SISTEMA JSFC AND SUBSIDIARIES

Consolidated Financial Statements
As of December 31, 2011 and 2010 and
For the Years Then Ended

SISTEMA JSFC AND SUBSIDIARIES

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors and Shareholders of Sistema Joint Stock Financial Corporation:

We have audited the accompanying consolidated statements of financial position of Sistema Joint Stock Financial Corporation and its subsidiaries (the "Group") as of December 31, 2011 and 2010, and the related consolidated statements of operations, cash flows, and changes in shareholders' equity for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such consolidated financial statements present fairly, in all material respects, the financial position of the Group as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Deloitte & Touche

Moscow, Russia
April 20, 2012

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2011	2010
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ 2,923,957	$ 2,245,884
Assets from banking activities, current portion (including cash and cash equivalents of $1,315,075 and $2,308,488)	6	4,204,961	5,502,729
Short-term investments	7	763,631	879,680
Accounts receivable, net	8	1,756,278	1,780,423
VAT receivable		709,099	531,127
Inventories and spare parts	10	1,659,653	1,455,897
Deferred tax assets, current portion	21	311,891	357,821
Disposal group held for sale	4	1,409,064	1,370,142
Other current assets	9	1,722,844	1,685,336
Total current assets		15,461,378	15,809,039
NON-CURRENT ASSETS:			
Property, plant and equipment, net	12	18,360,826	18,022,199
Advance payments for non-current assets		264,709	1,312,053
Goodwill	13	1,601,260	1,872,520
Other intangible assets, net	14	2,251,166	3,021,918
Investments in affiliates	15	1,382,651	1,147,694
Assets from banking activities, net of current portion	6	2,303,120	1,799,620
Debt issuance costs, net		171,951	159,803
Deferred tax assets, net of current portion	21	348,589	304,761
Long-term investments	16	1,294,687	469,742
Other non-current assets		461,684	246,699
Total non-current assets		28,440,643	28,357,009
TOTAL ASSETS		$ 43,902,021	$ 44,166,048

See notes to consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION (CONTINUED)
AS OF DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2011	2010
LIABILITIES AND SHAREHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 2,189,019	$ 1,741,712
Liabilities from banking activities, current portion	17	3,152,989	4,191,836
Taxes payable		794,117	649,194
Deferred tax liabilities, current portion	21	168,545	168,982
Subscriber prepayments, current portion		605,545	579,952
Accrued expenses and other current liabilities	18	2,362,768	3,277,693
Short-term loans payable	19	299,610	1,074,081
Current portion of long-term debt	20	4,097,076	2,103,405
Disposal group held for sale	4	248,317	295,805
Total current liabilities		13,917,986	14,082,660
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	20	12,013,197	12,206,515
Subscriber prepayments, net of current portion		106,586	129,515
Liabilities from banking activities, net of current portion	17	1,644,478	1,444,783
Deferred tax liabilities, net of current portion	21	1,412,199	1,580,518
Asset retirement obligation	2	214,121	258,382
Postretirement benefits obligation		77,591	58,732
Property, plant and equipment contributions		86,081	89,067
Total long-term liabilities		15,554,253	15,767,512
TOTAL LIABILITIES		29,472,239	29,850,172
Commitments and contingencies	27		
Redeemable noncontrolling interests	2	723,819	107,343
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; 9,267,985,025 and 9,281,827,594 shares outstanding with par value of 0.09 Russian Rubles, respectively)	23	30,057	30,057
Treasury stock (382,014,975 and 368,172,406 shares with par value of 0.09 Russian Rubles, respectively)		(467,198)	(463,733)
Additional paid-in capital		2,575,601	2,553,563
Retained earnings		6,418,649	6,471,327
Accumulated other comprehensive loss		(518,354)	(171,149)
Total Sistema JSFC shareholders' equity		8,038,755	8,420,065
Non-redeemable noncontrolling interests		5,667,208	5,788,468
TOTAL EQUITY		13,705,963	14,208,533
TOTAL LIABILITIES AND EQUITY		$ 43,902,021	$ 44,166,048

See notes to consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2011	2010
Sales		$ 32,452,236	$ 26,222,373
Revenue from banking activities		529,012	588,946
TOTAL REVENUES		32,981,248	26,811,319
Cost of sales, exclusive of depreciation, depletion and amortization shown separately below		(13,021,173)	(10,716,816)
Cost related to banking activities, exclusive of depreciation and amortization shown separately below		(310,332)	(374,036)
Selling, general and administrative expenses		(3,936,588)	(3,747,805)
Depreciation, depletion and amortization		(3,281,629)	(2,862,754)
Transportation costs		(789,785)	(535,391)
Provision for doubtful accounts		(135,967)	(161,519)
Loss from impairment and provisions of other assets	11	(1,031,262)	(313,381)
Taxes other than income tax		(6,257,642)	(4,106,338)
Other operating expenses, net		(458,852)	(260,271)
Equity in results of affiliates		120,929	92,235
Gain upon adoption of equity method	15	-	477,400
Gain on disposal of interests in subsidiaries and affiliates		62,514	-
OPERATING INCOME		3,941,461	4,302,643
Interest income		176,584	131,534
Change in fair value of derivative instruments		(2,268)	(2,062)
Interest expense		(1,742,690)	(1,597,244)
Foreign currency transactions (losses)/ gains		(326,415)	26,151
Income from continuing operations before income tax		2,046,672	2,861,022
Income tax expense	21	(1,088,546)	(1,065,480)
Income from continuing operations		$ 958,126	$ 1,795,542
Income/(loss) from discontinued operations, net of income tax effect of $26,184 and $23,483		71,233	(2,999)
Gain on disposal of discontinued operations, net of income tax effect of $39,547 and $nil	4	161,817	324,656
NET INCOME		$ 1,191,176	$ 2,117,199
Noncontrolling interest		(973,174)	(1,198,502)
NET INCOME ATTRIBUTABLE TO SISTEMA JSFC		$ 218,002	$ 918,697
Amounts attributable to Sistema JSFC:			
Income from continuing operations		$ 118,087	$ 621,663
Income from discontinued operations		99,915	297,034
Weighted average number of common shares outstanding – basic and diluted		9,276,977,916	9,280,322,906
Income per share, basic and diluted, U.S. cent			
Income from continuing operations		1.27	6.7
Income from discontinued operations		1.08	3.2
Net income attributable to Sistema JSFC shareholders		2.35	9.90

See notes to consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars)

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 1,191,176	$ 2,117,199
Gain on disposal of discontinued operations	(161,817)	(324,656)
(Income)/loss from discontinued operations	(71,233)	2,999
Income from continuing operations	958,126	1,795,542
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation, depletion and amortization	3,281,629	2,862,754
Equity in results of affiliates	(120,929)	(92,235)
Deferred income tax benefit	(14,934)	(24,097)
Change in fair value of derivative financial instruments	2,268	2,062
Foreign currency transactions losses/(gains)	326,415	(26,151)
Debt issuance cost amortization	49,179	89,244
Non-cash compensation to employees of subsidiaries	51,037	70,978
Accretion expense associated with the asset retirement obligation	29,475	8,925
Loss from impairment and provisions of other assets	1,031,262	313,381
Loss on disposal of property, plant and equipment	24,160	32,124
Gain on disposal of interests in subsidiaries and affiliates	(62,514)	-
Gain upon adoption of equity method	-	(477,400)
Amortization of connection fees	(96,676)	(95,706)
Provision for doubtful accounts	135,967	161,519
Allowance for loan losses	10,563	29,052
Dividends received from affiliates	42,328	34,937
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(121,253)	120,236
Accounts receivable	(186,070)	(417,639)
VAT receivable	(167,414)	(464,537)
Other current assets	(144,852)	(298,271)
Inventories and spare parts	(190,841)	(395,067)
Accounts payable	574,602	226,193
Subscriber prepayments	99,340	132,105
Taxes payable	97,105	(54,119)
Accrued expenses and other liabilities	(198,047)	406,003
Postretirement benefits obligation	(5,650)	55,331
Net cash provided by operating activities of continuing operations	5,404,276	3,995,164
Net cash provided by operating activities of discontinued operations	167,132	61,588
Net cash provided by operating activities	$ 5,571,408	$ 4,056,752

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS (CONTINUED)
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars)

