

Open Joint-Stock Company Mobile TeleSystems

Auditor's Report

on the Financial Statements for 2011

(Translated from the Original in Russian –
Unofficial translation)

AUDIT FIRM: ZAO DELOITTE & TOUCHE CIS

Address: 5 Lesnaya St., Moscow, 125047.

Tel: +7 (495) 787 0600.

Certificate of membership in self-regulated organization "Non-Commercial Partnership "Audit Chamber of Russia" No. 3026 dated May 20, 2009; main registration number 10201117407.

Certificate of registration in the Unified State Register of Legal Entities as a legal entity registered before July 1, 2002 under No. 1027700425444 issued by Interregional Inspectorate of the Russian Ministry of Taxes and Levies No. 39 for Moscow on November 13, 2002.

State Registration Certificate of ZAO Deloitte and Touche CIS No. 018.482 issued by the Moscow Registration Chamber on October 30, 1992.

AUDITED ENTITY: OPEN JOINT-STOCK COMPANY MOBILE TELESYSTEMS

Address: 4 Marksistskaya St., Moscow, 109147.

Certificate of registration in the Unified State Register of Legal Entities as a legal entity registered before July 1, 2002 under No. 1027700149124 issued by the Moscow Department of the Russian Ministry of Taxes and Levies on September 2, 2002.

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

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 of December 31, 2011;
- The profit and loss statement for the year ended December 31, 2011;
- The appendices to the balance sheet and profit and loss statement:
 - The statement of changes in equity for the year ended December 31, 2011;
 - The statement of cash flows for the year ended December 31, 2011;
 - 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.

Auditors' 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 Law No. 307-FZ dated December 30, 2008 "On Auditing", federal rules (standards) of auditing, and internal policies of our firm. 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 an assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we considered the system of internal control relevant to the preparation and fair presentation of the financial statements 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 an audit opinion on the financial statements.

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, 2011, the results of its financial performance and its cash flows for 2011 in accordance with Russian accounting and financial reporting standards.

March 30, 2012

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.

BALANCE SHEET
As of December 31, 2011

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

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

Codes
0710001
31.12.2011
52686811
INN 7740000076
OKVED 64.20.11
OKOPF/ OKFS 47 / 34
OKEI 384

Item description	Note	December 31, 2011	December 31, 2010	December 31, 2009
ASSETS				
I. NON-CURRENT ASSETS				
Intangible assets	4	256 682	306 634	374 533
Property, plant and equipment	3, 5	122 125 099	97 744 636	94 832 315
Investment property		309 017	300 248	330 925
Investments	3, 6	170 122 816	150 717 709	127 159 982
Deferred tax assets	3, 16	6 541 387	6 981 003	6 180 287
Other non-current assets	3, 7	75 902 666	67 484 084	45 523 267
Total section I		375 257 667	323 534 314	274 401 309
II. CURRENT ASSETS				
Inventories	3, 8	1 799 641	2 400 908	1 717 633
Value added tax receivable		147 767	153 678	328 029
Accounts receivable	3, 9	31 528 874	25 785 530	25 611 814
Investments (other than cash equivalents)	3, 6	9 013 908	22 885 008	23 284 708
Cash and cash equivalents	3, 10	47 846 480	9 600 802	58 155 565
Other current assets	3, 11	8 795 959	5 879 230	3 998 257
Total section II		99 132 629	66 705 156	113 096 006
TOTAL ASSETS		474 390 296	390 239 470	387 497 315

Item description	Note	December 31, 2011	December 31, 2010	December 31, 2009
EQUITY AND LIABILITIES				
III. EQUITY AND RESERVES				
Share capital	12	206 641	199 333	199 333
Treasury shares		(593)	-	-
Additional paid-in capital (excluding revaluation)		7 449 170	10 731 725	10 796 308
Reserve capital		29 900	29 900	29 900
Retained earnings, current year		52 855 121	x	x
Retained earnings, prior years	3, 25	41 540 907	88 845 812	92 195 036
Total section III		102 081 146	99 806 770	103 220 577
IV. NON-CURRENT LIABILITIES				
Long-term borrowings	13	258 557 782	207 867 081	174 747 609
Provisions	3, 15	2 030 991	1 616 155	1 428 559
Long-term accounts payable	3, 14	4 214 225	3 145 701	23 861
Total section IV		264 802 998	212 628 937	176 200 029
V. CURRENT LIABILITIES				
Short-term borrowings	13	47 499 113	30 584 482	62 363 647
Accounts payable	3, 14	32 273 601	24 193 752	33 000 667
Dividends payable	14	5 689	18 974	18 155
Deferred income		2 817 920	2 535 967	1 261 804
Provisions	15	24 909 829	20 470 588	11 432 436
Total section V		107 506 152	77 803 763	108 076 709
TOTAL EQUITY AND LIABILITIES		474 390 296	390 239 470	387 497 315

March 30, 2012

PROFIT AND LOSS STATEMENT
for the year ended December 31, 2011

Entity OJSC MTS
Taxpayer Identification Number _____
Type of activity Telecommunications services
Legal status/
form of ownership Open Joint-Stock Company/
Joint Private and Foreign Ownership
Unit Thousands of rubles

Form No 2 OKUD
Date (day, month, year)

Codes
0710002
31.12.2011
OKPO 52686811
INN 7740000076
OKVED 64.20.11
OKOPF/OKFS 47 / 34
OKEI 384

Item description	Note	2011	2010
INCOME AND EXPENSES FROM OPERATING ACTIVITIES			
Revenue		246 965 174	216 130 036
Cost of sales	3, 17	(123 778 406)	(98 043 205)
Gross profit		123 186 768	118 086 831
Selling expenses	17	(36 569 705)	(33 089 665)
Administrative expenses	3, 17	(21 300 598)	(19 083 182)
Operating profit		65 316 465	65 913 984
OTHER INCOME AND EXPENSES			
Investment income		23 928 792	8 174 937
Interest income		3 791 373	4 384 057
Interest expense	13	(20 323 164)	(19 580 884)
Other income	18	2 525 087	4 852 145
Other expenses	3, 19	(12 319 661)	(26 932 072)
Profit before income tax		62 918 892	36 812 167
Current income tax expense	16	(9 577 869)	(10 958 673)
including:			
Permanent tax expense	16	2 257 587	3 866 813
Deferred tax expense	3, 16	(1 124 533)	(275 233)
Deferred tax benefit	16	646 795	1 802 966
Income tax and tax penalties of prior years	16	(8 164)	(97 812)
CURRENT YEAR NET INCOME		52 855 121	27 283 415
SUPPLEMENTAL INFORMATION			
Transfer of the surplus on disposed non-current assets, not included in current year net income		1 136 994	64 583
Result of reorganization	26	(18 396 280)	-
Comprehensive income for the year		35 595 835	27 347 998
Basic earnings per share (rubles)	22	25.89	13.69
Diluted earnings per share (rubles)	22	25.89	13.20

March 30, 2012

STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2011

Entity OJSC MTS
Taxpayer Identification Number
Type of activity Telecommunications services
Legal status/
form of ownership Open Joint-Stock Company/
Joint private and foreign ownership
Unit Thousands of rubles

	Codes
Form No 3 OKUD	0710003
Date (day, month, year)	31.12.2011
OKPO	52686811
INN	7740000076
OKVED	64.20.11
OKOPF/	47 / 34
OKFS	
OKEI	384

CHANGES IN EQUITY

Item description	Share capital	Treasury shares	Additional paid-in capital	Reserve capital	Retained earnings	Total
Balance as of December 31, 2009	199 333	-	10 796 308	29 900	92 195 036	103 220 577
Net income	X	X	X	X	27 283 415	27 283 415
Dividends	X	X	X	X	(30 697 222)	(30 697 222)
Transfer of the surplus on disposed non-current assets	X	X	(64 583)	X	64 583	-
Balance as of December 31, 2010	199 333	-	10 731 725	29 900	88 845 812	99 806 770
Net income	X	X	X	X	52 855 121	52 855 121
Dividends	X	X	X	X	(30 045 619)	(30 045 619)
Transfer of the surplus on disposed 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)
Balance as of December 31, 2011	206 641	(593)	7 449 170	29 900	94 396 028	102 081 146

March 30, 2012

STATEMENT OF CASH FLOWS
for the year ended Decemer 31, 2011

Entity	OJSC MTS	Form No 4 OKUD	Codes
Taxpayer Identification Number		Date (day, month, year)	0710004
Type of activity	Telecommunications services	OKPO	31.12.2011
Legal status/ form of ownership	Open Joint-Stock Company/ Joint Private and Foreign Ownership	INN	52686811
Unit	Thousands of rubles	OKVED	7740000076
		OKOPF/ OKFS	64.20.11
		OKEI	47 / 34
			384

Item description	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES		
Inflows - total		
including:	225 405 223	198 271 013
Receipts from customers	222 291 589	196 824 727
Other cash inflows	3 113 634	1 446 286
Outflows - total		
including:	(152 419 369)	(132 639 964)
payments for acquired goods, services, raw materials and other current assets	(95 772 216)	(81 942 276)
payments to employees	(14 104 637)	(11 477 573)
interest paid	(20 902 145)	(18 991 327)
income tax paid	(8 146 121)	(6 202 450)
other taxes and duties paid	(12 811 265)	(12 120 299)
other payments	(682 985)	(1 906 039)
Net cash provided by operating activities	72 985 854	65 631 049
CASH FLOWS FROM INVESTING ACTIVITIES		
Inflows - total		
including:	39 950 972	13 075 985
Proceeds from sales of property, plant and equipment and other non-current assets	194 816	193 575
Proceeds from sales of securities and other financial instruments	102 237	8
Dividends received	22 061 045	8 377 604
Interest received	1 983 604	270 637
Proceeds from repayment of loans given	12 693 707	4 234 161
Proceeds from reorganization of subsidiaries in form of merger	2 915 563	-
Outflows - total		
including:	(99 055 571)	(94 011 855)
Placement of deposits	(344 892)	-
Payments for acquisition of subsidiaries	(27 820 399)	(26 408 152)
Purchases of property, plant and equipment (including investment property) and other non-current assets	(56 308 966)	(55 577 972)
Loans granted	(14 581 314)	(12 025 731)
Net cash used in investing activities	(59 104 599)	(80 935 870)
CASH FLOWS FROM FINANCING ACTIVITIES		
Inflows - total		
including:	78 968 952	142 132 289
Proceeds from borrowings	78 968 952	142 132 289
Outflows - total		
including:	(55 329 724)	(173 750 238)
Repayment of borrowings (excluding interest)	(25 205 210)	(142 778 237)
Dividends paid (including withholding income tax)	(30 024 382)	(30 697 959)
Acquisition of treasury shares	(1 962)	-
Repayment of finance lease liabilities	(98 170)	(274 042)
Net cash provided by/(used in) financing activities	23 639 228	(31 617 949)
Net cash for the reporting period	37 520 483	(46 922 770)
Cash and cash equivalents at the beginning of the reporting year	9 600 802	58 155 565
Cash and cash equivalents at the end of reporting year	47 846 480	9 600 802
Effect of exchange rate changes on cash and cash equivalents	725 195	(1 631 993)

**NOTES TO THE FINANCIAL STATEMENTS OF
Open Joint-Stock Company Mobile TeleSystems for 2011**

1. GENERAL MATTERS

Open Joint-Stock Company Mobile TeleSystems (“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 Russian Ministry of Justice on March 1, 2000.

