		<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
Mobile TeleSystems Finance S.A.	Guarantees issued	12 635 043	-	-
CJSC Russian Telephone Company	Sale of goods, work, services	3 004 575	2 984 137	1 501 386
CJSC COMSTAR-Regions	Sale of goods, work, services	374 919	242 887	6 687
CJSC Sibintertelecom	Sale of goods, work, services	248 265	259 988	338 532
LLC Sitronics Information Technologies	Purchase of goods, work, services	260 992	1 385 945	3 350 111
PrJSC MTS Ukraine	Sale of goods, work, services	247 390	205 111	69 709
OJSC MGTS	Sale of goods, work, services	188 895	125 406	90 718
CJSC Sitronics Telecom Solutions	Purchase of goods, work, services	3 227	8 668	116 884
OJSC Advertising Agency Maxima	Purchase of goods, work, services	43	-	20
LLC Intracom Svyaz	Purchase of goods, work, services	-	315 936	1 405 121
CJSC Mediaplanning	Purchase of goods, work, services	-	-	50
OJSC MTS P	Sale of goods, work, services	-	102 788	105 996
OJSC COMSTAR-UTS	Sale of goods, work, services	-	-	157 674
CJSC Dagtelecom	Sale of goods, work, services	-	-	64 517
Other	Purchase of goods, work, services	389 129	798 071	378 265
Other	Sale of goods, work, services	242 115	242 030	-
<b>Total</b>		<b>17 594 593</b>	<b>6 670 967</b>	<b>7 585 670</b>

As at December 31, 2012, 2011 and 2010, the allowance for doubtful accounts from related parties and allowance for impairment of loans receivable from related parties (including interest receivable) comprised the following:

	(RUB '000)		
	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
CJSC Russian Telephone Company	6 872 231	-	-
Mobile TeleSystems Finance S.A	5 469 179	5 797 517	5 487 942
FE Uzdurobita	1 688 383	-	-
CJSC Metro Telecom	225 534	206 534	-
CJSC SWEET-COM	220 993	311 530	364 382
CJSC Telephone.RU	-	1 171 468	-
OJSC TS-Retail	-	1 039 128	1 014 274
CJSC T.Ru2	-	435 061	-
OJSC MTS P	-	217 244	217 244
CJSC T.Ru	-	177 337	-
Other	36 575	45 384	1 108
<b>Total</b>	<b>14 512 895</b>	<b>9 401 203</b>	<b>7 084 950</b>

**Accounts payable**

		(RUB '000)		
	<u>Type of transaction</u>	<u>December 31, 2012</u>	<u>December 31, 2011</u>	<u>December 31, 2010</u>
CJSC Sibintertelecom	Sale of goods, work, services	3 075 314	3 411 564	3 074 806
CJSC Sibintertelecom	Purchase of goods, work, services	2 775 411	204 032	111 984
CJSC Russian Telephone Company	Purchase of goods, work, services	1 461 101	2 299 224	127 889
OJSC MGTS	Purchase of goods, work, services	515 855	456 928	41 765
CJSC Sitronics Telecom Solutions	Purchase of goods, work, services	355 576	93 362	341 268
OJSC Advertising Agency Maxima	Purchase of goods, work, services	201 829	232 011	198 566
LLC Sitronics Smart Technologies	Purchase of goods, work, services	176 768	88 968	201 209
LLC Sitronics IT	Purchase of goods, work, services	159 429	154 611	179 526
PrJSC MTS Ukraine	Purchase of goods, work, services	111 498	104 252	39 674
OJSC TS-Retail	Purchase of goods, work, services	-	91 265	12 377
CJSC Dagtelecom	Purchase of goods, work, services	-	-	124 623
Other	Purchase of goods, work, services	670 616	564 684	440 627
Other	Sale of goods, work, services	448 742	194 669	-
<b>Total</b>		<b><u>9 952 139</u></b>	<b><u>7 895 570</u></b>	<b><u>4 894 314</u></b>