		2011		2010
CASH FLOWS FROM INVESTING ACTIVITIES:				
Payments for purchases of property, plant and equipment		(3,680,939)		(3,486,468)
Payments for purchases of intangible assets		(451,151)		(693,106)
Payments for purchases of businesses, net of cash acquired		(375,245)		(364,532)
Payments for purchases of long-term investments		(929,097)		(478,530)
Payments for purchases of short-term investments		(893,682)		(851,325)
Payments for purchases of other non-current assets		(173,816)		(78,286)
Increase in restricted cash		(45,299)		(16,445)
Proceeds from sale of subsidiaries, net of cash disposed		184,596		307,358
Proceeds from sale of property, plant and equipment		170,178		18,782
Proceeds from sale of long-term investments		165,629		140,979
Proceeds from sale of other non-current assets		-		92,430
Proceeds from sale of short-term investments		1,184,068		461,882
Net (decrease)/ increase in loans to customers and banks		(341,126)		107,917
Net cash used in investing activities	$	(5,185,884)	$	(4,839,344)
CASH FLOWS FROM FINANCING ACTIVITIES:				
(Principal payments on)/proceeds from short-term borrowings, net		(276,885)		460,617
Net (decrease)/increase in deposits from customers of the banking division		(651,101)		597,888
Net (decrease) in debt securities issued and other liabilities		(457,867)		(225,504)
Advance received for shares of SSTL		-		602,276
Proceeds from long-term borrowings, net of debt issuance costs		6,421,015		5,459,359
Debt issuance costs		(69,860)		(86,522)
Principal payments on long-term borrowings		(4,331,488)		(5,302,634)
Principal payments on capital lease obligations		(19,122)		(10,420)
Acquisition of noncontrolling interests in existing subsidiaries		(261,295)		(787,434)
Dividends paid		(960,486)		(823,616)
Proceeds from capital transactions of subsidiaries		153,710		109,112
Purchases of treasury shares		(28,559)		-
Net cash used in financing activities	$	(481,938)	$	(6,878)
Effect of foreign currency translation on cash and cash equivalents	$	(154,384)	$	(10,110)
Net decrease in cash and cash equivalents	$	(250,798)	$	(799,580)
Cash and cash equivalents at the beginning of the period (including cash of discontinued operations)		4,573,556		5,373,136
Cash and cash equivalents at the end of the period (including cash of discontinued operations)		4,322,758		4,573,556
Cash and cash equivalents of discontinued operations at the end of the period		(83,726)		(19,184)
Cash and cash equivalents of continuing operations at end of the period *	$	4,239,032	$	4,554,372
CASH PAID DURING THE PERIOD FOR:				
Interest paid, net of amounts capitalized	$	(1,802,826)	$	(1,643,973)
Income taxes paid		(1,069,790)		(987,696)
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Property, plant and equipment contributed free of charge	$	6,110	$	2,814
Equipment acquired through vendor financing		152,489		36,064
Equipment acquired under capital leases		2,708		2,567
Amounts owed for capital expenditures		322,867		220,790
Payable related to business acquisitions		6,857		23,281
Advances for purchase of long-lived assets		118,192		675,548

** Cash and cash equivalents at the end of the period comprised of the following:*				
Non-banking activities	*$*	*2,923,957*	*$*	*2,245,884*
Banking activity		*1,315,075*		*2,308,488*
	$	*4,239,032*	*$*	4,554,372

See notes to consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2011 AND 2010
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Share capital		Treasury stock		Additional paid-in capital	Retained earnings	Accumulated other compre-hensive loss	Sistema JSFC shareholders' equity	Non-redeemable non-controlling interests	Total equity	Redeemable non-controlling interests
	Shares	Amount	Shares	Amount							
Balances at January 1, 2010	**9,650,000,000**	**30,057**	**(371,018,060)**	**(466,345)**	**2,088,319**	**5,577,759**	**(93,647)**	**7,136,143**	**6,873,852**	**14,009,995**	**82,261**
Issue of shares to employees	-	-	2,845,654	2,612	-	-	-	2,612	-	2,612	-
Accrued compensation costs	-	-	-	-	60,629	336	-	60,965	757	61,722	-
Change in fair value of noncontrolling interests	-	-	-	-	-	(6,639)	-	(6,639)	(5,479)	(12,118)	12,118
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(838,158)	(838,158)	(14,973)
Dividends declared by Sistema JSFC		-	-	-	-	(17,455)	-	(17,455)	-	(17,455)	-
Acquisition of noncontrolling interests	-	-	-	-	(77,699)	-	-	(77,699)	(695,950)	(773,649)	-
Disposals and capital transactions of subsidiaries	-	-	-	-	482,314	(1,371)	-	480,943	(687,050)	(206,107)	-
Acquisition of subsidiaries	-	-	-	-	-						19,216
Comprehensive income:					-						
Change in fair value of interest rate swaps, net of income tax effect of $(6,357)	-	-	-	-	-	-	13,932	13,932	11,496	25,428	-
Unrealized losses on available-for-sale securities, net of income tax effect of nil	-	-	-	-	-	-	3,628	3,628	-	3,628	-
Unrecognized actuarial loss, net of income tax effect of $nil	-	-	-	-	-	-	(2,291)	(2,291)	(5,232)	(7,523)	-
Translation adjustment, net of income tax effect of $7,528	-	-	-	-	-	-	(92,771)	(92,771)	(56,487)	(149,258)	938
Net income	-	-	-	-	-	918,697	-	918,697	1,190,719	2,109,416	7,783
Total comprehensive income								**841,195**	**1,140,496**	**1,981,691**	**8,721**
Balances at December 31, 2010	**9,650,000,000**	**30,057**	**(368,172,406)**	**(463,733)**	**2,553,563**	**6,471,327**	**(171,149)**	**8,420,065**	**5,788,468**	**14,208,533**	**107,343**
Purchase of treasury shares	-	-	(34,078,140)	(28,585)	-	-	-	(28,585)	-	(28,585)	-
Disposal of treasury shares	-	-	20,235,571	25,120	-	-	-	25,120	-	25,120	-
Accrued compensation cost	-	-	-	-	24,334	-	-	24,334	-	24,334	-
Change in fair and redemption value of noncontolling interests	-	-	-	-	-	(183,532)	-	(183,532)	-	(183,532)	177,477
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(838,089)	(838,089)	(5,741)
Dividends declared by Sistema JSFC		-	-	-	-	(87,148)	-	(87,148)	-	(87,148)	-
Disposals and capital transactions of subsidiaries	-	-	-	-	(2,296)	-	-	(2,296)	(140,945)	(143,241)	600,000
Comprehensive income:					-						
Change in fair value of interest rate swaps, net of income tax effect of $(1,841)	-	-	-	-	-	-	3,903	3,903	3,461	7,364	-
Unrecognized actuarial gains, net of income tax effect of $nil	-	-	-	-	-	-	3,148	3,148	3,256	6,404	-
Translation adjustment, net of income tax effect of $nil	-	-	-	-	-	-	(354,256)	(354,256)	(274,405)	(628,661)	(2,972)
Net income	-	-	-	-	-	218,002	-	218,002	1,125,462	1,343,464	(152,288)
Total comprehensive income								**(129,203)**	**857,774**	**728,571**	**(155,260)**
Balances at December 31, 2011	**9,650,000,000**	**30,057**	**(382,014,975)**	**(467,198)**	**2,575,601**	**6,418,649**	**(518,354)**	**8,038,755**	**5,667,208**	**13,705,963**	**723,819**

See notes to consolidated financial statements.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

1. DESCRIPTION OF THE BUSINESS AND OPERATING ENVIRONMENT

Description of the business – Sistema Joint Stock Financial Corporation (the "Company", together with its subsidiaries, the "Group") invests in, and manages a range of companies which operate in the telecommunications, oil and energy, high technology, banking and other sectors. The main focus of the Group's activities is service-based industries. The Company and the majority of the Company's consolidated subsidiaries are incorporated in the Russian Federation ("RF").

The controlling shareholder of the Company is Vladimir P. Evtushenkov. Minority holdings are held by certain top executives and directors of the Company. The rest of the shares are listed on the London Stock Exchange in the form of Global Depositary Receipts ("GDRs") and Russian stock exchanges.