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

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

The Moscow Region, Moscow; 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; the Leningrad Region, St.-Petersburg; Pskov; 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-Altaysk; 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 2011 and 2010 was 18 880 and 18 947 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
- Work performed under construction licenses.

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 RF 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 RF economy, adversely affect the Company's access to capital and cost of capital for the Company 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 legislation of the Russian Federation relating to accounting, regulations of the Russian Ministry of Finance and agencies authorized by federal laws to regulate accounting.

In 2011 accounting records were maintained in accordance with the Company's accounting policies as approved by Order of the President of OJSC MTS No. 01/0858 P of December 29, 2006 (with subsequent annual 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 appropriately.

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 Methodological Guidelines for the Count of Property and Financial Liabilities approved by Order of the Russian Ministry of Finance No. 49 dated June 13, 1995.

The stocktake of property, plant and equipment is performed by units and separate classes of property, plant and equipment at least once every three 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, 2011 (depending on the type of assets and liabilities) as per Order of the President of OJSC MTS No. 01/0326 P "On performing counts of property and financial liabilities before preparation of the annual financial statements" of August 29, 2011.

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, 2011, 2010 and 2009.

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 date of their recognition for accounting purposes;
- The last day of the month, as at the date of the transaction and the reporting date;
- The date of asset or liability settlement.

Foreign currency gains and losses are recorded in the profit and loss statement as other income and expenses on a net basis.

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 after the reporting date. Liabilities classified as current liabilities in the financial statements are expected to be settled within 12 months after 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 an operating condition. The actual costs of acquisition, construction and manufacturing of property, plant and equipment which comprise historical cost are determined in accordance with clause 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 longer period (more than 2 years) to prepare for their intended use and substantial costs (more than 1 billion rubles) for acquisition, construction and (or) manufacturing. Interest payable to a lender is capitalized as part of the cost of the investment asset provided that the conditions stipulated by clause 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 20 000 rubles 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 in 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 item 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 useful life in accordance with the property, plant and equipment register of OJSC MTS.

Groups of property, plant and equipment	Useful lives, years	
	<u>From (minimum)</u>	<u>To (maximum)</u>
Network and base station equipment, telephone communication equipment	5	17
Office equipment, computers	2.5	5
Buildings	20	50
Vehicles	3	5

Expenses incurred for repair and maintenance of property, plant and equipment are recognized as expenses in the reporting period in which they were 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 the 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 of 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 profit and loss statement as other income and 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 previous estimates the useful life and depreciation charge for the current and subsequent periods are adjusted.

Property, plant and equipment are not revalued.

2.7. Accounting for intangible assets

Assets acquired by the Company are recognized as intangible assets provided that all of the conditions specified by clause 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 construction or manufacturing is determined as per Section II of PBU 14/2007. In particular, the actual (historical) cost of an intangible asset is recognized as 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 the 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 the previous estimates the useful life and amortization 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.

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 their issue is recognized evenly in the profit and loss statement as other income and expenses until the disposal of such securities.

Investments for which current market value is able to be determined 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 (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 an evidence of sustained significant impairment of investments. 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 the 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 is 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 expenses 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, safety shoes and other personal protective equipment with a value in excess of 20 000 rubles 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 the 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.

Revenue from the sale of telecommunications services is determined on the basis of data from the billing system on the volume and types of services provided during the reporting period and approved tariffs for telecommunications services, after applying 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.

For construction and installation services performed by the Company, the percentage of completion is determined on the basis of interim acceptance acts ("KS-2") and reports on the cost of services performed ("KS-3").

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 an expense accounting unit (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 related to the allowance for impairment of investments;
- Expenses related to the allowance for doubtful accounts;
- Expenses from disposal of investments;
- Foreign exchange gain and loss, net;
- 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 related to the allowance for inventory obsolescence;
- Write-off of value-added tax receivable;
- Loss recognised 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;
- Prior year losses identified in the reporting year (if insignificant);
- Other expenses.

2.13. Accounting for borrowings and related expenses

Additional expenses related to the discharge of obligations under loans received (except for the portion to be included in the cost of investment assets) are charged to other expenses in the period in which they were incurred.

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).

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 limitation period) based on the results of a Company investigation, provided that the specified procedures are performed, if costs required to collect these receivables exceed potential economic benefits.

The allowance for impairment of investments in securities is made at the end of the quarter in the amount of the difference between the recorded and estimated value of the investments for which the current market value is not determinable and there is an evidence of sustained significant impairment of investments.

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

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

- Provision for unused vacations;
- Provision for half-year and annual performance bonuses;
- Provision for actual expenses related to the acquisition of goods, work, or services for which primary documents have not been received at the reporting date;
- Provision for asset retirement obligations;
- Other provisions meeting the criteria specified in clauses 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 of their initial useful life. 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 in a full month's proportion. Amortization period is determined based on the expense type and purpose.

Prepaid expenses include:

- Expenses related to the acquisition of any licenses to be amortized over the validity period of the respective certificate or license agreement;
- Expenses related to the obtaining of non-exclusive rights to databases and computer software to be amortized over their useful life;
- 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 the electromagnetic compatibility (EMC) assessment and expenses incurred to obtain permits for the use of radio frequencies and radio frequency channels to be amortized over 8 years;
- Expenses related to audio- and video-clips obtained under the 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 the 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 of the financial statements.

3. CHANGES IN ACCOUNTING POLICY

In the reporting year the Company changed the classification of a range of property, plant and equipment and as a result the corresponding figures of the Company's financial statements as at December 31, 2010 and 2009 were restated to ensure comparability with the figures as at December 31, 2011. The summary of the changes is as follows:

Item description	At December 31, 2010, restated for the effects of changes in accounting policy in the reporting year, thousand rubles		
	Initial amount	Restated amount	Difference
Historical cost of property, plant and equipment			
Buildings	8 444 296	8 443 388	(908)
Telecommunication network towers	28 008 011	28 627 128	619 117
Machinery and equipment	151 490 575	150 844 849	(645 726)
Vehicles	773 692	773 692	-
Production and support tools	585 071	584 854	(217)
Plots of land and natural resources	195 084	195 084	-
Other property, plant and equipment	1 735 555	1 763 289	27 734
Total	191 232 284	191 232 284	-
Depreciation of property, plant and equipment			
Buildings	1 257 012	1 257 012	-
Telecommunication network towers	6 702 621	6 702 621	-
Machinery and equipment	84 933 572	84 933 572	-
Vehicles	650 767	650 767	-
Production and support tools	478 420	478 420	-
Plots of land and natural resources	-	-	-
Other property, plant and equipment	621 648	621 648	-
Total	94 644 040	94 644 040	-

In the reporting year the Company changed the classification of outstanding interest on loans receivable and debt securities and as a result the corresponding figures of the Company's financial statements as at December 31, 2010 and 2009 were restated to ensure comparability with the figures as at the end of the reporting year. A summary of the changes is as follows:

Item description	At December 31, 2010, restated for the effects of changes in accounting policy in the reporting year, thousand rubles		
	Initial amount	Restated amount	Difference
Long-term investments	155 540 680	150 717 709	(4 822 971)
Other non-current assets	40 724 038	45 547 009	4 822 971
Investments (other than cash equivalents)	26 475 687	22 885 008	(3 590 679)
Accounts receivable	22 194 851	25 785 530	3 590 679
Total	244 935 256	244 935 256	-

Item description	At December 31, 2009, restated for the effects of changes in accounting policies in the reporting year, thousand rubles		
	Initial amount	Restated amount	Difference
Long-term investments	129 240 511	127 159 982	(2 080 529)
Other non-current assets	18 594 582	20 675 111	2 080 529
Investments (other than cash equivalents)	53 535 072	50 384 708	(3 150 364)
Accounts receivable	22 461 450	25 611 814	3 150 364
Total	223 831 615	223 831 615	-

In the reporting year the Company changed its accounting policies with respect to accounting for property, plant and equipment obtained under finance leases and recognition of asset retirement obligations.

At December 31, 2010, restated for the effects of changes in accounting policy in the reporting year, thousand rubles					
Item description	Initial amount	Restated amount	Difference	including:	
				Retirement obligations	Finance lease
BALANCE SHEET					
Property, plant and equipment	96 588 244	97 744 636	1 156 392	1 033 691	122 701
Other non-current assets	45 547 009	45 533 838	(13 171)	-	(13 171)
Other current assets	5 768 769	5 788 155	19 386	-	19 386
Deferred tax assets	9 377 195	9 493 322	116 127	116 493	(366)
Retained earnings, prior years	(89 310 320)	(88 845 812)	464 508	465 971	(1 463)
Long-term accounts payable	-	(70 895)	(70 895)	-	(70 895)
Long-term provisions	-	(1 616 155)	(1 616 155)	(1 616 155)	-
Accounts payable	(27 212 366)	(27 268 558)	(56 192)	-	(56 192)
PROFIT AND LOSS STATEMENT					
Cost of sales	(97 962 471)	(98 043 205)	(80 734)	(38 185)	(42 549)
Administrative expenses	(19 132 414)	(19 083 182)	49 232	-	49 232
Other expenses	(26 782 122)	(26 932 072)	(149 950)	(139 999)	(9 951)
Profit before income tax	36 993 619	36 812 167	(181 452)	(178 184)	(3 268)
Deferred tax expense	(311 523)	(275 233)	36 290	35 636	654
CURRENT YEAR NET INCOME					
Basic earnings per share (RUB)	27 428 577	27 283 415	(145 162)	(142 547)	(2 615)
Diluted earnings per share (RUB)	13.76	13.69	(0.07)	(0.07)	-
Historical cost of property, plant and equipment	13.27	13.20	(0.07)	(0.07)	-
Telecommunication network towers	28 627 128	29 803 971	1 176 843	1 176 843	-
Vehicles	773 692	989 453	215 761	-	215 761
Depreciation of property, plant and equipment					
Telecommunication network towers	6 702 621	6 845 773	143 152	143 152	-
Vehicles	650 767	743 827	93 060	-	93 060