**27.3. Cash flows with related parties**

	<u>2012</u>	<u>(RUB '000)</u> <u>2011</u>
<b>Cash flows from operating activities</b>		
Receipts from customers	8 644 583	8 739 501
Cash and cash equivalents outflows:		
Payments for acquired goods, services, raw materials and other current assets	(25 744 117)	(26 687 913)
Interest paid	(2 555 690)	(3 688 995)
Other payments	(2 842 978)	(4 008 486)
<b>Net cash flows used in operating activities</b>	<u><b>(22 498 202)</b></u>	<u><b>(25 645 893)</b></u>
<b>Cash flows from investing activities</b>		
Proceeds from sale of investments	102 885	102 085
Dividends received	9 612 114	22 061 045
Proceeds from repayment of loans given	23 854 643	11 979 814
Interest received	1 242 575	1 839 154
Acquisition of subsidiaries	(12)	(21 516 400)
Purchase of property, plant and equipment (including investment property) and other non-current assets	(3 658 563)	(4 321 955)
Loans given to other entities	(24 638 191)	(14 581 314)
<b>Net cash flows generated from/ (used in) investing activities</b>	<u><b>10 174 014</b></u>	<u><b>(4 437 571)</b></u>
<b>Cash flows from financing activities</b>		
Proceeds from borrowings provided by other entities	948 596	8 380 000
Repayment of borrowings (excluding interest)	(15 105 080)	(14 562 134)
Dividends paid	(16 588 364)	(16 396 138)
<b>Net cash flows used in financing activities</b>	<u><b>(26 898 112)</b></u>	<u><b>(20 159 713)</b></u>

**28. SEGMENT INFORMATION**

The Company determines operating segments based on internal reports submitted to the chief operating decision maker authorized to allocate resources within the organization and assess the performance achieved. Based on its internal organizational structure, the Company designated the Management Board as the chief operating decision maker (Note 24 to the financial statements).

OJSC MTS is the parent company of a group of companies comprising OJSC MTS and its subsidiaries and affiliates (Note 6 to the financial statements). Subsidiaries and affiliates of OJSC MTS operate in the Russian Federation, Ukraine, Turkmenistan, Armenia, and the Republic of Belarus. When making decisions on the allocation of resources and assessing performance of the companies of the Group, the Company's Management Board reviews the internal reports which present the operations of OJSC MTS within one segment.

Therefore, based on the current management structure, the Company believes that it operates within one operating segment, and accordingly, segment information is not disclosed.

**29. GUARANTEES ISSUED**

Guarantees issued by the Company as at December 31, 2012 were as follows:

Debtor's name	Creditor's name	Date of issue	Date of expiry	Contractual currency	Contractual amount (USD '000)	Contractual amount (RUB '000)
OJSC Mobile TeleSystems	Deutsche Bank Aktiengesellschaft	November 25, 2011	June 30, 2021	USD	125 000	3 796 588
CJSC Russian Telephone Company	LLC Electronics Rus Company	April 10, 2012	perpetual	RUB	-	300 000
MTS International Funding Limited	Bondholders	June 22, 2010	June 22, 2020	USD	751 438	22 823 186
ES MTS - Turkmenistan	Nokia Siemens Networks Oy/ Nokia Siemens Networks GmbH&Co.KG	December 1, 2012	perpetual	USD	25 660	<u>779 363</u>
<b>Total</b>						<u><b>27 699 137</b></u>

**30. COMMITMENTS AND CONTINGENCIES**

Russian tax, currency and customs legislation is subject to varying interpretations and frequent changes. Although the Company's management believes that the accompanying financial statements report fairly the Company's tax liabilities, there is a risk that the interpretation of the legislation by the tax and customs authorities, as applied to the transactions and activities of the Company, may not coincide with that of management. The tax authorities may take a more assertive position in their interpretation of the legislation and assessments, and it is possible that transactions and activities that have not been challenged in the past may be challenged. As a result, significant additional taxes, penalties and interest may be assessed. Fiscal periods remain open to review by the tax authorities in respect of taxes for three calendar years prior to the current period. Under certain circumstances, reviews may cover longer periods.