Below are the Group's significant entities and their principal activities:

Significant entities	Short name	Principal activity	Beneficial ownership as of December 31, 2011	2010
Sistema Joint Stock Financial Corporation	Sistema	Investing and financing		
Core Assets:				
Mobile TeleSystems and subsidiaries	MTS	Telecommunications	53%	55%
Bashneft and subsidiaries	Bashneft	Oil and gas production	69%(1)	73%(1)
Bashkirenergo (Note 4)	Bashkirenergo	Energy production	39%(2)	31%(2)
Developing Assets:				
RTI and subsidiaries (Note 5)	RTI	Technology	85%	-
MTS Bank and subsidiaries (3)	MTS Bank	Banking	99%	99%
Sistema Shyam TeleServices Limited	SSTL	Telecommunications	57%	74%
Sistema Mass-media and subsidiaries	SMM	Mass media	75%	75%
Detsky Mir-Center and subsidiaries	Detsky Mir	Retail trading	75%	75%
Intourist and subsidiaries	Intourist	Travel services	66%	66%
Medsi and subsidiaries	Medsi	Healthcare services	100%	100%
Binnopharm and subsidiaries	Binnopharm	Pharmaceuticals	100%	100%
NIS	NIS	Technology	51%	51%

(1) Voting interests as of December 31, 2011 and 2010 – 86%.
(2) Voting interests as of December 31, 2011 and 2010 – 50%.
(3) Former title of MTS Bank is Moscow Bank for Reconstruction and Development ("MBRD").

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying consolidated financial statements have been prepared in conformity with the accounting principles generally accepted in the United States of America ("U.S. GAAP"). The Group's entities maintain accounting records in the local currencies of the countries of their domicile in accordance with the requirements of respective accounting and tax legislation. The accompanying financial statements differ from the financial statements prepared for statutory purposes in that they reflect certain adjustments, appropriate to present the financial position, results of operations and cash flows in accordance with U.S. GAAP, which are not recorded in the accounting books of the Group's entities.

Principles of consolidation – The consolidated financial statements include the accounts of the Company, as well as entities where the Company has operating and financial control, most often through the direct or indirect ownership of a majority voting interest. Those ventures where the Group exercises significant influence but does not have operating and financial control are accounted for using the equity method. Investments in which the Group does not have the ability to exercise significant influence over operating and financial policies are accounted for under the cost method and included in other investments in the consolidated statements of financial position. The consolidated financial statements also include accounts of variable interest entities ("VIEs") in which the Group is deemed to be the primary beneficiary. An entity is generally a VIE if it meets any of the following criteria: (i) the entity has insufficient equity to finance its activities without additional subordinated financial support from other parties, (ii) the equity investors cannot make significant decisions about the entity's operations or (iii) the voting rights of some investors are not proportional to their obligations to absorb the expected losses of the entity or receive the expected returns of the entity and substantially all of the entity's activities involve or are conducted on behalf of the investor with disproportionately few voting rights.

All significant intercompany transactions, balances and unrealized gains and losses on transactions have been eliminated.

Use of estimates – The preparation of consolidated financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses of the reporting period. Actual results could differ from those estimates.

Significant estimates for the Group include the allowances for doubtful accounts, customer loans and deferred tax assets, the valuation of goodwill and other long-lived assets, asset retirement obligations, income tax benefits, redeemable noncontrolling interests, derivative instruments, share-based compensation and assets acquired and liabilities assumed in business combinations, the recoverability of investments and the estimates of oil and gas reserves.

Concentration of business risk – The Group's principal business activities are within the Commonwealth of Independent States ("CIS"), primarily in the RF and Ukraine. Laws and regulations affecting businesses operating in the RF and Ukraine are subject to rapid changes, which could impact the Group's assets and operations.

Foreign currency – Management has determined that the functional currencies of most of the Group's subsidiaries are the currencies of the countries of their domicile, with the exception of certain subsidiaries whose functional currency is the U.S. dollar ("USD") due to the pervasive use of the USD in their operations or whose functional currency is the currency of its parent company if the entity is a device or shell company for holding investments or obligations.

In preparing the financial statements of the entities within the Group, transactions in currencies other than the entity's functional currency are recognized at the rates of exchange prevailing on the dates of the transactions. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are translated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency, are not restated.

The Group has selected the USD as its reporting currency. The Group's assets and liabilities are translated into USD at exchange rates prevailing on the balance sheet date. Revenues, expenses, gains and losses are translated into USD at average exchange rates prevailing during the reporting period. Equity is translated at the applicable historical rates. The resulting translation gain or loss is recorded as a separate component of other comprehensive income.

On the disposal of a foreign operation, all of the accumulated exchange differences in respect of that operation attributable to the Group are reclassified to profit or loss.

The official rate of exchange, as determined by the Central Bank of the RF, between the Russian ruble ("RUB") and USD as of December 31, 2011 was 32.20 RUB to 1 USD (30.48 RUB to 1 USD as of December 31, 2010).

Revenue recognition – Generally, revenues are recognized when all of the following conditions have been met: (i) there is persuasive evidence of an arrangement; (ii) delivery has occurred; (iii) the fee is fixed and determinable; and (iv) collectability of the fee is reasonably assured. Revenue amounts are presented net of value added taxes.

Revenues under arrangements specific to the respective segments of the Group are recognized as follows:

MTS

Revenues derived from wireless, local telephone, long distance, data and video services are recognized when services are provided. This is based upon either usage (minutes of traffic processed, volume of data transmitted) or period of time (monthly subscription fees).

The content revenue is presented net of related costs when MTS acts as an agent of the content providers while the gross revenue and related costs are recorded when MTS is a primary obligor in the arrangement.

Upfront fees received for connection of new subscribers, installation and activation of wireless, wireline and data transmission services ("connection fees") are deferred and recognized over the estimated average subscriber life, as follows:

Mobile subscribers	1-5 years
Residential wireline voice phone subscribers	15 years
Residential subscribers of broadband internet service	1 year
Other fixed line subscribers	3-5 years

MTS calculates an average life of mobile subscribers for each region in which it operates and amortizes regional connection fees.

Incentives provided to customers are usually offered on signing a new contract or as part of a promotional offering. Incentives, representing the reduction of the selling price of the service (free minutes and discounts) are recorded in the period to which they relate, when the respective revenue is recognized, as a reduction to both accounts receivable and revenue. However, if the sales incentive is a free product or service delivered at the time of sale, the cost of the free product or service is classified as an expense. In particular, the Group sells handsets at prices below cost to contract subscribers. Such subsidies are recognized in the cost of handsets and accessories when the sale is recorded.

Bashneft

Revenues from the production and sale of crude oil and petroleum products are recognised when title passes to customers at which point the risks and rewards of ownership are assumed by the customer and the price is fixed and determinable. Revenues include excise taxes on petroleum products sales and duties on export sales of crude oil and petroleum products. Excise taxes, which are re-charged to third parties under the terms of processing agreements, are excluded from revenues.

Revenue from a contract to provide services is recognised by reference to the stage of completion of the contract. Revenue from time and material contracts is recognised at the contractual rates as labour hours are delivered and direct expenses are incurred.

Construction contracts revenue includes the initial amount agreed in the contract plus any variations in contract work, claims and incentive payments, to the extent that it is probable that they will result in revenue and can be measured reliably. As soon as the outcome of a construction contract can be estimated reliably, contract revenue is recognised in profit or loss in proportion to the stage of completion of the contract. Contract expenses are recognised as incurred unless they create an asset related to future contract activity. The stage of completion is assessed by reference to surveys of work performed. When the outcome of a construction contract cannot be estimated reliably, contract revenue is recognised only to the extent of contract costs incurred that are likely to be recoverable. An expected loss on a contract is recognised immediately in profit or loss.

RTI

Revenues from the long-term contracts are recognized by reference to the stage of completion of the contract activity at the statement of financial position date when the outcome of a contract can be estimated reliably. This is normally measured by the proportion that contract costs incurred for work performed to date relate to the estimated total contract costs, except where this would not be representative of the stage of completion. Variations in contract work, claims and incentive payments are included to the extent that they have been agreed with the customer. Where the outcome of a contract cannot be estimated reliably, contract revenue is recognized to the extent of contract costs incurred where it is probable that such costs will be recoverable. When it is probable that total contract costs will exceed total contract revenue, the expected loss is recognized immediately.

The sales of software products and system integration services are generally multiple-element arrangements, involving the provision of related services, including customization, implementation and integration services, as well as ongoing support and maintenance provided to customers. A multiple-element arrangement is separated into more than one unit of accounting if all of the following criteria are met: (a) the delivered items have value to the customer on a standalone basis; (b) there is objective and reliable evidence of the fair value of the undelivered items; and (c) the arrangement includes a general right of return relative to the delivered items, delivery or performance of the undelivered items is considered probable and substantially in the control of the Group.

If evidence of the fair value of the undelivered elements of the arrangement does not exist, all revenue from the arrangement is deferred until such time that evidence of fair value does exist, or until all elements of the arrangement are delivered. Fees allocated to post-contract support are recognized as revenue on a pro rata basis over the support period. Fees allocated to other services are recognized as revenue as services are performed.