At December 31, 2009, adjusted for the effects of changes in accounting policies in the reporting year, thousand rubles					
Item description	Initial amount	Adjusted amount	Difference	including:	
				Retirement obligations	Finance lease
BALANCE SHEET					
Property, plant and equipment	93 751 158	94 832 315	1 081 157	1 024 279	56 878
Other current assets	3 988 936	3 998 257	9 321	-	9 321
Deferred tax assets	8 301 247	8 381 083	79 836	80 856	(1 020)
Retained earnings, prior years	(92 514 382)	(92 195 036)	319 346	323 424	(4 078)
Long-term accounts payable	-	(23 861)	(23 861)	-	(23 861)
Long-term provisions	-	(1 428 559)	(1 428 559)	(1 428 559)	-
Accounts payable	(32 963 427)	(33 000 667)	(37 240)	-	(37 240)
Historical cost of property, plant and equipment					
Telecommunication network towers	23 124 877	24 254 123	1 129 246	1 129 246	-
Vehicles	794 259	901 648	107 389	-	107 389
Depreciation of property, plant and equipment					
Telecommunication network towers	4 406 471	4 511 437	104 966	104 966	-
Vehicles	718 417	768 928	50 511	-	50 511

In the reporting year, due to the entering into force of Order of the Russian Ministry of Finance No. 66n "On financial statement forms" dated July 2, 2010, the Company included the line "Construction in progress" of the balance sheet into the line "Other non-current assets" and as a result the corresponding figures of the Company's financial statements as at the beginning of the reporting year were adjusted to ensure comparability with the figures as at December 31, 2010 and 2009. The summary of the changes is as follows:

Item description	At December 31, 2010, restated for the effects of changes in accounting policy in the reporting year, thousand rubles		
	Initial amount	Restated amount	Difference
Construction in progress	21 950 246	-	(21 950 246)
Other non-current assets	45 533 838	67 484 084	21 950 246
Total	67 484 084	67 484 084	-

Item description	At December 31, 2009, restated for the effects of changes in accounting policies in the reporting year, thousand rubles		
	Initial amount	Restated amount	Difference
Construction in progress	24 848 156	-	(24 848 156)
Other non-current assets	20 675 111	45 523 267	24 848 156
Total	45 523 267	45 523 267	-

In addition, the Company changed a number of other classifications in the reporting period, in particular, it classified prepaid expenses within the balance sheet item "Other current assets", reported long-term payables as a separate line item in Section IV "Non-current liabilities" of the balance sheet, and reported deferred tax assets and liabilities on a net basis as follows:

Item description	At December 31, 2010, restated for the effects of changes in accounting policy in the reporting year, thousand rubles		
	Initial amount	Restated amount	Difference
BALANCE SHEET			
Inventories	2 491 983	2 400 908	(91 075)
prepaid expenses	91 075	-	(91 075)
Other current assets	5 788 155	5 879 230	91 075
Deferred tax assets	9 493 322	6 981 003	(2 512 319)
Deferred tax liabilities	(2 512 319)	-	2 512 319
Long-term accounts payable	(70 895)	(3 145 701)	(3 074 806)
Accounts payable	(27 268 558)	(24 193 752)	3 074 806

Item description	At December 31, 2009, restated for the effects of changes in accounting policies in the reporting year, thousand rubles		
	Initial amount	Restated amount	Difference
BALANCE SHEET			
Inventories	1 849 462	1 717 633	(131 829)
prepaid expenses	131 829	-	(131 829)
Other current assets	3 866 428	3 998 257	131 829
Deferred tax assets	8 381 083	6 180 287	(2 200 796)
Deferred tax liabilities	(2 200 796)	-	2 200 796

In the reporting year, due to the entering into force of PBU 23/2011 "Statement of cash flows" approved by Order of the Russian Ministry of Finance No. 11n dated February 2, 2011, the Company classified deposits with an original maturity of less than 3 months as cash equivalents while in the previous year these assets were included within short-term investments. The corresponding figures in the balance sheet were adjusted as at December 31, 2010 and 2009 as follows:

Item description	At December 31, 2010, restated for the effects of changes in accounting policy in the reporting year, thousand rubles		
	Initial amount	Restated amount	Difference
Investments (other than cash equivalents)	22 885 008	22 885 008	-
Cash and cash equivalents	9 600 802	9 600 802	-
Total	32 485 810	32 485 810	-

Item description	At December 31, 2009, restated for the effects of changes in accounting policies in the reporting year, thousand rubles		
	Initial amount	Restated amount	Difference
Investments (other than cash equivalents)	50 384 708	23 284 708	(27 100 000)
Cash and cash equivalents	31 055 565	58 155 565	27 100 000
Total	81 440 273	81 440 273	-

The application of PBU 23/2011 also resulted in changes in the presentation of certain cash flows in the Cash flow statement and therefore the data for 2010 were adjusted retrospectively.

DISCLOSURE OF FINANCIAL STATEMENTS ITEMS

4. INTANGIBLE ASSETS

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

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

Item description				(RUB '000)
	As at December 31, 2009	Additions	Disposals	As at December 31, 2010
Exclusive rights to intellectual property	368 344	1 528	(151 962)	217 910
Numbering capacity and other	1 017 274	-	(672)	1 016 602
Total	1 385 618	1 528	(152 634)	1 234 512

The amount of accumulated amortization by main class of intangible assets as at December 31, 2011, 2010 and 2009 was as follows:

Item description				(RUB '000)
	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009	
Intellectual property items (exclusive rights to intellectual property)	145 925	130 148	250 667	
Numbering capacity and other	827 783	797 730	760 418	
Total	973 708	927 878	1 011 085	

5. PROPERTY, PLANT AND EQUIPMENT

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

Item description				(RUB '000)
	As at December 31, 2010	Additions	Disposals	As 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
Machinery and equipment	150 844 849	36 458 072	(18 154 570)	169 148 351
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
Total	192 624 888	63 729 602	(19 657 293)	236 697 197

Item description				(RUB '000)
	As at December 31, 2009	Additions	Disposals	As at December 31, 2010
Buildings	7 817 100	630 118	(3 830)	8 443 388
Telecommunication network towers	24 254 123	6 078 594	(528 746)	29 803 971
Machinery and equipment	137 008 890	24 058 310	(10 222 351)	150 844 849
Vehicles	901 648	154 107	(66 302)	989 453
Production and support tools	652 867	32 518	(100 531)	584 854
Plots of land and natural resources	148 894	46 190	-	195 084
Other property, plant and equipment	1 111 458	820 787	(168 956)	1 763 289
Total	171 894 980	31 820 624	(11 090 716)	192 624 888

The amounts of accumulated depreciation by main classes of property, plant and equipment as at December 31, 2011, 2010 and 2009 was as follows:

Item description				(RUB '000)
	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009	
Accumulated depreciation				
Buildings	1 600 053	1 257 012	975 337	
Telecommunication network towers	10 476 606	6 845 773	4 511 437	
Machinery and equipment	99 899 193	84 933 572	69 794 115	
Vehicles	965 507	743 827	768 928	
Production and support tools	498 778	478 420	494 609	
Plots of land and natural resources	-	-	-	
Other property, plant and equipment	1 131 961	621 648	518 239	
Total	114 572 098	94 880 252	77 062 665	

Additional information about property, plant and equipment as at December 31, 2011, 2010 and 2009 was as follows:

Item description	(RUB '000)		
	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009
Immovable property put into operation and under the process of state registration	28 022 937	26 764 438	28 440 419
Non-depreciable property, plant and equipment	253 063	202 011	210 881
Fixed property, plant and equipment obtained under lease agreements	3 003 264	2 510 936	2 726 757
including:			
- under finance lease (at carrying amount)	126 363	122 701	56 878
- other	2 876 901	2 388 235	2 669 879
property, plant and equipment recorded as investment property (at carrying amount)	309 017	300 248	330 925
Changes in cost of property, plant and equipment as a result of completions, additions, reconstruction and partial liquidation	1 378 706	1 246 580	1 854 959

6. INVESTMENTS

6.1. Long-term investments

As at December 31, 2011, 2010 and 2009 long-term investments consisted of the following:

	(RUB '000)		
	As at December 31, 2011	As at December 31, 2010	As at December 31, 2009
Debt securities			
LLC System of Telecommunications, Informatics and Communication	1 221 200	1 221 200	-
LLC Digital Television and Radio Broadcasting	16 966	15 353	-
Total	1 238 166	1 236 553	-
Loans receivable			
CJSC Comstar-Regions	10 846 000	3 030 300	1 815 000
MTS Bermuda Ltd	9 600 011	4 186 347	4 118 418
Mr. Pierre and Mr. Moussa Fattouch ¹	2 897 649	2 742 921	-
International Cell Holding Ltd.	2 500 284	42 668	2 645 640
LLC Bastion	672 841	4 725 241	2 001 501
CJSC SWEET-COM	196 396	255 396	-
CJSC Metro-Telecom	166 201	-	-
MTS NEW HORIZONS LTD	32	30	-
Mobile TeleSystems Finance S.A.	-	5 410 000	5 286 490
CJSC K-Telecom	-	548 530	-
MCT Sibi Corp.	-	305	302
Mobile TeleSystems B.V.	-	12 705	-
Narico Holdings Limited	-	2 133	1 361
OJSC GPB	-	-	604 884
CJSC Russian Telephone Company	-	8 943 200	8 823 600
CJSC Telephone.ru	-	894 157	894 157
FE Uzdurobita	-	501 809	-
OJSC MTS P	-	158 545	158 545
CJSC Dagtelecom	-	-	368 901
CJSC T.RU	-	140 295	140 295
CJSC T.RU2	-	345 440	345 440
CJSC Teleforum	-	-	25 000
OJSC Intellect Telecom	-	-	156 000
Vostok Mobile B.V.	-	-	196 983
Total	26 879 414	31 940 022	27 582 517
Allowance for impairment of long-term loans receivable	(362 629)	(5 836 677)	(5 445 337)

¹ Holders of 20% of shares in International Cell Holding Ltd. provided as security for the loan.