On June 29, 2012, the Interregional Tax Inspectorate of the Russian Federal Tax Service for the largest taxpayers No. 7 issued Decision No. 5 on a field tax audit with respect to all taxes and duties (other than unified social tax) for the period from January 1, 2009 to December 31, 2011. As at December 31, 2012 the tax audit was completed.

The Company purchases equipment and rights to use software from foreign suppliers in the ordinary course of business. Management believes that customs duties are calculated in compliance with the applicable legislation. However, there is a risk that relevant regulatory authorities may take a different view. No provision was made with respect to such contingencies as at December 31, 2012.

Pricing of services between OJSC MTS and its affiliated companies could be subject to transfer pricing rules. The Company's management believes that taxes payable are calculated in compliance with applicable tax regulations. However, there is a risk that relevant regulatory authorities may take a different view. No provision was made with respect to such contingencies as at December 31, 2012.

**30.1. Legal proceedings**

**LLC Bitel** – In December 2005, Mobile TeleSystems Finance S.A. ("MTS Finance"), a 100% subsidiary of OJSC MTS, acquired a 51% stake in Tarino Ltd. ("Tarino"), from Nomihold Securities Inc. ("Nomihold"), for 150 million US Dollars (4 829 415 thousand rubles at the exchange rate as at December 31, 2011) based on the belief that Tarino was at that time the indirect owner, through its wholly owned subsidiaries, of LLC Bitel ("Bitel"), a Kyrgyz operator holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

Following the purchase of the 51% stake, MTS Finance entered into a put and call option agreement with Nomihold for the remaining 49% interest in Tarino shares and a proportional interest in Bitel shares. The call option was exercisable by MTS Finance from November 22, 2005 to November 17, 2006, and the put option was exercisable by Nomihold from November 18, 2006 to December 8, 2006. The call and put option price was 170 million US Dollars (5 163 359 thousand rubles at the exchange rate as at December 31, 2012).

Following a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel's corporate offices were seized by a third party. MTS Finance did not regain operational control over Bitel's operations.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell the Tarino shares for 170 million US Dollars to MTS Finance. In January 2007, Nomihold commenced an arbitration proceeding against MTS Finance in the London Court of International Arbitration in order to compel MTS Finance to purchase the Tarino shares for 170 million USD. Nomihold sought specific performance of the put option, unspecified monetary damages, interest, and costs.

In November 2010, the London Court of International Arbitration ruled that MTS Finance S.A., a subsidiary of the Company, should acquire 49% in Tarino Limited from Nomihold Securities Inc. for 170 million US Dollars, and compensate the latter for legal fees and interest in the amount of 34.88 million US Dollars (1 059 400 thousand rubles at the exchange rate as at December 31, 2012) as well as dividends of 5.88 million US Dollars (178 591 thousand rubles at the exchange rate as at December 31, 2012), the overall amount approximating 210.8 million US Dollars (6 401 350 thousand rubles at the exchange rate as at December 31, 2011) (hereinafter, the "Ruling of the London Court of International Arbitration"). Interest is accrued on the option amount of 170 million US Dollars and dividends of 5.88 million US Dollars (the overall amount of 5 341 950 thousand rubles at the exchange rate as at December 31, 2012) of the Ruling of the London Court of International Arbitration until the Ruling is enforced. Therefore, the Company accrued and included in the line "Other expenses" of the statements of financial results interest in the amount of 3.5 million US Dollars and 3.2 million US Dollars (104 801 thousand rubles and 96 822 thousand rubles at the exchange rate as at December 31, 2012) for 2011 and 2012, respectively. MTS Finance is undertaking all lawful efforts to contest the enforcement of the Arbitration Ruling.