In cases where extended payment terms exist, license and related customization fees are recognized when payments are due, unless a history of collection, without providing concessions, has been established under comparable arrangements.

When sale agreements provide price protection to the dealer, the revenue is deferred until the dealer sells the merchandise to a third party due to the frequent sales price reductions and rapid technology obsolescence.

Certain products of this segment are generally sold with a limited warranty for product quality. The product return reserves and other post-contract support obligations are accrued at the time of sale. The segment accrues for estimated incurred but unidentified issues based on historical activity.

<u>MTS Bank</u>

Revenues from interest bearing assets are recognized on an accrual basis using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

<u>SSTL</u>

Service revenues are recognized as services are rendered, net of discounts and waivers. Processing fees and activation revenues on recharge vouchers and start-up kits are recognized as revenues net of discounts, as and when they get activated.

Revenues from infrastructure services are recognized as services are rendered, in accordance with the terms of the related contracts. Indefeasible right of use contracts are accounted for as operating leases and revenues are recognized over the term of the lease.

<u>Other businesses</u>

The Group’s other businesses recognize revenue when products are shipped or when services are rendered to customers. In cases where the Group acts as an agent, only the net agency fee is recognized as revenue.

Regulated services – Regulated tariff services provided by the Group primarily consist of local telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services, provided by MTS, and energy provided by Bashkirenergo. Changes in the rate structure for such services are subject to the Federal Tariff Service approval. Revenue from regulated tariff services represented approximately 3.5% and 4.1% of the consolidated revenue for the years ended December 31, 2011 and 2010, respectively. This does not include revenue attributable to Bashkirenergo whose financial results are presented in discontinued operations (Note 4).

Cash and cash equivalents – Cash equivalents include cash on hand, demand deposits and other highly liquid investments with a maturity of three months or less when purchased. Within the cash and cash equivalents balance are cash equivalents of $1,918.1 million and $1,321.0 million as of December 31, 2011 and 2010, respectively, which primarily comprise term deposits with banks and bank promissory notes with original maturities of less than 90 days.

Restricted cash – Restricted cash includes cash and cash equivalents restricted by agreements with third parties for special purposes. Restricted cash included in other non-current assets in the consolidated statements of financial position as of December 31, 2011 and 2010 was $86.3 million and $48.3 million, respectively, including cash deposited by the Group to guarantee certain loans, and to be in compliance with government regulation of local currency conversion into foreign currencies in Uzbekistan.

Financial instruments – The Group's financial instruments include cash and cash equivalents, short-term investments, accounts receivable, derivative financial instruments, financial assets and liabilities from banking activities, accounts payable and short-term and long term debt.

Hedging activities – The Group uses derivative instruments, including swap, forward and option contracts to manage foreign currency and interest rate risk exposures. The Group reviews its fair value hierarchy classifications quarterly. Changes in significant observable valuation inputs identified during these reviews may trigger reclassification of fair value hierarchy levels of financial assets and liabilities. During the years ended December 31, 2011 and 2010 no reclassifications occurred. The fair value measurement of the Group's hedging agreements is based on the observable yield curves for similar instruments ("Level 2" of the hierarchy established by the U.S. GAAP guidance).

The Group designates derivatives as either fair value hedges or cash flow hedges in case the required criteria are met. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the consolidated statement of operations together with any changes in the fair value of the hedged asset or liability that is attributed to the hedged risk.

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in accumulated other comprehensive income. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of operations. For derivatives that do not meet the conditions for hedge accounting, gains and losses from changes in the fair value are included in the consolidated statement of operations.

Assets and liabilities related to multiple derivative contracts with one counterparty are not offset by the Group.

The Group does not use financial instruments for trading or speculative purposes.

Fair value of financial instruments – The fair market value of certain financial instruments approximates their carrying value due to the short term nature of these amounts, namely cash and cash equivalents, short-term investments, accounts receivable and accounts payable, short-term debt and assets and liabilities from banking activities which are included in current assets and liabilities.

Accounts receivable – Accounts receivable are stated at their net realizable value after deducting a provision for doubtful accounts. Such provision reflects either specific cases of delinquencies or defaults or estimates based on evidence of collectability.

Assets from banking activities – Assets from banking activities comprise assets (loans, notes and others) involved in operations of the banking division. Impairment losses on loans to customers and banks are included in the allowance for loan losses. Allowance represents management's best estimate of probable credit losses inherent in the lending portfolios as of the balance sheet date. Loans not individually reviewed are evaluated as a group using reserve factor percentages based on historic loss experience qualitative factors. Loans deemed to be uncollectible are charged against the allowance for loan losses. Correspondingly, recoveries of amounts previously charged as uncollectible are credited to the allowance for loan losses. A provision for loan losses is charged to the consolidated statement of operations based on management's evaluation of the estimated losses, after given consideration to the net chargeoffs, that have been incurred in the Group's loan portfolio.

The Group performs detailed reviews of its lending portfolios on a periodic and systematic basis to identify inherent risks and to assess the overall collectability of those portfolios. The allowance on certain homogeneous loan portfolios, which generally consist of consumer and mortgage loans, is based on an evaluation of aggregated portfolios of homogeneous loans, generally by loan type.

Loss forecast models are utilized for portfolios of homogeneous loans which consider a variety of factors including, but not limited to, historical loss experience, anticipated defaults or foreclosures based on portfolio trends, delinquencies and credit scores, and estimated loss factors by loan type. The remaining loan portfolios are reviewed on an individual loan basis.

Loans subject to individual reviews are analyzed and segregated by risk according to the Group's internal risk rating scale. These risk classifications, in conjunction with an analysis of historical loss experience, current economic conditions and performance trends within specific portfolio segments, and any other pertinent information result in the estimation allowances for loan losses. An allowance for loan losses is established for individually impaired loans. A loan is considered impaired when, based on current information and events, it is probable that the Group will be unable to collect all amounts due, including principal and interest, according to the contractual terms of the agreement. Individually impaired loans are measured based on the present value of payments expected to be received, or for loans that are solely dependent on the collateral for repayment, the estimated fair value of the collateral. If the recorded investment in impaired loans exceeds the measure of estimated fair value, an allowance is established as a component of the allowance for loan losses.

Non-accrual loans – In general, the accrual of interest on loans is discontinued at the time the loan is 90 days delinquent unless the credit is well secured and in process of collection. In all cases, loans are placed on non-accrual, or written-off at an earlier date, if collection of principal or interest is considered doubtful. All interest earned but not collected for loans that are placed on non-accrual or written-off is reversed against interest income. Loans are returned to accrual status when all the principal and interest amounts contractually due are reasonably assured of repayment within a reasonable time frame and when the borrower has demonstrated payment performance of cash or equivalents for a minimum of six months.

Inventories and spare parts – Inventories comprise raw materials, work-in-progress, finished goods and goods for resale. Inventory and spare parts are stated at the lower of cost or market value.

The Group's subsidiaries account for inventories using either first-in, first-out or weighted average cost methods.

The cost of raw materials includes the cost of purchase, customs duties, transportation and handling costs. Work in-progress and finished goods are stated at production cost which includes direct production expenses and manufacturing overheads. Costs and estimated earnings in excess of billings on uncompleted contracts include the accumulated costs of projects contracted with third parties, net of related progress billings. The Group periodically assesses its inventories and spare parts for obsolete or slow-moving stock.

Value-added taxes – Value-added taxes ("VAT") related to sales are payable to the tax authorities on an accrual basis based on invoices issued to the customer. VAT incurred for purchases may be reclaimed, subject to certain restrictions, against VAT related to sales. VAT related to purchase transactions that will be reclaimed against future sales are recorded as VAT receivable in the accompanying financial statements.

Held for sale – The Group classifies assets and liabilities as held for sale when all the following conditions have been met: (i) management having the authority to approve the action, commits to a plan to sell the asset (disposal group); (ii) the asset (disposal group) is available for immediate sale in its present condition; (iii) an active program to locate a buyer and other actions required to complete the plan to sell have been initiated; (iv) the sale is probable and transfer of the assets (disposal group) is expected to qualify for recognition as a completed sale, within one year; (v) the asset (the disposal group) is being marketed at a reasonable price; and (vi) it is unlikely that the plan will be changed significantly or withdrawn. Held for sale assets are measured at the lower of carrying amount or fair value less cost to sell.

Property, plant and equipment – Property, plant and equipment are stated at historical cost. Cost includes major expenditures for improvements and replacements, which extend useful lives of the assets or increase their revenue generating capacity. Repairs and maintenance, including preventative maintenance, are charged to the consolidated statement of operations as incurred.