Continued

	As at December 31, 2011	As at December 31, 2010	(RUB '000) As at December 31, 2009
Investments in share capital of subsidiaries and affiliates			
OJSC MGTS	22 947 547	-	-
LLC Telecom Projects	21 000 010	-	-
MTS Bermuda Ltd.	14 251 229	5 905 192	5 905 192
CJSC Russian Telephone Company	13 640 116	5 440 116	1 292 249
CJSC Comstar-Regions	11 967 648	-	-
PrJSC MTS Ukraine	11 625 862	11 625 862	11 625 862
LLC Tovarnye znaki	11 614 928	11 613 475	-
International Cell Holding Ltd.	11 266 226	11 266 226	11 072 981
FE Uzdunrobita	9 995 499	9 995 499	9 995 499
OJSC TRC TVT	5 107 317	-	-
COMSTAR ONE LIMITED	3 716 777	-	-
Narico Holding Ltd.	3 130 128	3 129 655	3 064 553
ANTEL METROKOM LIMITED	2 178 202	-	-
JIR Broadcast, Inc	1 918 578	-	-
Barash Communications Technologies, 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	551 026	-	-
LLC Stream	405 910	-	-
Coral/Sistema Strategic Fund	362 266	274 694	274 694
CJSC SWEET-COM	344 789	344 789	80 389
CJSC Metro-Telecom	340 048	340 048	-
OJSC Sistema Mass-media	309 734	-	-
LLC Bastion	308 300	308 300	308 300
Callnet Enterprises Ltd.	141 381	-	-
LLC PTT Telecom Kiev	106 403	106 403	106 403
LLC Unitel	100 153	-	-
LLC Universal TV	100 000	-	-
LLC Altair Telecompany	100 000	-	-
CJSC Operator Svyazi	-	44 098 859	44 290 446
OJSC COMSTAR-UTS	-	7 823 749	-
CJSC Capital	-	6 710 833	6 710 833
OJSC Evrotel	-	3 265 173	3 352 460
CJSC Dagtelecom	-	2 195 632	2 195 632
Eldorado Group of Companies	-	782 037	782 037
CJSC Mobile TeleSystems	-	282 160	282 160
OJSC TS-Retail	-	86 100	86 100
OJSC Firma Novitel	-	83 831	83 831
CJSC Teleforum	-	-	328 595
Other	198 363	115 151	113 104
Total	151 266 610	129 331 954	105 489 490
Allowance for impairment of long-term investments	(8 898 745)	(5 954 143)	(466 688)
Total long-term investments	170 122 816	150 717 709	127 159 982

6.2. Short-term investments

As at December 31, 2011, 2010 and 2009 short-term financial investments comprised the following:

	As at December 31, 2011	As at December 31, 2010	(RUB '000) As at December 31, 2009
Bank deposits			
OJSC Priorbank, Minsk	189 754	-	-
OJSC Belgazprombank Republic of Belarus, Minsk	1 255	-	-
Total	191 009	-	-
Debt securities			
LLC Digital Television and Radio Broadcasting	-	-	32 804
LLC Unitel	26 201	-	-
LLC Siberian Networks Novokuznetsk	1 134	-	-
Total	27 335	-	32 804
Allowance for impairment of debt securities	(26 201)	-	-
Loans receivable			
Mobile TeleSystems Finance S.A.	5 715 178	-	87 708
LLC Bastion	4 088 000	-	2 723 740
MTS Bermuda Ltd	2 029 744	15 789 446	16 159 817
FE Uzdurobita	1 495 999	748 208	1 576 290
CJSC Russian Telephone Company	1 036 930	-	-
CJSC Telephone.ru	894 157	-	-
CJSC BETALINK	817 294	817 294	817 294
OJSC TS-Retail	789 257	770 346	767 786
CJSC T.RU2	345 440	-	-
OJSC MTS P	158 545	-	-
CJSC T.RU	140 295	-	-
CJSC Sky-Link	125 695	-	-
International Cell Holding Ltd.	45 075	2 419 986	-
CJSC Metro-Telecom	25 000	-	-
Mobile TeleSystems B.V.	13 960	-	9 680
Narico Holdings Limited	2 254	-	-
CEZANNE B.V.	1 674	670	-
MCT Sibi Corp.	322	-	-
CJSC K-Telecom	-	-	2 013 217
MTS NEW HORIZONS LTD	-	-	30
OJSC GPB	-	761 538	-
CJSC Comstar-Regions	-	1 885 000	-
CJSC United TeleSystems	-	8 400	-
OJSC Evrotel	-	896 000	-
CJSC SWEET-COM	-	-	266 406
CJSC Capital	-	285 000	-
JLLC Mobile TeleSystems	-	91 431	3 024
CJSC Sotovaya Svyaz Primoriya	-	-	24 789
Total	17 724 819	24 473 319	24 449 781
Allowance for impairment of short-term loans receivable	(8 903 054)	(1 588 311)	(1 197 877)
Total	9 013 908	22 885 008	23 284 708

6.3. Revaluation of market securities

Item description	(RUB '000)		
	2011	December 31 2010	2009
OJSC MGTS			
Ordinary shares			
Cost of shares, thousand rubles	22 945 040	-	-
Number of shares	53 388 672	-	-
Market price per share, rubles	429.77	-	-
Preferred shares			
Cost of shares, thousand rubles	2 579	-	-
Number of shares	6 000	-	-
Market price per share, rubles	429.83	-	-
OJSC Rostelecom (OJSC Volgatelecom)*			
Ordinary shares			
Cost of shares, thousand rubles	4 331	1 233	783
Number of shares	30 351	8 821	8 821
Market price per share, rubles	142.70	139.80	88.77
Preferred shares			
Cost of shares, thousand rubles	-	2 543	1 555
Number of shares	-	23 191	23 191
Market price per share, rubles	-	109.66	67.05

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

6.4. Allowance for impairment of 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, 2009	Charge of allowance and other movements	Use of allowance	As at December 31, 2010	Charge of allowance and other movements	Use of allowance	As at December 31, 2011
Mobile TeleSystems Finance S.A.	(5 374 198)	(35 802)	-	(5 410 000)	(305 178)	-	(5 715 178)
CJSC Telephone.ru	-	-	-	-	(894 157)	-	(894 157)
CJSC BETALINK	(817 294)	-	-	(817 294)	-	-	(817 294)
OJSC TS-Retail	-	(770 346)	-	(770 346)	(18 911)	-	(789 257)
CJSC T.RU2	-	-	-	-	(345 440)	-	(345 440)
CJSC SWEET-COM	(258 376)	2 980	-	(255 396)	59 000	-	(196 396)
CJSC Metro-Telecom	-	-	-	-	(191 201)	-	(191 201)
OJSC MTS P	(158 545)	-	-	(158 545)	-	-	(158 545)
CJSC T.RU	-	-	-	-	(140 295)	-	(140 295)
LLC Unitel	-	-	-	-	(26 201)	-	(26 201)
Mobile TeleSystems B.V.	(9 680)	(3 025)	-	(12 705)	(1 255)	-	(13 960)
Narico Holdings Limited	-	-	-	-	(2 254)	-	(2 254)
CEZANNE B.V.	-	(670)	-	(670)	(1 004)	-	(1 674)
MTS NEW HORIZONS LTD	(30)	(2)	-	(32)	-	-	(32)
CJSC Sotovaya Svyaz Primoriya	(24 789)	-	24 789	-	-	-	-
MCT Sibi Corp.	(302)	302	-	-	-	-	-
Total	(6 643 214)	(806 563)	24 789	(7 424 988)	(1 866 896)	-	(9 291 884)

The allowance for Mobile TeleSystems Finance S.A. in the amount of 5 718 925 thousand rubles comprises the following:

- Allowance for impairment of the loan issued to Mobile TeleSystems Finance S.A. in the amount of 5 715 178 thousand rubles for acquiring 51% of the shares of Tarino Ltd. which owned 100% of LLC Bitel through its subsidiaries in the amount of 4 847 123 thousand rubles at the time of acquisition, as well as for covering the cost of litigation as regards LLC Bitel in the amount of 868 055 thousand rubles;
- Allowance for impairment of the contribution to 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 December 31, 2012. However as of today, there is an uncertainty concerning 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:

Company name					(RUB '000)
	December 31, 2010	(Charge) / reversal of allowance	Other ²	Use of allowance	December 31, 2011
Interest in subsidiaries and affiliates					
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)
MOBILE TELESYSTEMS					
FINANCE S.A.	(3 747)	-	-	-	(3 747)
MTS B.V.	(693)	-	-	-	(693)
Cezanne B.V.	(490)	-	-	-	(490)
JIR, Inc	-	-	(341)	-	(341)
OJSC MTS P	(285)	-	-	-	(285)
Eldorado Group of Companies	(782 037)	-	-	782 037	-
OJSC TS-Retail	(86 100)	-	(51 660)	137 760	-
NPF Sistema	(14 085)	-	-	14 085	-
Total	(5 954 144)	1 386 630	(5 265 113)	933 882	(8 898 745)

Company name					(RUB '000)
	December 31, 2009	Charge of allowance	Other	Use of allowance	December 31, 2010
Interest in subsidiaries and affiliates					
Narico Holdings Limited	-	(3 129 655)	-	-	(3 129 655)
Barash Communications Technologies, Inc.	-	(1 317 569)	-	-	(1 317 569)
Eldorado Group of Companies	-	(782 037)	-	-	(782 037)
CJSC SWEET-COM	(80 389)	(264 400)	-	-	(344 789)
The Coral/Sistema Strategic Fund	(274 694)	-	-	-	(274 694)
OJSC TS-Retail	-	(86 100)	-	-	(86 100)
NPF Sistema	(14 085)	-	-	-	(14 085)
MOBILE TELESYSTEMS					
FINANCE S.A.	-	(3 747)	-	-	(3 747)
MTS B.V.	-	(693)	-	-	(693)
Cezanne B.V.	-	(490)	-	-	(490)
OJSC MTS P	(285)	-	-	-	(285)
OJSC Firma Novitel	(83 831)	-	-	83 831	-
LLC TS-Service	(13 400)	-	-	13 400	-
CJSC Uraltelplus	(4)	-	-	4	-
Total	(466 688)	(5 584 691)	-	97 235	(5 954 144)

² Increase in the allowance as a result of the Company's reorganization through merger with subsidiaries.