The Company's management estimates the probability of the Company having to reimburse MTS Finance S.A. for the expenses related to the implementation of the arbitration ruling as high. In accordance with PBU 8/2010 Provisions, contingent liabilities and contingent assets, the Company decided to accrue a provision for a contingent liability in the amount of 6 602 973 thousand rubles.

On February 9, 2012 the Company received a request for arbitration from MTS Finance signifying the commencement of arbitration proceedings with respect to the loan agreement of January 28, 2005 between the parties (the "Loan Agreement"). Under the terms and conditions of the Loan Agreement MTS Finance provided the Company with a loan in the amount of 400 million US Dollars (12 149 080 thousand rubles at the exchange rate as at December 31, 2012).

MTS Finance seeks payment by the Company of the principal and interest due under the Loan Agreement, the overall amount approximating 416 million US Dollars (12 635 043 thousand rubles at the exchange rate as at December 31, 2012). The Company agrees that the dispute is to be resolved by the arbitration court but denies any debt to MTS Finance. The hearings were held at the end of January 2013. The tribunal will issue its decision before July 2013.

Arbitration is conducted pursuant to the Rules of the London Court of International Arbitration.

In disputing any liability to MTS Finance the Company refers to its redemption of Eurobonds in the amount of 400 million US Dollars issued by MTS Finance which matured on January 28, 2012 by making a payment as a guarantor pursuant to the terms of the Indenture.

The Company disclosed accounts receivable from MTS Finance S.A. under the exercised guarantee in the line "Accounts receivable" of the balance sheet as of December 31, 2012 and its liability to MTS Finance under the Loan Agreement in the line "Borrowings" of the balance sheet as of December 31, 2012 in the amount of 12 635 043 thousand rubles.

**Uzdunrobita** - On July 17, 2012, LLC FE Uzdunrobita (hereinafter, "FE Uzdunrobita"), a wholly-owned subsidiary of the Company in the Republic of Uzbekistan, temporarily suspended its services in Uzbekistan upon receipt of an order of the State Agency for Communications and Information of Uzbekistan ("SACI") informing the Group of the temporary suspension of the operating license of Uzdunrobita for a period of 10 business days; this suspension was subsequently extended to three months.

On August 6-7, 2012, sixteen regional antimonopoly departments of the Republic of Uzbekistan simultaneously held hearings and declared that Uzdurobita had violated antimonopoly laws, consumer protection laws and laws governing advertising. In total, the claims of the antimonopoly regulator against Uzdurobita amounted to approximately 80 million US Dollars. This amount was subsequently reduced by the superior antimonopoly regulator to 13 million US Dollars in aggregate. The disputes with the antimonopoly authorities were dismissed further to payments made by the Company under the Appeal Decision (as defined below).

On August 13, 2012, the Tashkent Economic Court granted the petition of the SACI to withdraw all operating licenses of Uzdurobita. Notwithstanding the fact that a tax audit of FE Uzdurobita's operations for the period of 2007 - 2010 was completed in February 2012 and did not reveal any serious violations, FE Uzdurobita received the findings of subsequent additional tax audits related to license violations and income and other taxes resulting in a total amount of claims of approximately 900 million US Dollars (27 335 million rubles at the exchange rate as at December 31, 2012). This amount was subsequently further reduced to 669 million US Dollars (20 288 million rubles at the exchange rate as at December 31, 2012). These claims of the tax authorities of Uzbekistan and related disputes in the Uzbek commercial courts are still pending.

In September and October 2012, the government of the Republic of Uzbekistan was paid 6.4 million US Dollars (194 million rubles at the exchange rate as at December 31, 2012) from FE Uzdurobita's bank accounts to satisfy liabilities under the claims. On September 17, 2012, the Tashkent City Criminal Court issued a ruling in favor of the Uzbek state to confiscate all assets of Uzdurobita in connection with a criminal court judgment against four employees of Uzdurobita. Previously, Uzbek law enforcement bodies froze all of Uzdurobita's assets, including cash held in local bank accounts.