The Group recognizes the costs of overhauls and preventive maintenance performed with respect to oil refining assets as expenses when incurred. Cost of major overhauls and replacements, which extend useful lives of the assets or increase their revenue generating capacity are capitalized to the cost of the assets.

Depreciation for property, plant and equipment other than depletion on oil and gas properties is computed under the straight-line method utilizing estimated useful lives of the assets as follows:

Buildings	20-50 years
Leasehold improvements	Lesser of the estimated useful life or the term of the lease
Switches and transmission devices	7-31 years
Network and base station equipment	4-12 years
Refining, marketing, distribution and chemicals	3-40 years
Exploration and production assets	3-19 years
Power and utilities	3-47 years
Other plant, machinery and equipment	3-25 years

Depletion of proved oil and gas properties is calculated using the unit-of-production method based on total proved reserves. Depletion expense of other capitalized costs related to oil and gas production is calculated using the unit-of production method based on proved developed reserves.

Assets held under capital leases are initially recognized as assets of the Group at their fair value at the inception of a lease or, if lower, at the present value of minimum lease payments. The discount rate used in determining the present value of the minimum lease payments is the Group's incremental borrowing rate, unless (1) it is practicable to determine the implicit rate computed by the lessor; and (2) the implicit rate is less than the Group's incremental borrowing rate. If both of those conditions are met, the interest rate implicit in the lease is used.

Items of property, plant and equipment that are retired or otherwise disposed of are eliminated from the consolidated statement of financial position along with the corresponding accumulated depreciation and depletion. Any gain or loss resulting from such retirement or disposal is included in the determination of consolidated net income.

Construction in-progress and telecommunications equipment for installation are not depreciated until an asset is placed into service.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Transportation expenses – Transportation expenses represent all expenses incurred in the transportation of crude oil and petroleum products via the Transneft pipeline network, as well as by railway and other transportation means. Transportation expenses also include all other shipping and handling costs.

Asset retirement obligation – The Group calculates an asset retirement obligation and an associated asset retirement cost when the Group has a legal or constructive obligation in connection with the retirement of tangible long-lived assets.

As of December 31, 2011 and 2010, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

		2011		2010
Balance, beginning of the year	$	273,916	$	189,490
Liabilities incurred in the current period		10,105		5,811
Property dispositions		(15,827)		-
Accretion expense		29,475		21,745
Revisions in estimated cash flows		(66,140)		58,734
Currency translation adjustment		(16,805)		(1,864)
Balance, end of the year	**$**	**214,724**	**$**	**273,916**
Current portion		603		15,534
Long-term portion		214,121		258,382
Balance, end of the year	**$**	**214,724**	**$**	**273,916**

The Group's asset retirement obligation relates primarily to the cost of removing MTS' equipment from sites and decommissioning of Bashneft's wells, dismantling equipment, restoring the sites and performing other related activities. Revisions in estimated cash flows are attributable to changes in economic assumptions, such as inflation rates

The Group recorded the long-term portion of asset retirement obligation as a separate line item in the consolidated statements of financial position, the current portion – as a component of accrued expenses and other current liabilities.

Business combinations – Acquisition of businesses from third parties is accounted for using the purchase method. On acquisition, the assets and liabilities of an acquired entity are measured at their fair values as at the date of acquisition. The noncontrolling interest is stated at the noncontrolling interests' proportion of the fair values of the assets and liabilities recognized.

Acquisitions of entities under common control are accounted for on a carryover basis, which results in the historical book value of assets and liabilities of the acquired entity being combined with that of the Group. Any difference between the purchase price and the net assets acquired is reflected in equity.

Goodwill – Goodwill is determined as the excess of the consideration transferred plus the fair value of any noncontrolling interest in the acquiree at the acquisition date over the fair values of the identifiable net assets acquired. The excess of the fair values of the identifiable net assets acquired over the cost of the business combination plus the fair value of any noncontrolling interest in the acquiree at the acquisition date is credited to income.

Goodwill is not amortized to operations, but instead is reviewed for impairment at least annually Goodwill is reviewed for impairment by comparing the carrying value of each reporting unit's net assets (including allocated goodwill) to the fair value of the reporting unit. If the reporting unit's carrying amount is greater than its fair value, a second step is performed whereby implied fair value that relates to the reporting unit's goodwill is compared to the carrying value of the reporting unit's goodwill. The Group recognizes a goodwill impairment charge for the amount by which the carrying value of goodwill exceeds the fair value.

Intangible assets other than goodwill – Other intangible assets include billing, telecommunication and other software, operating licenses, acquired customer bases, radio frequencies, trademarks and telephone numbering capacity. License costs are capitalized as a result of (a) the purchase price allocated to licenses acquired in business combinations; and (b) licenses purchased directly from government organizations which require license payments.

All finite-life intangible assets are being amortized using the straight-line method utilizing estimated useful lives of the assets as follows:

Billing and telecommunication software	1-20 years
Operating licenses	3-15 years
Acquired customer base	1-8 years
Numbering capacity with finite contractual life	2-10 years
Acquired radio frequencies	2-15 years

Trademarks and telephone numbering capacity with unlimited contractual life are not amortized, but are reviewed, at least annually, for impairment. If the fair value of the intangible asset is less than its carrying value, an impairment loss is recognized in an amount equal to the difference. The Group also evaluates the remaining useful life of its intangible assets that are not subject to amortization on an annual basis to determine whether events and circumstances continue to support an indefinite useful life. If an intangible asset that is not being amortized is subsequently determined to have a finite useful life, that asset is tested for impairment.

Investments – The Group's share in the net assets and net income of certain entities, where the Group holds 20% to 50% of voting shares and has the ability to exercise significant influence over their operating and financial policies ("affiliates") is included in the consolidated net assets and operating results using the equity method of accounting. The Group's share in the net income of affiliates where the Group has day-to-day involvement in business activities and which are integral to the Group's business is recorded within operating income. In other cases, the Group's share in net income is shown after the income tax provision. Other-than-temporary decreases in the value of the investment in affiliates are recognized in net income.

All other equity investments, which consist of investments for which the Company does not have the ability to exercise significant influence, are accounted for under the cost method or at fair value. Investments in private companies are carried at cost, less provisions for other-than-temporary impairment in value. For public companies that have readily determinable fair values, the Company classifies its equity investments as available-for-sale or trading. For available for sale securities, the Group records these investments at their fair values with unrealized holding gains and losses included in the consolidated statement of comprehensive income/(loss), net of any related tax effect. For trading securities, the Group records the investment at fair value. Unrealized holding gains and losses for trading securities are included in earnings.

The Group purchases promissory notes for investing purposes. These notes are carried at cost and the discount against the nominal value is accrued over the period to maturity. A provision is made, based on management assessment, for notes that are considered uncollectible. The notes are classified as held-to-maturity.

Investments which are expected to be realized within twelve months after the statement of financial position date are classified as short-term investments. Other investments are classified as long-term investments.

Debt issuance costs – Debt issuance costs are recorded as an asset and amortized using the effective interest method over the terms of the related loans.

Impairment of long-lived assets other than goodwill and indefinite lived intangible assets – The Group periodically evaluates the recoverability of the carrying amount of its long-lived assets. Whenever events or changes in circumstances indicate that the carrying amounts of those assets may not be recoverable, the Group compares the undiscounted net cash flows estimated to be generated by those assets to the carrying amount of those assets. When these undiscounted cash flows are less than the carrying amounts of the assets, the Group records impairment losses to write the asset down to fair value, measured by the estimated discounted net future cash flows expected to be generated from the use of the assets.

Liabilities from banking activities – Liabilities from banking activities include deposits from banks and customers, promissory notes issued and other liabilities that arise out of operations of MTS Bank.

Property, plant and equipment contributions – Telecommunication equipment and transmission devices, installed at newly constructed properties in Moscow, have been historically transferred to MGTS, a fixed line operator and subsidiary of the Group, by the Moscow City Government free of charge. These assets are capitalized by the Group at their market value at the date of transfer. Simultaneously, deferred revenue is recorded in the same amount and is amortized as a reduction of the depreciation charge in the consolidated statement of operations over the contributed assets' life.

Income taxes – Income taxes of the Group's Russian entities have been computed in accordance with RF laws. The corporate income tax rate in the RF is 20%. The income tax rate on dividends paid within Russia is 9%. The foreign subsidiaries of the Group are paying income taxes in their respective jurisdictions.

Deferred tax assets and liabilities are recognized for differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the tax bases of assets and liabilities that will result in future taxable or deductible amounts. The deferred tax assets and liabilities are measured using the enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax assets will not be realized. In making such determination, we consider all available positive and negative evidence, including future reversals of existing taxable temporary differences, projected future taxable income, tax planning strategies and recent financial operations.