7. OTHER NON-CURRENT ASSETS

As at 31 December 2011, 2010 and 2009 other non-current assets comprised the following:

	Account	(RUB '000)		
		December 31		
		2011	2010	2009
Other non-current assets				
Construction in progress of telecommunication equipment	08	23 672 416	12 450 084	15 523 806
Numbering capacity, non-exclusive rights to use software products with useful lives over 12 months	97	18 195 485	14 568 312	12 445 306
Equipment for installation	07, 14	15 110 657	9 392 389	9 254 996
Debt issuance costs	97	5 117 676	3 594 209	4 315 974
Accrued interest on loans receivable		5 651 464	5 069 223	2 206 924
Allowance for accrued interest on loans receivable		(129 920)	(246 252)	(126 395)
Advances given for acquisition of property, plant and equipment and construction services	60, 63	8 112 075	22 521 387	1 826 718
Securities acquisition-related costs	58	78 004	26 960	6 584
Other	15,16	94 809	107 772	69 354
Total		75 902 666	67 484 084	45 523 267

Due to the development of next-generation 3G 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, 2011, 2010 and 2009 the allowance for unused equipment amounted to 474 107 thousand rubles, 501 026 thousand rubles and 1 534 934 thousand rubles, respectively. The allowance is incorporated in the line "Other non-current assets" of the balance sheet.

8. INVENTORIES

As at 31 December 2011, 2010 and 2009 inventories comprised the following:

	(RUB '000)		
	December 31		
	2011	2010	2009
Inventories			
Finished goods and goods for resale	1 440 889	1 191 967	1 064 844
Raw materials	1 008 538	1 246 650	801 193
Work in-progress	11 367	16 331	15 084
Allowance for inventory obsolescence	(661 153)	(54 040)	(163 488)
Total	1 799 641	2 400 908	1 717 633

As at December 31, 2011, 2010 and 2009 the Company had no inventory in transit or pledged as collateral.

9. ACCOUNTS RECEIVABLE

As at December 31, 2011, 2010 and 2009 accounts receivable comprised the following:

	(RUB '000)		
	December 31		
	2011	2010	2009
Accounts receivable			
Trade receivables	19 276 313	18 526 075	15 291 001
Allowance for trade receivables	(5 715 697)	(7 584 601)	(6 232 056)
Receivables on roaming	5 464 558	4 971 050	3 110 512
Allowance for receivables – roaming	(19 116)	-	-
Interest on loans receivable	5 060 742	3 854 078	3 291 005
Allowance for interest on loans receivable	(816 038)	(263 399)	(140 641)
Receivables from commercial representatives	2 936 604	1 570 743	604 614
Allowance for receivables from commercial representatives	(216 692)	(247 689)	(243 636)
Prepayments on taxes and duties	2 574 261	1 985 190	5 754 896
Advances paid	1 798 772	2 478 448	3 158 797
Allowance for receivables - advances paid	(93 427)	(109 251)	(328 684)
Settlements with the Social Security Fund	114 774	184 083	255 729
Other	1 314 826	730 367	1 432 785
Allowance for other receivables	(151 006)	(309 564)	(342 508)
Total	31 528 874	25 785 530	25 611 814

10. CASH AND CASH EQUIVALENTS

As at 31 December 2011, 2010 and 2009 cash and cash equivalents comprised the following:

	(RUB '000)		
	December 31		
	2011	2010	2009
Cash and cash equivalents			
Current accounts with banks	14 646 263	9 594 385	31 037 106
Deposits with initial maturity of less than 3 months	33 187 414	-	27 100 000
Petty cash	12 144	6 237	18 451
Other	659	180	8
Total	47 846 480	9 600 802	58 155 565

11. OTHER CURRENT ASSETS

As at 31 December 2011, 2010 and 2009 other current assets comprised the following:

	(RUB '000)		
	December 31		
	2011	2010	2009
Other current assets			
Value-added tax receivable on advances paid	3 000 337	3 584 011	1 867 342
Value-added tax receivable on goods, products, works and services purchased	3 742 556	1 216 465	9 321
Discounts receivable	1 934 930	613 117	1 359 940
Equipment for sale	-	366 734	604 884
Other	118 136	98 903	156 770
Total	8 795 959	5 879 230	3 998 257

12. SHARE CAPITAL

As at 31 December 2011, 2010 and 2009 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		
		2011	2010	2009	2011	2010	2009
Ordinary shares	0.1	2 066 413 562	1 993 326 138	1 993 326 138	77 496 725	76 456 877	76 456 877
Total		2 066 413 562	1 993 326 138	1 993 326 138	77 496 725	76 456 877	76 456 877

As specified in Note 26 to the financial statements, "Reorganization of the Company", the Company's share capital was increased by the amount of additional issue of 73 087 424 shares with a par value of 0.1 rubles per share. The additional share issue was registered by the Federal Service for Financial Markets on April 22, 2011.

The shareholder structure as at December 31, 2011, 2010 and 2009 was as follows:

	Ownership interest, %		
	2011	2010	2009
CJSC ING Bank (Eurasia) (nominal holder)	38.78	39.74	39.82
JSFC Sistema	30.79	31.92	25.98
LLC Sistema Telecom Aktivy	10.67	-	-
CJSC Invest-Svyaz	-	8.04	8.04
LLC Deutsche Bank (nominal holder)	9.36	9.71	9.71
CJSC Depository Clearing Company (nominal holder)	3.49	2.57	9.09
Other shareholders	6.91	8.02	7.36
Total	100.00	100.00	100.00

As at December 31, 2011, 2010 and 2009 JSFC Sistema controls over 50% of shares in the Company's share capital.

13. BORROWINGS

In September 2011 the Company entered into a credit facility agreement with OJSC Sberbank of Russia to raise additional funding for the financing of operating activities in the amount of 10 billion rubles with a drawdown period until 2014. As at December 31, 2011 the credit facility was undrawn.

In July 2011 the Company completed a secondary placement of 6.3 million series 02 notes (par value: 1 thousand rubles, date of placement: 2008, date of maturity: 2015) in the amount of 6.3 billion rubles on the OJSC Moscow Interbank Currency Exchange - RTS ("MICEX-RTS") which will be used to finance its operating activities.

In May 2011 due to the change in the coupon rate of series 04 notes from 16.75% to 7.6% the Company repurchased notes in the total amount of 1.103 billion rubles (par value: 1 thousand rubles, date of issue: 2009, date of maturity: 2014). Until the end of the maturity period, the notes of this series will have a coupon rate of 7.6% as per the prospectus.

In 2011 the Company also registered four note issues in the total amount of 30 billion rubles. As at December 31, 2011 the notes were not placed.

Maturities of the main types of debt outstanding as at December 31, 2011 are presented as follows:

Borrowings				(RUB '000)
	Up to 1 year	1 year to 5 years	Over 5 years	Total
Notes	38 865 246	60 230 558	34 159 075	133 254 879
Loans	8 633 867	120 247 912	41 917 850	170 799 629
Promissory notes	-	-	2 002 387	2 002 387
Total	47 499 113	180 478 470	78 079 312	306 056 895

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 could be exercised.

Subject to certain exceptions and qualifications, loans contain covenants limiting the Company's ability 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 passage 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 requiring payment of money or recovery against property in an amount in excess of the 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. In 2010 with respect to the decision on LLC Bitel (see Note 30 "Contingencies"), the Company failed to comply with the covenants specified in the loan agreements. As at the date of approval of the financial statements, December 31, 2010, the Company received consents to waive these violations from all creditors except Barclays Bank. Therefore, the outstanding amount of 1,002 million rubles under the loan received from Barclays bank was classified as short-term debt as at December 31, 2010 and repaid in February 2011.

As at December 31, 2011, the Company is 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	32 542 078	10 000 000	-	42 542 078
Notes	1 480 059	8 203 291	30 179 499	39 862 849
Total	34 022 137	18 203 291	30 179 499	82 404 927

The accrued expenses on borrowings (interest and other additional expenses) for 2011 and 2010 years amounted to 21 125 480 and 22 291 228 thousand rubles, including:

- 20 323 164 and 19 580 884 thousand rubles recognized in the line "Interest expense" of the profit and loss statement;
- 802 317 and 2 710 344 thousand rubles recognized in the line "Other expenses" of the profit and loss statement (debt issuance costs).

The debt issuance costs capitalized in the line "Other non-current assets" for 2011 and 2010 amounted to 2 309 682 and 2 011 859 thousand rubles.

14. ACCOUNTS PAYABLE

As at 31 December 2011, 2010 and 2009, the Company's accounts payable comprised the following:

	(RUB '000)		
	December 31		
	2011	2010	2009
Long-term payables			
Trade payables	4 214 225	3 145 701	23 861
Short-term payables			
Trade payables	15 300 798	7 295 911	16 523 055
Advances received	12 290 240	11 104 865	10 997 854
Taxes and duties payable	3 525 468	3 408 300	3 202 456
Wages and salaries payable	867 165	1 765 245	1 921 012
Social contributions payable	943	13 921	228 996
Other	288 987	605 510	127 294
Total short-term payables	32 273 601	24 193 752	33 000 667
Dividends payable	5 689	18 974	18 155
Total	36 493 515	27 358 427	33 042 683

15. PROVISIONS

Movement of provisions for the years 2009, 2010 and 2011 was 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
Balance as at							
December 31, 2009	1 907 287	838 337	9 846 931	1 428 559	-	747 168	14 768 282
Increase in provisions	1 870 284	94 838	12 504 914	187 596	6 423 311	642 005	21 722 948
Use of provisions	(2 028 846)	-	(9 834 758)	-	-	(792 158)	(12 655 762)
Balance as at							
December 31, 2010	1 748 725	933 175	12 517 087	1 616 155	6 423 311	597 015	23 835 468
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)
Balance as at							
December 31, 2011	848 733	723 099	17 030 625	2 030 991	6 888 284	267 821	27 789 553

Maturities of provisions as at December 31, 2011, 2010 and 2009 are presented below:

	(RUB '000)		
	December 31		
	2011	2010	2009
Non-current provisions	2 030 991	1 616 155	1 428 559
Current provisions	24 909 829	20 470 588	11 432 436
Short-term accounts payable	848 733	1 748 725	1 907 287
	27 789 553	23 835 468	14 768 282

16. INCOME TAX

Current income tax expense for 2011 and 2010 comprised the following:

	2011	(RUB '000) 2010
Profit before income tax	62 918 892	36 812 167
including:		
dividends received	23 928 792	8 991 530
Income tax expense at statutory rates	7 798 020	5 564 127
Permanent tax expense:		
non-deductible expenses	294 009	1 842 070
provision for contingent liabilities	19 238	1 284 722
prior year loss	88 864	309 794
dividends received from foreign subsidiaries	1 735 651	529 099
differences in valuation and recognition of income/expenses in tax and financial accounting for derivatives	69 782	106 150
expenses in excess of allowable limits	107 421	135 642
Other	(80 448)	5 142
Total	2 234 517	4 212 619
Permanent tax income:		
non-taxable income	23 654	(322 682)
other	(584)	(23 124)
Total	23 070	(345 806)
Increase in deferred tax assets:		
property, plant and equipment, including due to:		
different periods and methods of depreciation for accounting and tax purposes	735 588	1 011 380
other operations with property, plant and equipment	2 128	629
provision for services rendered	258 320	948 877
difference in the methods of revenue recognition	76 193	204 187
allowance for doubtful accounts	(86 450)	14 033
allowance for inventory obsolescence	116 621	(474 541)
provision for contingent liabilities	(133 481)	(102 310)
other provisions	(322 124)	263 514
other	-	(62 803)
Total	646 795	1 802 966
Increase in deferred tax liabilities for:		
prepaid expenses and capitalized debt issuance costs	(236 118)	450 898
property, plant and equipment, due to		
different periods and methods of depreciation for accounting and tax purposes	161 034	(281 031)
other operations with property, plant and equipment	(576 000)	(233 276)
prior year profit / loss	(466 361)	(150 596)
differences in valuation of income/expenses in tax and financial accounting for derivatives	26 066	(10 958)
other	(33 154)	(50 270)
Total	(1 124 533)	(275 233)
Total current income tax expense	9 577 869	10 958 673

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 profit and loss statement includes the following:

	2011	(RUB '000) 2010
Adjusted income tax returns for prior periods	227 871	992 221
Reimbursement of deductible temporary differences due to adjustment of tax returns for prior periods	(158 902)	(727 018)
Arbitration court's ruling in favor of the Company	12 343	-
Income tax arrears	(83 772)	(80 959)
Tax penalties of prior periods	(3 600)	(226 676)
Other tax penalties	(2 104)	(55 380)
Total	(8 164)	(97 812)

17. OPERATING EXPENSES

	2011	(RUB '000) 2010
Operating expenses		
Raw materials and supplies	8 822 230	6 967 090
Payroll	14 368 733	12 456 537
Social contributions	2 315 988	1 685 627
Depreciation and amortization	41 058 760	31 956 834
Other expenses	115 082 998	97 149 964
Total	181 648 709	150 216 052

Expenses related to operating activities for the years 2011 and 2010 comprised energy consumption expenses amounting to 2 108 432 thousand rubles and 1 568 190 thousand rubles, respectively.

18. OTHER INCOME

	2011	(RUB '000) 2010
Other income		
Gain on sale and disposal of other property	639 456	496 508
Gain on sale and disposal of property, plant and equipment	322 641	336 526
Accounts payable written off as unclaimed	314 610	575 124
Interest receivable on bank accounts	314 462	415 407
Royalty	266 648	110 468
Penalties and fines	121 420	121 434
Gain on disposal of investments	102 787	8
Gain on revaluation of securities to current market value	90 315	-
Prior year gain identified in the current period	75 212	752 981
Changes in provisions	61 463	-
Gain recognized based on stock count results	8 118	5 889
Income from discounting	1 612	-
Foreign exchange gain and loss, net	-	1 504 753
Reimbursement of expenses on operations with American depository receipts	-	338 030
Other	206 343	195 017
Total	2 525 087	4 852 145

19. OTHER EXPENSES

	2011	(RUB '000) 2010
Other expenses		
Foreign exchange gain and loss, net	3 986 089	-
Allowance for doubtful accounts	2 305 469	2 490 727
Loss on sale and disposal of other property	1 326 441	488 382
Debt issuance cost	802 317	2 710 344
Loss on swaps	781 348	1 886 461
Allowance for inventory obsolescence	584 404	326 358
Allowance for impairment of investments	524 668	6 639 032
Accounts receivable written off as unrecoverable	359 661	414 685
Write-off of value-added tax receivable	292 932	206 277
Loss on sale and disposal of property, plant and equipment	230 399	747 635
Asset retirement obligations	177 341	149 950
Bank charges	85 021	116 179
Loss on disposal of investments	84 533	2 327 243
Loss recognized based on inventory count results	70 214	135 080
Penalties and fines	3 416	3 761
Provision for accrued liabilities	-	6 273 157
Prior years loss identified in current period	-	1 011 346
Expenses on revaluation of securities to current market value	-	650 897
Penalties for cancelation of lease agreements	-	47 375
Other	705 408	307 183
Total	12 319 661	26 932 072

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		
	2011	2010	2009
USD	32.1961	30.4769	30.2442
EUR	41.6714	40.3331	43.3883
			(RUB '000)
		2011	2010
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in foreign currency		(3 849 102)	1 216 192
Foreign exchange differences from translation of assets and liabilities denominated in foreign currency and payable in rubles		(136 987)	288 561
Total		(3 986 089)	1 504 753

21. DERIVATIVE FINANCIAL INSTRUMENTS

In 2010 the Company entered into a number of derivative agreements aimed at hedging the currency/interest rate risks associated with the Company's loan liabilities.

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

Derivative financial instruments	As at December 31		
	2011	2010	2009
Options	(28 770)	72 063	99 928
Swaps	413 884	958 401	1 717 302
Total	385 114	1 030 464	1 817 230

In 2011 and 2010 expenses from swap transactions amounted to 781 348 thousand rubles and 1 886 461 thousand rubles, respectively. The swaps will mature in 2012-2015.

Options entered into by the Company have fixed maturities. The options will mature in 2012.

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

22. BASIC AND DILUTED EARNINGS PER SHARE

Basic and diluted earnings for the years 2011 and 2010 were as follows:

	2011	2010
Basic earnings, thousand rubles	52 855 121	27 283 415
Weighted average number of outstanding ordinary shares	2 041 343 066	1 993 326 138
Basic earnings per share, RUB	25,89	13,69
Diluted earnings, thousand rubles	52 855 121	27 283 415
Weighted average number of outstanding ordinary shares	2 041 343 066	2 066 411 143
Diluted earnings per share, RUB	25,89	13,20

23. BOARD OF DIRECTORS

As at December 31, 2011, 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
Charles Dunstone	Member of the Board of Directors
Mikhail Valerievich Shamolin	Member of the Board of Directors

The total amount of compensation paid to the members of the Board of Directors in 2011 and 2010 totaled 140 580 thousand rubles and 49 214 thousand rubles, respectively.

24. MANAGEMENT BOARD

As at December 31, 2011 the Management Board consisted of the following members:

Andrei Anatolievich Dubovskov	President
Nataliya Lyubomirovna Bereza	Vice President, Human Resources
Frederic Vanoosthuyze	Vice-President, Information Technology
Vasily Igorevich Latsanych	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
Aleksander Valeryevich Popovskiy	Vice President, Chief Operating Officer
Oleg Yurievich Raspopov	Vice-President, Director of MTS Foreign Companies Business Unit
Vadim Eduardovich Savchenko	Vice President, Sales and Customer Service
Konstantin Viktorovich Markov	Director of Macro-region Moscow
Michael Hecker	Vice-President of Strategy, Mergers, Acquisitions, and Corporate Development
Andrei Eduardovich Ushatskiy	Vice-President of Technology

The total amount of compensation as per clause 12 of PBU 11/2008 "Information about related parties" paid to the Management Board members in 2011 and 2010 totaled 443 903 thousand rubles and 459 121 thousand rubles, respectively.

25. DISTRIBUTION OF RETAINED EARNINGS

The annual meeting of shareholders which took place on June 27, 2011 decided 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.

The annual meeting of shareholders which took place on June 20, 2010 decided to use part of the profit retained by the Company in 2009 to pay dividends to shareholders in the amount of 30 697 222 thousand rubles.

26. REORGANIZATION OF THE COMPANY

In 2011, as part of the structural reorganization the Company merged with the following subsidiaries which became its branches:

- CJSC Capital – March 3, 2011;
- CJSC MTS – March 3, 2011;
- CJSC Operator Svyazi – March 14, 2011;
- CJSC United TeleSystems – March 23, 2011;
- OJSC Evrotel – April 1, 2011;
- CJSC Dagtelecom – April 1, 2011;
- OJSC Comstar-UTS – April 1, 2011;
- CJSC COMSTAR-Direct – April 6, 2011;

The merger resulted in the share capital of OJSC MTS (number and par value of shares) changing from 1 993 326 138 shares as at December 31, 2010 to 2 066 413 562 shares as at December 31, 2011.

Fixed and intangible assets of the merged companies were transferred to OJSC MTS at net book value, with other assets and liabilities transferred at carrying amount at the date of the merger according to the transfer acts as at that date. The amounts in the profit and loss statements of the merged companies are included in the financial statements of OJSC MTS from the date of their merger.

The result of the merger with the mentioned companies and effect of the reorganization on individual items in the financial statements is presented in the tables below:

26.1. Summary data of the merged companies at the merger date (unaudited):

	(RUB '000)				
	Property, plant and equipment	Other non- current assets	Current assets	Non-current liabilities	Current liabilities
OJSC COMSTAR-UTS	4 116 120	41 881 563	5 793 519	366 062	11 321 459
CJSC Operator Svyazi	-	45 794 288	972 722	-	1 824
CJSC United TeleSystems	-	11 512 337	711	8 927	1 626
CJSC Capital	-	10 818 979	112 052	322 375	54
CJSC COMSTAR-Direct	329 352	1 567 152	615 839	32 037	1 060 582
OJSC Evrotel	2 186 559	866 464	1 078 671	1 494 020	1 842 107
CJSC Dagtelecom	458 443	173 081	812 849	2 583	212 483
CJSC MTS	-	1 028 931	184 485	-	1 198
Total	7 090 474	113 642 795	9 570 848	2 226 004	14 441 333

26.2. Investments in the merged companies at the merger date

The reorganization through merger with OJSC MTS resulted in the disposal of the following investments from long-term investments of OJSC MTS:

	(RUB '000)
	<u>Investments</u>
OJSC COMSTAR-UTS	60 773 970
CJSC Operator Svyazi	44 098 869
CJSC United TeleSystems	10 571 138
CJSC Capital	6 710 833
CJSC COMSTAR-Direct	3 977 864
OJSC Evrotel	3 265 868
CJSC Dagtelecom	2 195 632
CJSC MTS	282 160
Total	131 876 334

26.3. Pro forma results of operations (unaudited)

The following pro-forma financial data for the years ended December 31, 2011 and 2010 gives effect of the merger of OJSC Comstar-UTS, CJSC Operator Svyazi, CJSC United TeleSystems, CJSC Capital, CJSC Comstar-Direct, OJSC Evrotel, CJSC Dagtelecom, and CJSC MTS in 2011 as though these mergers had been completed at the beginning of 2009.