On November 8, 2012, the Appellate division of the Tashkent City Criminal Court allowed Uzdurobita's appeal challenging the decision of the Tashkent City Criminal Court dated September 17, 2012, which ruled to confiscate all assets of MTS-Uzbekistan in relation to a criminal case against four employees of MTS Uzbekistan. The appellate court overturned the decision of the court of first instance for the confiscation of all assets of FE Uzdurobita and determined the total amount of claims to the company for losses incurred by the government. This amount of damages was calculated and determined based on all the aforementioned existing claims against FE Uzdurobita and amounted to 587 million US Dollars (17 829 million rubles at the exchange rate as at December 31, 2012) payable in equal installments during an eight month period (the "Appeal Decision").

In accordance with applicable Uzbek laws, Uzdurobita petitioned to the Deputy General Prosecutor to appeal the Decision in the Supreme Court of Uzbekistan and grant a stay to enforce the Appeal Decision. However, such petitions were rejected by the General Prosecutor's Office on January 8, 2013.

Further to such rejection, Uzdurobita immediately filed similar requests to the Chairman of the Supreme Court of Uzbekistan. However, on January 23, 2013, the Company was notified that the matter was submitted by the Supreme Court for consideration to the Chairman of the Tashkent City Court. As of the current date, Uzdurobita has not yet received any response from the Chairman of the Tashkent City Court. In order to comply with the Appeal Decision, Uzdurobita paid two scheduled installments in November and December 2012 totaling 147.5 million US Dollars (4 480 million rubles at the exchange rate as at December 31, 2012). On January 14, 2013, further to partial payment of the third installment payable in January 2013 totaling 15.9 million US Dollars (483 million rubles at the exchange rate as at December 31, 2012) and constituting the remaining amount of cash held in its bank accounts Uzdurobita filed a petition for its voluntary bankruptcy to the Tashkent Commercial Court due to its inability to meet further obligations pursuant to the Appeal Decision. The court initiated bankruptcy procedures and appointed an external temporary supervisor over Uzdurobita with a further bankruptcy hearing scheduled for April 22, 2013.

FE Uzdurobita 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 caused by termination of Uzdurobita's operations in Uzbekistan.

Taking into account all factors affecting the ability of FE Uzdunrobita to continue as a going concern in the Republic of Uzbekistan, the Company has determined that its investments in FE Uzdunrobita should be impaired. As at December 31, 2012, an allowance for the impairment of investments in FE Uzdunrobita in the amount of 9 995 499 thousand rubles and an allowance for the impairment of loans receivable (to reflect the risk of uncollectibility) in the amount of 1 688 383 thousand rubles (including accrued interest) were created.

## **31. SUBSEQUENT EVENTS**

### ***31.1. Change of loan maturity periods***

On February 22 and March 1, 2013, OJSC MTS voluntarily repaid the loan from OJSC Bank of Moscow in the amount of 3 billion rubles and 1 billion rubles, respectively.

### ***31.2. Changes in share capital***

In February 2013, as part of the reorganization of OJSC MTS (see Note 26 Reorganization of the Company) through its merger with other companies, the shareholders of OJSC MTS repurchased 90 881 ordinary shares for 19 721 177 rubles.

### ***31.3. Related party transactions***

In January 2013, the Company increased the share capital of MOBILE TELESYSTEMS B.V., its wholly-owned subsidiary, by 128 million euro (5.1 billion rubles at the exchange rate as at December 31, 2012). The cash is expected to be used for the acquisition of additional shares of OJSC MTS Bank, a related party, equivalent to 25.095% of its share capital, for an amount of 5.09 billion rubles.

In March 2013, OJCS MTS also entered into a five-year agreement with OJSC MTS Bank on the joint development of a consumer financing product, *MTS Money*. According to the signed agreement, the operator will receive 70% of the annual profits from the project, MTS Bank's share of the profit from *MTS Money* will be 30%.

March 29, 2013