Uncertain tax positions are recognized in the consolidated financial statements for positions which are considered more likely than not of being sustained based on the technical merits of the position on audit by the tax authorities. The measurement of the tax benefit recognized in the consolidated financial statements is based upon the largest amount of tax benefit that, in management's judgment, is greater than 50% likely of being realized based on a cumulative probability assessment of the possible outcomes.

The Group recognizes interest and penalties relating to unrecognized tax benefits and penalties within income taxes.

Treasury stock – if the Group reacquires its own equity instruments, those instruments ("treasury shares") are recognized as a deduction of equity at cost, being the consideration paid to reacquire the shares. No gain or loss is recognized in profit or loss on the purchase, sale, issue or cancellation of the Group's own equity instruments. Such treasury shares may be acquired and held by the Company or by other subsidiaries of the Group.

Share-based compensation – The Group calculates and records the fair value of equity instruments, such as stock options or restricted stock, awarded to employees for services received and recognizes such amounts in the consolidated statement of operations. The fair value of the equity instruments is measured on the date they are granted and is recognized over the period during which the employees are required to provide services in exchange for the equity instruments (Note 26). Share-based compensation expense includes the estimated effects of forfeitures. Such estimates are adjusted over the requisite service period to the extent actual forfeitures differ, or are expected to differ from such estimates. Changes in estimated forfeitures are recognized in the period of change and also impact the amount of expense to be recognized in future periods.

For phantom stock awards that include a component that will be settled in cash, and a component that is settled in equity, the Group accounts for the awards separately, based on their substance. For the component that is settled in cash, the awards generally are accounted for as liabilities with compensation cost recognized over the service (vesting) period of the award based on the fair value of the award remeasured at each reporting period. For the component that is settled in equity, compensation cost is measured based on the fair value of the award on the date of grant and the compensation cost is recognized over the service (vesting) period of the award.

Retirement and post-retirement benefits – Subsidiaries of the Group contribute to local state pension funds and social funds, on behalf of their employees.

In Russia, starting from January 1, 2010, social contributions are calculated by the application of following rates: 26% – for accumulated personal income up to RUB 415,000, 0% – for the personal earnings above the aforementioned amount. Social contributions are allocated to three social funds, including a pension fund, and the rate of contributions to the pension fund is 20%. The contributions are expensed as incurred.

In the Ukraine, subsidiaries of the Group are required to contribute a specified percentage of each employee's payroll up to a fixed limit into a pension fund, an unemployment fund and a social security fund. The contributions are expensed as incurred.

In addition to the above, Intracom Telecom and MGTS have defined benefit plans to provide their employees certain benefits upon and after retirement. The net period cost of the Group's defined benefit plans is measured on an actuarial basis using the projected unit credit method and several actuarial assumptions. The recognition of expense for defined benefit plans is significantly impacted by estimates made by management such as discount rates used to value certain liabilities, expected return on assets, mortality rates, future rates of compensation increase and other related assumptions. Gains and losses occur when actual experience differs from actuarial assumptions. If such gains or losses exceed ten percent of the greater of plan assets or plan liabilities the Company amortizes those gains or losses over the average remaining service period of the employees.

The Group records in the statement of financial position the funded status of its pension plans based on the projected benefit obligation.

Borrowing costs – Borrowing costs are recognized as an expense in the period in which they are incurred. Borrowing costs for assets that require a period of time to get them ready for their intended use are capitalized and amortized over the related assets' estimated useful lives. The capitalized borrowing costs for the years ended December 31, 2011 and 2010 amounted to $59.6 million and $46.4 million, respectively.

Advertising costs – Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2011 and 2010 were $427.5 million and $417.3 million , respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations.

Taxes other than income tax – Taxes other than income tax comprise excises, extraction tax and customs, which relate to the Bashneft, and property tax.

Redeemable noncontrolling interests – From time to time, in order to optimize the structure of business acquisitions and to defer payment of the purchase price the Group enters into put and call option agreements to acquire noncontrolling interests in the existing subsidiaries. These put and call option agreements qualify as redeemable securities and are accounted for at either redemption value or the fair value of redeemable noncontrolling interests as of the reporting date. The fair value of redeemable noncontrolling interests is assessed based on discounted future cash flows of the acquired entity ("Level 3" significant unobservable Inputs of the hierarchy established by the US GAAP guidance). Any changes in redemption value of redeemable noncontrolling interests are accounted for in the Group's retained earnings. Redeemable noncontrolling interests are presented as temporary equity in the consolidated statement of financial position.

Earnings per share – Basic earnings per share ("EPS") is based on net income attributable to the Company divided by the weighted average number of shares outstanding during the year.

Diluted EPS is based on net income attributable to the Company adjusted in certain circumstances, divided by the weighted average number of shares outstanding during the year, adjusted for the dilutive effect of all potential shares that were outstanding during the year. Such potentially dilutive shares are excluded when the effect would be to increase diluted earnings per share or reduce the diluted loss per share.

Diluted EPS reflect the potential dilution related stock options granted to employees. The diluted EPS is not different from basic for the years ended December 31, 2011 and 2010.

Distributions to shareholders – Distributable retained earnings of the Group are based on amounts extracted from the statutory accounts of the Company (based on the Russian accounting standards) and may significantly differ from amounts calculated on the basis of U.S. GAAP.

Reclassifications and revisions – Certain comparative information presented in the consolidated financial statements for the years ended December 31, 2010 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended December 31, 2011. Such reclassifications and revisions were not significant to the Group financial statements, except for presentation of discontinued operations of Bashkirenergo (Note 4).

Recent accounting pronouncements

Adopted during the period

In October 2009, the Financial Accounting Standards Board ("FASB") amended the revenue recognition for multiple deliverable arrangements guidance to remove the non-software components of tangible products and certain software components of tangible products from the scope of existing software revenue guidance, resulting in the recognition of revenue similar to that for other tangible products. The FASB amended the revenue recognition for multiple deliverable arrangements guidance to require the use of the relative selling price method when allocating revenue in these types of arrangements. This method allows a vendor to use its best estimate of selling price if neither vendor specific objective evidence nor third party evidence of selling price exists when evaluating multiple deliverable arrangements. This updated guidance is effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. The adoption of this guidance, effective January 1, 2011, did not have a significant impact on the Group's consolidated financial statements.

To be adopted in future periods

In June 2011, the FASB amended its guidance on the presentation of comprehensive income. Under the amended guidance, an entity has the option to present comprehensive income in either one continuous statement or two consecutive financial statements. A single statement must present the components of net income and total net income, the components of other comprehensive income and total other comprehensive income, and a total for comprehensive income. In a two-statement approach, an entity must present the components of net income and total net income in the first statement. That statement must be immediately followed by a financial statement that presents the components of other comprehensive income, a total for other comprehensive income, and a total for comprehensive income. The option under the current guidance that permits the presentation of components of other comprehensive income as part of the statement of changes in shareholders' equity has been eliminated. The amendment becomes effective for fiscal years, and interim periods within those years, beginning after December 15, 2011. Early adoption is permitted. This guidance will not have an impact on the amounts reported in the Group's consolidated financial statements as it is disclosure-only in nature.

In September 2011, the FASB updated the authoritative guidance on testing goodwill for impairment. The update gives entities carrying out goodwill impairment test an option of performing qualitative assessment before calculating the fair value of a reporting unit. If an entity determines, on the basis of qualitative factors, that the fair value of a reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The guidance is effective for all entities for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. The adoption of this guidance is not expected to have a significant impact on the Group's consolidated financial statements.

3. ACQUISITIONS

Business combinations in the year ended December 31, 2011

During the year ended December 31, 2011, the Group had no acquisitions which are considered to be individually material. The following table summarizes the information for business combinations which occurred during the year ended December 31, 2011:

Acquiree	Principal activity	Date of acquisition	Interest acquired	Acquiring segment	Purchase price (in millions)
Inteleca Group	Fixed line operator	April	100%	MTS	$ 19.2
Infocentr	Fixed line operator	April	100%	MTS	15.4
Orenburgnefteproduct	Wholesale and retail of oil products	April	94%	Bashneft	119.3
Bashneft-Nefteproduct	Wholesale and retail of oil products	July	100%	Bashneft	101.7
Altair	Fixed line and Internet services	August	100%	MTS	25.6
Moskovia	Broadcasting company	September	56%	Other	22.7
TVT	Fixed line operator	October	100%	MTS	162.5
Scon and other	Retail of oil products	December	100%	Bashneft	17.8
Donskoe	Agriculture	December	100%	Other	15.7
Total					**$ 499.9**

In July 2010, Bashneft acquired a 49.99% interest in ASPEC, a company engaged in the wholesale and retail of oil products, real estate development and automotive retail business, for a cash consideration of $123 million. In July 2011, ASPEC was reorganized into two legal entities: ASPEC and Bashneft-Nefteproduct. As a result of the reorganization, Bashneft received 100% of Bashneft-Nefteproduct which accumulated ASPEC's petroleum products trading business, and simultaneously withdrew as shareholder from ASPEC which retained the other remaining businesses. The consideration transferred in this business combination was measured at the acquisition-date fair value of the Group's share in the part of ASPEC's businesses that was disposed of (i.e. the other remaining businesses). No resulting gain or loss has been recognized as a result of this transaction.