	(RUB '000)	
Adjusted amounts	2011	2010
Revenue	250 295 138	232 166 995
Operating profit	65 824 417	68 964 256
Net profit	53 266 302	21 351 337
Basic earnings per share, RUB	26.09	10.71

The pro-forma information is based on various assumptions and estimates. The pro-forma information is not necessarily indicative of the operating results that would have occurred if the Group acquisitions had been consummated as of January 1, 2010 and is also not necessarily

indicative of future operating results. The pro-forma information does not give effect to any potential revenue enhancements or cost synergies or other operating efficiencies that could result from the acquisitions. The actual results of operations of these companies are included in the financial statements of the Group from the dates of merger.

27. RELATED PARTIES

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

27.1. Related party transactions

Interest expense

	2011	(RUB '000) 2010
MTS International Funding Ltd.	1 931 405	1 042 684
Mobile TeleSystems Finance S.A.	937 261	1 767 631
LLC Bastion	402 703	488 960
OJSC MGTS	353 149	7 432
Vostok Mobile B.V.	229 601	677 744
CJSC Sibintertelecom	124 285	54 344
CJSC K-Telecom	54 674	56 487
CJSC AMT	50 832	7 432
CJSC Petrodvor	50 632	7 432
LLC United Cable Network	30 956	-
LLC Skif-Tambov	15 479	-
LLC Skif-Oryol	15 479	-
LLC Skif-Line	15 479	-
CJSC RusLan TV	15 479	-
Other	24 151	20 326
Total	4 251 565	4 130 472

Interest income

	2011	(RUB '000) 2010
Mobile TeleSystems Bermuda Ltd.	1 093 194	1 121 676
CJSC Russian Telephone Company	592 150	1 070 156
CJSC Comstar-Regions	546 140	45 883
LLC Bastion	494 677	701 562
FE Uzdurobita	149 464	184 199
International Cell Holding Ltd.	126 010	123 493
CJSC Telephone.ru	106 964	106 964
CJSC K-Telecom	19 864	70 910
OJSC Evrotel	17 122	46 777
CJSC Metro-Telecom	11 811	-
OJSC TS-Retail	69	98 172
CJSC Multiregion	-	99 963
LLC Eldorado-Centre	-	36 053
CJSC Dagtelecom	-	18 155
CJSC SWEET-COM	-	777
Other	32 273	126 002
Total	3 189 738	3 850 742

Purchase of equipment, goods, works and services

	2011	(RUB '000) 2010
CJSC Russian Telephone Company	12 138 542	7 402 077
LLC Sitronics Information Technologies	6 882 450	3 946 565
LLC Intracom Svyaz	4 815 708	154 032
OJSC MGTS	3 418 263	522 830
CJSC Sitronics Telecom Solutions	3 352 685	4 059 946
LLC Sitronics Smart Technologies	2 740 076	660 117
OJSC Advertising Agency Maxima	1 786 326	1 582 025
CJSC Sibintertelecom	1 475 862	1 324 098
PrJSC MTS Ukraine	1 309 091	763 915
CJSC Comstar-Regions	707 803	25 346
CJSC Dagtelecom	516 163	1 044 691
LLC Network Systems	515 916	-
CJSC K-Telecom	494 643	147 468
LLC Media Planning Group	315 997	2 316 890
JLLC Mobile TeleSystems	297 348	174 899
OJSC COMSTAR-UTS	139 429	1 108 179
CJSC Metro-Telecom	69 878	32 266
OJSC TS-Retail	22 695	44 815
CJSC AMT	80	78 613
OJSC Mezhtionalny Transit Telecom	-	268 004
CJSC City Hals	-	57 821
CJSC Mediaplanning	-	1 837
CJSC Telephone.RU Group of companies	-	11
Other	1 089 465	700 299
Total	42 088 420	26 416 744

Income of OJSC MTS from the sale of subsidiaries to CJSC RTC amounted to 102 million rubles.

Sale of equipment, goods, works and services

	2011	(RUB '000) 2010
CJSC Russian Telephone Company	5 681 194	4 314 238
OJSC MGTS	2 560 201	1 049 184
CJSC Sibintertelecom	1 209 664	727 705
PrJSC MTS Ukraine	625 622	473 553
OJSC COMSTAR-UTS	425 649	979 995
JLLC Mobile TeleSystems	182 238	158 870
CJSC Dagtelecom	178 819	479 307
CJSC COMSTAR-Direct	64 769	32 696
OJSC MTS P	11 120	12 477
CJSC AMT	-	43 355
Other	1 016 613	210 081
Total	11 955 889	8 481 461

Dividends receivable

	(RUB '000)	
	Dividends received	
	2011	2010
OJSC MGTS	10 568 941	-
PrJSC MTS Ukraine	10 538 031	6 513 342
JLLC MTS	1 876 807	1 661 303
Barash Communications Technologies, Inc.	874 487	816 593
PTT Telecom Kiev	68 622	-
CJSC City Telecom	1 904	-
Other	-	292
Total	23 928 792	8 991 530

27.2. Amounts of outstanding balances with related parties

Loans payable, including interest payable

	(RUB '000)			
	December 31, 2011	December 31, 2010	December 31, 2009	Period of settlement of 2011 operations
MTS International Funding Ltd.	24 193 357	22 906 962	-	2012
Mobile TeleSystems Finance S.A.	13 323 694	12 617 677	24 363 967	2012
OJSC MGTS	8 575 057	1 407 432	-	2013-2014
LLC Bastion	5 505 276	5 258 065	5 324 637	2013-2018
CJSC Sibintertelecom	3 883 205	2 291 093	684 972	2012
Vostok Mobile B.V.	3 325 155	3 095 544	107 854	2012
LLC System of Telecommunications, Informatics and Communication	2 002 387	2 002 387	2 002 387	2049-2056
CJSC K-Telecom	1 224 459	1 102 389	1 037 718	2013
CJSC AMT	-	1 407 432	-	-
CJSC Petrodvor	-	1 407 432	-	-
OJSC COMSTAR-UTS	-	1 100 701	-	-
CJSC MTS	-	450 228	430 708	-
Other	-	128 156	8 145	-
Total	62 032 590	55 175 498	33 960 388	

Loans receivable, including interest receivable

	(RUB '000)			
	December 31, 2011	December 31, 2010	December 31, 2009	Period of settlement of 2011 operations
Mobile TeleSystems Bermuda Ltd.	16 290 745	23 543 587	22 758 972	2012-2014
CJSC Comstar-Regions	11 565 784	1 931 132	1 815 249	2013
Mobile TeleSystems Finance S.A.	5 797 517	5 487 942	5 451 545	2012
LLC Bastion	5 744 572	6 280 295	5 578 732	2012-2013
CJSC Russian Telephone Company	3 059 381	10 560 331	9 370 575	2011-2012
International Cell Holding Ltd.	3 067 465	2 843 735	2 921 697	2012-2014
FE Uzdunrobita	1 646 469	1 497 896	1 787 494	2012
LLC System of Telecommunications, Informatics and Communication	1 221 200	1 221 200	-	on demand
CJSC Telephone.ru	1 171 468	1 064 504	957 540	2012
OJSC TS-Retail	1 039 128	1 014 274	913 147	2012
CJSC T.ru2	435 061	415 056	373 603	2012-
CJSC SWEET-COM	311 530	364 382	375 166	2013
OJSC MTS P	217 244	217 244	217 244	2012
CJSC Metro Telecom	206 534	-	-	2012-2014
CJSC T.ru	177 377	171 945	152 595	2012
CJSC K-Telecom	189	1 028 155	2 452 243	2013
CJSC Multiregion	-	3 130 263	-	-
OJSC Evrotel	-	942 777	-	-
CJSC Capital	-	316 566	-	-
JLLC Mobile TeleSystems	-	91 431	3 024	-
CJSC Dagtelecom	-	-	504 121	-
Vostok Mobile B.V.	-	-	200 792	-
Other	45 605	25 327	284 736	-
Total	51 997 269	62 148 042	56 118 475	

Accounts receivable

		(RUB '000)		
Type of transaction		December 31 2011	December 31 2010	December 31 2009
LLC Sitronics Information Technologies	Purchase of goods, works, services	1 385 945	3 350 111	140 060
LLC Intracom Svyaz	Purchase of goods, works, services	315 936	1 405 121	-
CJSC Sitronics Telecom Solutions	Purchase of goods, works, services	8 668	116 884	562 871
CJSC Mediaplanning	Purchase of goods, works, services	-	50	92 047
OJSC Advertising Agency Maxima	Purchase of goods, works, services	-	20	240 535
CJSC Russian Telephone Company	Sale of goods, works, services	2 984 137	1 501 386	206 991
CJSC Sibintertelecom	Sale of goods, works, services	259 988	338 532	209 063
CJSC COMSTAR-Regions	Sale of goods, works, services	242 887	6 687	1 879
PrJSC MTS Ukraine	Sale of goods, works, services	205 111	69 709	152 126
OJSC MGTS	Sale of goods, works, services	125 406	90 718	92 592
OJSC MTS P	Sale of goods, works, services	102 788	105 996	113 218
OJSC COMSTAR-UTS	Sale of goods, works, services	-	157 674	59 629
CJSC Dagtelecom	Sale of goods, works, services	-	64 517	127 705
Other	Purchase of goods, works, services	798 071	378 265	182 976
Other	Sale of goods, works, services	242 030	-	-
		6 670 967	7 585 670	2 181 692

As at December 31, 2011, 2010 and 2009, the allowance for doubtful accounts from related parties and allowance for impairment of loans receivable from related parties (including interest receivable) comprised the following:

	December 31 2011	December 31 2010	December 31 2009
Mobile TeleSystems Finance S.A	5 797 517	5 487 942	5 451 545
CJSC Telephone.RU	1 171 468	-	-
OJSC TS-Retail	1 039 128	1 014 274	-
CJSC T.RU2	435 061	-	-
CJSC SWEET-COM	311 530	364 382	364 382
OJSC MTS P	217 244	217 244	217 244
CJSC Metro Telecom	206 534	-	-
CJSC T.RU	177 337	-	-
Other	45 384	1 108	11 528
Total	9 401 203	7 084 950	6 044 699

Accounts payable

		(RUB '000)		
	Type of transaction	December 31, 2011	December 31, 2010	December 31, 2009
CJSC Sibintertelecom	Sale of goods, works, services	3 411 564	3 074 806	3 074 806
CJSC Russian Telephone Company	Purchase of goods, works, services	2 299 224	127 889	211 954
OJSC MGTS	Purchase of goods, works, services	456 928	41 765	32 368
OJSC Advertising Agency Maxima	Purchase of goods, works, services	232 011	198 566	309 365
LLC Sitronics IT	Purchase of goods, works, services	154 611	179 526	439 621
PrJSC MTS Ukraine	Purchase of goods, works, services	104 252	39 674	67 433
CJSC Sitronics Telecom Solutions	Purchase of goods, works, services	93 362	341 268	661 825
OJSC TS-Retail	Purchase of goods, works, services	91 265	12 377	27 798
LLC Sitronics Smart Technologies	Purchase of goods, works, services	88 968	201 209	212 387
CJSC Sibintertelecom	Purchase of goods, works, services	204 032	111 984	640 764
CJSC Dagtelecom	Purchase of goods, works, services	-	124 623	139 406
Vostok Mobile B.V.	Acquisitions of companies	-	-	2 572 109
CJSC Mediaplanning	Purchase of goods, works, services	-	-	80 636
Other	Purchase of goods, works, services	564 684	440 627	183 799
Other	Sale of goods, works, services	194 669	-	-
Total		7 895 570	4 894 314	8 654 271

27.3. Cash flows with related parties

	2011	(RUB '000) 2010
Cash flows from operating activities		
Receipts from customers	8 739 501	5 978 572
Cash and cash equivalents outflows:		
payments for acquired goods, services, raw materials and other current assets	(26 687 913)	(23 578 350)
interest paid	(3 688 995)	(2 521 158)
other payments	(4 008 486)	(3,740,045)
Net cash flows used in operating activities	(25 645 893)	(23 860 981)
Cash flows from investing activities		
Proceeds from sale of investments	102 085	-
Dividends received	22 061 045	8 579 244
Proceeds from repayment of loans given	11 979 814	4 383 390
Interest received	1 839 154	270 637
Acquisition of subsidiaries	(21 516 400)	(16 077 339)
Purchase of property, plant and equipment (including investment property) and other non-current assets	(4 320,955)	(3 178 250)
Loans given to other entities	(14 581 314)	(9 092 677)
Net cash flow used in investing activities	(4 436 571)	(15 114 995)
Cash flows from financing activities		
Proceeds from borrowings provided by other entities	8 380 000	28 649 691
Repayment of borrowings (excluding interest)	(14 562 134)	(12 308 152)
Dividends paid	(13 977 579)	(14 875 804)
Net cash flow used in financing activities	(20 159 713)	(1 465 735)

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 of OJSC MTS operate in the Russian Federation, Ukraine, Uzbekistan, 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. Hence, segment information is not disclosed.

29. GUARANTEES ISSUED

Guarantees issued by the Company as at December 31, 2011 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	4 024 513
Mobile TeleSystems Finance S.A.	Bondholders	January 31, 2005	January 28, 2012	USD	416 000	13 393 578
MTS International Funding Limited	Bondholders	June 22, 2010	June 22, 2020	USD	751 438	24 193 357
Total						41 611 448

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 reflect 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 the management. The tax authorities may be taking 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 the three calendar years prior to the year of the tax review. Under certain circumstances reviews may cover longer periods.

In 2010, the Interregional Tax Inspectorate of the Russian Federal Tax Service for the largest taxpayers No. 7 performed a field tax audit of the Company for 2007-2008 which resulted in the assessment of additional tax liabilities in the amount of 353 866 thousand rubles including interest and penalties.

Based on the prudence concept, the Company's management decided to accrue a provision in the amount of 353 866 thousand rubles as at December 31, 2010. The provision was recorded in the line "Provisions".

The decision of the Russian Federal Tax Service of September 30, 2011 partially upheld the Company's claim (the amount of additional assessments which were ruled unlawful totaled 173 912 thousand rubles).

On December 30, 2011 the Company filed a claim with the Moscow Arbitration Court to hold Decision No.2 partially invalid (the appealed amount is 84 237 thousand rubles, including income tax of 68 303 thousand rubles, VAT of 14 905 thousand rubles, other taxes, and the respective interest and penalties). The appealed amount of 84 237 thousand rubles was paid and, respectively, excluded from the provision as at December 31, 2011.

The Company also 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, 2011.

Pricing of revenue and expenses between OJSC MTS and its subsidiaries and various discounts and bonuses to the subscribers in the course of performing its marketing activities could be subject to transfer pricing rules. The Company's management believes that taxes payable are calculated in compliance with the 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, 2011.

In order to raise debt in foreign debt markets the Company enters into loan agreements with special purpose vehicles (hereinafter SPV) which, in turn, raise funds through placement of notes (Eurobonds) in their own name. The Company acts as a guarantor ensuring fulfillment of the SPVs' obligations to investors.

Pursuant to the tax legislation of the Russian Federation, interest on debt payable to non-residents is subject to RF withholding tax.

However, if interest is paid from the RF to a non-resident and there is a double taxation avoidance treaty between the jurisdiction of incorporation of the interest income recipient and the RF, such payments could be exempt from RF withholding tax.

SPVs are incorporated in the jurisdictions which have effective double taxation avoidance treaties with the RF under which interest paid to those jurisdictions is not subject to RF withholding tax.

However, the tax authorities of the RF may take a different view under which, due to the specific relations between the loan recipient, the RF tax resident and SPV, interest payable to the SPV may be deemed non-resident income from the RF source that is taxable at the RF source.

Should the tax authorities take the above position, the Company could be exposed to significant tax risks.

30.1. Legal proceedings

Barash Communications Technologies, Inc. – In December 2010, Barash Communications Technologies, Inc (BCTI), a 100% subsidiary of OJSC MTS, received a notice from the Ministry of Communications of Turkmenistan informing the company of a decision to suspend licenses of BCTI for the period of one month starting from December 21, 2010.

BCTI conducted operations in Turkmenistan under a trilateral agreement signed in November 2005 by BCTI, OJSC MTS and the Ministry of Communications of Turkmenistan (the "Agreement") which expired on December 21, 2010. The company at all times believed that the Agreement would be extended and approached the Ministry of Communications within the required timeframe to formalize the extension. However, the Ministry failed to grant the extension in accordance with the terms of the Agreement.

In January 2011, a letter was received from TurkmenTelecom, a local state-owned telecommunications company, about termination of contracts for rent of premises and requirement to dismantle BCTI's equipment. At the same time, the State Inspectorate for supervision of the radio frequency spectrum use at the Ministry of Communications of Turkmenistan unilaterally terminated the agreement with BCTI for use of the assigned radio frequency spectrum, and obliged the company to disable all remaining radio-electronic devices.

The license suspension period imposed by the Ministry of Communications of Turkmenistan ended on January 22, 2011. However, services cannot be provided due to the absence of frequencies and long-distance channels. On January 27, 2011, the Company received a refusal from the Ministry of Communications of Turkmenistan to its request dated January 22, 2011 with regard to the provision of frequencies and lease of communication channels due to the discontinuation of BCTI's mobile communication services in Turkmenistan.

The company has initiated legal actions against the Ministry of Communications of Turkmenistan in the International Court of Arbitration at the International Chamber of Commerce (“ICC”) in connection with a number of violations by the Ministry of the trilateral agreement and in the Arbitration Court of Turkmenistan in connection with the aforementioned decision to suspend BCTI’s licenses. In addition, BCTI filed requests of arbitration with the International Court of Arbitration at the International Chamber of Commerce against TurkmenTelecom and Altyn Asyr, another state-owned telecommunications company, in connection with their ungrounded termination of the interconnection agreements with BCTI. The Company’s management is continuing negotiations with the Ministry of Communications and official representatives of the Government of Turkmenistan to resolve the situation amicably and continue its operations in Turkmenistan.

On January 21, 2011, formal proceedings were initiated in the International Centre for the Settlement of Investment Disputes (“ICSID”), which is part of the World Bank Group, in accordance with the Investment Protection Agreement between Russia and Turkmenistan.

At present, two arbitration proceedings are in progress at the ICC Court of Arbitration:

- Against the Ministry of Communications of Turkmenistan and Government of Turkmenistan to enforce performance of the agreements and recover damages incurred as a result of non-fulfillment by the defendants of their contractual obligations;
- Against TurkmenTelecom and Altyn Asyr to enforce performance of the interconnect agreements and recover damages incurred as a result of non-fulfillment by the defendants of their contractual obligations.

On September 1, 2011, MTS filed an investment claim against the Government of Turkmenistan in the International Centre for the Settlement of Investment Disputes, which is part of the World Bank Group, in accordance with the bilateral Investment Protection Agreement between Russia and Turkmenistan.

Due to the uncertainty with regard to obtaining the permit for BCTI's operations in Turkmenistan as at the reporting date, the Company decided to make a provision in the full amount of financial investments in BCTI totaling 1 317 569 thousand rubles.

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 (5 473 337 thousand rubles at the exchange rate as at December 31, 2011).

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 seeks 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 for 170 million US Dollars, and compensate the latter for legal fees and interest as well as dividends of 5.88 million US Dollars (189 313 thousand rubles at the exchange rate as at December 31, 2011), the overall amount approximating 210,8 million US Dollars (6 786 938 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 amount of the Ruling of the London Court of International Arbitration until the Ruling is enforced. MTS Finance undertakes all lawful efforts to contest 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 contingent liability in the amount of 6 888 284 thousand rubles.

On February 9, 2012 the Company received 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 (12 878 440 thousand rubles at the exchange rate as at December 31, 2011). MTS Finance seeks payment by the Company of the principal and interest due under the Loan Agreement. The Company agrees that the dispute should to be resolved by the arbitration court but denies that it owes any amount to MTS Finance.

Arbitration shall be 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 its liability to MTS Finance at the end of the reporting period in the short-term borrowings line item of Section V "Current liabilities" of the balance sheet and in Note 13 "Borrowings" to the financial statements.

31. SUBSEQUENT EVENTS

31.1. Payments performed by the Company as a guarantor

On January 26, 2012 the Company repaid the debt to the holders of Eurobonds issued by Mobile TeleSystems Finance S.A. acting as a guarantor for the holders pursuant to the terms of the Indenture.

31.2. Change of loan maturity periods

On February 28, 2012 OJSC MTS voluntarily repaid the loan from OJSC GPB in the amount of 15,2 billion rubles ahead of schedule.

On March 16, 2012 OJSC MTS voluntarily repaid the loan from OJSC Bank of Moscow in the amount of 10 billion rubles ahead of schedule.

The maturity periods for the borrowings are therefore presented as follows:

Repayment schedule				(RUB '000)
	Up to 1 year	1 year to 5 years	Over 5 years	Total
Before changes	47 499 113	180 478 470	78 079 312	306 056 895
After changes	72 699 113	155 278 470	78 079 312	306 056 895
Difference	25 200 000	(25 200 000)	-	-

March 30, 2012