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the noncontrolling interest in the acquirees:

		(in millions)
Current assets	$	180.5
Property, plant and equipment		273.4
Goodwill		241.7
Customer base		20.1
Other non-current assets		3.5
Current liabilities		(146.3)
Non-current liabilities		(46.7)
Noncontrolling interest		(26.3)
Purchase price	**$**	**499.9**

The purchase price allocation for TVT is provisional as the Group has not completed the valuation of the company's individual assets as of the date of these consolidated financial statements.

The goodwill arising from the acquisitions consists largely of the synergies which are expected to arise from combining the operations of the Group and acquired companies as well as to the economic potential of the markets in which the acquired companies operate. The goodwill arising on each particular acquisition was assigned to the acquiring segment. None of the goodwill recognized is expected to be deductible for income tax purposes. The customer base assets recognized as a result of the acquisitions are amortized over a period ranging from 8 to 14 years.

Pro forma results of operations have not been presented because the effects of these business combinations, both individually and in aggregate, were not material to the Group's consolidated results of operations.

Business combinations in the year ended December 31, 2010

Sky Link – In November 2009, the Group and Svyazinvest ("the Parties") signed a non-binding memorandum of understanding, under which the Parties agreed to enter in a series of transactions which would ultimately result in (i) the disposal of the Group's investment in Svyazinvest to a state-controlled enterprise; (ii) non-cash extinguishment of the Group's indebtedness to Sberbank; (iii) an increase in the Group's ownership in Sky Link from 50% to 100% and disposal of this 100% investment to Svyazinvest; and (iv) the disposal of 28% of MGTS' common stock previously owned by Svyazinvest to the Group.

In April 2010 the Group raised its effective equity interest in Sky Link by 50% to 100%. This 100% interest had previously been agreed to be disposed of as a part of the transaction with Svyazinvest (see above), and was therefore classified as an asset held for sale upon the date of the Group acquiring 100% ownership. The purchase price allocation for the acquisition was as follows:

		(in millions)
Current assets	$	47.6
Non-current assets		541.3
Current liabilities		(135.2)
Non-current liabilities		(136.9)
Fair value of the Group's investments as of the date of acquisition		(148.3)
Purchase price	**$**	**168.5**

In July 2010, the Group and Svyazinvest signed an exchange agreement where the parties agreed to exchange their interests in MGTS and Sky Link under certain conditions.

According to the share exchange agreement, Svyazinvest agreed to transfer to the Group 28% of ordinary shares in MGTS (23.3% of the share capital of MGTS), in exchange for Group's 100% interest in Sky Link. Furthermore, the Group was to make an additional cash payment of RUB 450 million to Svyazinvest to cover the difference in value of MGTS and Sky Link shares, and the new shareholders of Sky Link agreed to settle its obligations to the Group in the total amount of approximately $307.4 million. As a result of the transaction the Group recognized a gain on disposal of discontinued operations amounting to $324.7 million.

Upon completion of the foregoing deal, the Group's interest in MGTS increased to 93.3% and the noncontrolling interests attributable to MGTS decreased by $410.3 million, with corresponding increase in additional paid-in capital of $86.0 million.

Other – The following table summarizes the information for other business combinations which occurred during the year ended December 31, 2010:

Acquiree	**Principal activity**	**Date of acquisition**	**Interest acquired**	**Acquiring segment**	**Purchase price (in millions)**
Tenzor Telecom	Fixed line operator	February	100%	MTS	6.2
Penza Telecom	Fixed line operator	May	100%	MTS	19.3
M2M Telematics	Navigation and telematics	July	51%	Other	20.0
Multiregion	Fixed line operator	July	100%	MTS	123.6
Serebryany Bor	Lease of a building	October	100%	Other	5.9
Lank Telecom	Fixed line operator	December	100%	MTS	17.8
NMSK	Fixed line operator	December	100%	MTS	23.2
Total					**$ 216.0**

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date, as well as the fair value at the acquisition date of the noncontrolling interest in the acquirees:

		(in millions)
Current assets	$	53.5
Property, plant and equipment		75.3
Goodwill		181.3
Customer base		115.7
Other non-current assets		38.3
Current liabilities		(153.3)
Non-current liabilities		(51.3)
Noncontrolling interest		(43.5)
Purchase price	**$**	**216.0**

The goodwill arising from the acquisitions consists largely of the synergies expected from combining the operations of the Group and acquired companies as well as to the economic potential of the markets in which the acquired companies operate. The goodwill arising on each particular acquisition was assigned to the acquiring segment. None of the goodwill recognized is expected to be deductible for income tax purposes. The customer base assets recognized as a result of the acquisitions are amortized over a period ranging from 8 to 12 years.

In connection with the business combinations which occurred during the years ended December 31, 2011 and 2010 the Group incurred $7.1 mln and $12.7 mln of third-party acquisition related costs included in selling, general and administrative expenses in the consolidated statements of operations.

<u>Acquisitions of noncontrolling interests in existing subsidiaries</u>

From time to time the Group makes the acquisitions of noncontrolling interests in respects of its subsidiaries where it retains control. The Group accounted for these changes in its ownership interest as equity transactions.

In April 2011, a termination record was entered into the Unified State Register thereby legally completing the merger of OJSC Comstar-UTS ("Comstar"), MTS' fixed line subsidiary, into MTS. In accordance with the terms of the merger, qualifying holders of Comstar ordinary shares received ordinary shares of MTS at an exchange ratio of 0.825 MTS ordinary shares for each one Comstar ordinary share. A total of 98,853,996 Comstar shares were converted into existing MTS treasury shares as well as newly issued MTS shares. As a result, MTS' charter capital increased by 73,087,006 ordinary shares to a total of 2,066,413,144 ordinary shares. The transaction was accounted for directly in equity and resulted in the decrease of noncontrolling interest by $244.2 million and corresponding increase in additional paid-in capital by $102.4 million.

In September 2010, through voluntary tender offer, MTS acquired 37,614,087 ordinary Comstar shares, or approximately 9.0% of Comstar's issued share capital, for a total cost of RUB 8.28 billion (approximately $271.89 million as of October 6, 2010). This brings MTS' total ownership interest in Comstar to 70.97% of Comstar's issued share capital (or 73.33% excluding treasury shares). The transaction was accounted for directly in equity.

In April 2010, Bashneft acquired 25% of shares of Sistema-Invest, a subsidiary of the Group, for a cash consideration of $205 million. As a result of acquisition the Group's interest in Sistema-Invest increased to 90%. In December 2010 the Group's interest in Sistema-Invest increased to 100% for a cash consideration of $120 million. The transactions in April and December 2010 were accounted for directly in equity and resulted in the decrease in noncontrolling interest by $245.7 million and by $35 million, respectively.

In February-April 2010, Bashneft made mandatory offers to acquire noncontrolling interests in Ufimsky Refinery, Ufaorgsintez, Ufaneftekhim, Novoil and Bashkirnefteproduct. As a result of subsequent purchases of noncontrolling interests the Group's ownership in these entities increased by 0.51%, 3.67%, 5.64%, 0.51% and 0.59% respectively for a total cash consideration of $128.1 million. These transactions were accounted for directly in equity and resulted in the decrease in noncontrolling interest by $119.1 million.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

4. DISPOSALS AND DISCONTINUED OPERATIONS

Discontinued operations

Bashkirenergo – In December 2011, Sistema and INTER RAO UES, a Russian energy holding, signed a non-binding memorandum of understanding summarizing the intention of INTER RAO UES to acquire, and Sistema to sell, energy producing business of Bashkirenergo which now controls both energy producing and distribution power capacities. The results of operations of the generation business of Bashkirenergo are reported in discontinued operations in the consolidated statements of operations for all periods presented, and the assets and related liabilities are included in the consolidated statement of financial position as disposal group held for sale as of December 31, 2011 and 2010. Such assets and liabilities consisted of the following:

	2011	2010
Current assets	$ 299,807	$ 170,746
Non-current assets	1,109,257	1,153,606
Total assets of disposal group held for sale	**1,409,064**	**1,324,352**
Current liabilities	117,122	177,445
Non-current liabilities	131,195	86,904
Total liabilities of disposal group held for sale	**$ 248,317**	**$ 264,349**

The results of discontinued operations of Bashkirenergo for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Total revenue	$ 1,535,314	$ 1,676,021
Total expense	(1,444,205)	(1,617,642)
Income from discontinued operations before income tax	**91,109**	**58,379**
Income tax expense	(24,047)	(22,642)
Income from discontinued operations, net of income tax effect	$ **67,062**	$ **35,737**

ESKB – In September 2011, the Group completed the sale of 100% interest in electricity retail company ESKB, a subsidiary of Bashkirenergo, to RusHydro for a total cash consideration of RUB 5.7 billion. As a result of this transaction, the Group recognized gain on disposal of discontinued operations of $149.5 million.

The results of discontinued operations of ESKB for the years ended December 31, 2011 and 2010 were as follows:

	2011	2010
Total revenue	$ 973,113	$ 22,627
Total expense	(962,605)	(19,264)
Income from discontinued operations before income tax	**10,508**	**3,363**
Income tax expense	(2,137)	(841)
Income from discontinued operations, net of income tax effect	$ **8,371**	$ **2,522**

WattDrive – In November 2011, the Group completed the sale of its 74.9% interest in WattDrive, a subsidiary of RTI. As a result of this transaction, the Group recognized gain on disposal of discontinued operations of $12.3 million. Losses from discontinued operations of WattDrive amounted to $4.2 million and $1.0 million for the years ended December 31, 2011 and 2010, respectively.

Sky Link – As discussed in Note 3, during the year ended December 31, 2010, the Group recognized gain on disposal of discontinued operations of Sky Link of $324.7 million. Loss from discontinued operations of Sky Link amounted to $39.3 million for the year ended December 31, 2010.

Disposal of interests in subsidiaries and affiliates

Intourist – In July 2011, Intourist sold 50.1% interest in ITC, its wholly-owned subsidiary which managed Intourist's tour operating and retail business to Thomas Cook Group plc for a consideration of $45 million satisfied by the cash payment of $10 million and by the issue of $35 million of the acquirer's shares. As a result of this transaction the Group recognized a gain in the amount of $47.8 million. Upon disposal of the controlling interest, the Group accounted for its remaining equity interest in ITC in accordance with the equity method (Note 15).

5. CAPITAL TRANSACTIONS OF SUBSIDIARIES

MTS – In December 2011, MTS acquired 29% of the ordinary shares of MGTS from Sistema for RUB 10.56 billion ($336.3 million as of December 1, 2011). Upon completion of this transaction, MTS' ownership interest in MGTS increased to 99.01% of the ordinary shares and 69.7% of the preferred shares, which overall totals 94.1% of MGTS charter capital. The transaction was accounted for directly in equity and resulted in decrease in noncontrolling interest for $178.7 million and increase in additional paid-in capital for $118.6 million.

In December 2010, MTS acquired 100% of Sistema Telecom from Sistema for RUB 11.59 billion ($379.0 million as of December 27, 2010). Sistema Telecom's key assets consist of property rights in respect of the group of trademarks, including the distinctive "egg" trademarks of MTS, Comstar and MGTS, certain promissory notes previously issued by MTS in the amount of RUB 2.00 billion ($65.5 million) and a 45% interest in TS-Retail, a 100% subsidiary of Sistema through direct and indirect ownership. The transaction was accounted for directly in equity and resulted in the decrease in noncontrolling interests by $198.7 million.

SSTL – In March 2011, the Russian Federal Agency for State Property Management acquired a 17.14% interest in SSTL, through the acquisition of shares issued by SSTL for the rupee equivalent of $600 million. As a result of this transaction the Group's share in SSTL decreased to 57%. In connection with the transaction the Group entered into a put option agreement to acquire this interest in SSTL during a one year period beginning five years after the purchase of shares in SSTL at the higher of $777 million or their market value at that date determined by an independent appraiser. The Group accounted for the redeemable noncontrolling interest in SSTL at the redemption value and presented this as temporary equity in its consolidated statements of financial position.

RTI – In February 2011, the Group and the Bank of Moscow established RTI. The Group contributed its 97% interest in Concern RTI, a manufacturer of radiotechnical equipment, and RUB 2.88 billion (approximately $97 million) in cash receiving 84.6% of the share capital of the newly established company. The Bank of Moscow invested RUB 3 billion (approximately $100 million) of cash in exchange for 15.4% of the company's share capital. Upon completion of the deal, the effective ownership of the Group in Concern RTI decreased to 82.1% which resulted in the increase of noncontrolling interest by $49.2 million.

In July 2011, Sistema sold its controlling interest in SITRONICS, a provider of telecommunication, IT and microelectronic solutions, to RTI, a fellow subsidiary (see discussion above). Upon completion of the deal, the effective ownership of the Group in SITRONICS decreased to 59.2% and resulted in the increase of noncontrolling interest by $29.3 million.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Sistema-Invest – In May 2011, the Group completed the reorganization of Sistema-Invest, its subsidiary holding the Group's investments in the oil and energy companies in the Republic of Bashkortostan, by merging into it Bashkir Integrated Energy Systems, UNKH-EnergoInvest, UNPZ-EnergoInvest and Novoil-EnergoInvest (the "Merged Entities") which were previously owned by a number of other Group subsidiaries including Bashneft, UNPZ, Novoil and Ufaneftekhim. During the merger, shares of the Merged Entities were converted into Sistema-Invest treasury shares and additionally issued ordinary shares. As a result of the reorganization, Sistema-Invest holds 50.17% of the ordinary shares of Bashkirenergo (47.87% of its charter capital) previously held by the Merged Entities. This transaction was accounted for directly in equity and resulted in an increase of noncontrolling interest by $225.1 million.

Detsky Mir – In December 2010, Detsky Mir, a subsidiary of the Company, increased its share capital through an additional share issue offered to Sberbank in a private placement. Detsky Mir-Center issued 743 shares with a par value of RUB 100 representing 25%+1 share of the company's share capital after the additional issue. Sberbank acquired the interest in Detsky Mir for a total consideration of approximately RUB 3.4 billion (approximately $111.6 million as of December 31, 2010). The strategic objective of the shareholders was to use the proceeds of the investment to grow the value of the business with the ultimate aim of attracting a strategic investor or achieving a similar event in the next several years. If this is not achieved within three years, and under certain other conditions, Sberbank will have the right to sell its interest in Detsky Mir to Sistema. The parties also agreed to certain pre-emptive and tag-along and drag-along rights in relation to their respective interests in Detsky Mir. The transaction was accounted for directly in equity and resulted in the increase in noncontrolling interests by $12.7 million and corresponding increase in additional paid-in capital by $96.5 million.

MTS Bank – In October 2010, MTS Bank issued additional shares, which were all purchased by the Group. As a result of transaction, the Group's share in MTS Bank increased to 99.3%. The transaction was accounted for directly in equity and resulted in a decrease in the noncontrolling interest of $12.5 million.

Bashneft – In January 2010, as part of its plans to build a vertically integrated oil group, Sistema transferred its interest in Bashkirnefteproduct to Bashneft. This transaction was accounted for directly in equity and resulted in an increase in noncontrolling interests by $53 million.

6. ASSETS FROM BANKING ACTIVITIES, NET

Assets from banking activities, net of an allowance for loan losses, as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Cash and cash equivalents	$ 1,315,075	$ 2,308,488
Loans to customers	4,146,685	3,326,827
Investments in securities (trading)	650,579	694,753
Loans to banks	243,167	477,108
Investments in securities (available-for-sale)	209,089	554,874
Other investments	197,375	197,351
Less: allowance for loan losses	(253,889)	(257,052)
Assets from banking activities, net	6,508,081	7,302,349
Less: amounts maturing after one year	(2,303,120)	(1,799,620)
Assets from banking activities, current portion	**$ 4,204,961**	**$ 5,502,729**

Major categories of loans to customers as of December 31, 2011 and 2010 comprise the following:

	2011	2010
Corporate customers	$ 3,245,105	$ 2,553,242
Individuals	901,580	773,585
Total	**$ 4,146,685**	**$ 3,326,827**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

As of December 31, 2011, approximately 73% and 1% of loans to corporate customers and individuals, respectively, were evaluated individually for impairment.

The following table presents the effective average interest rates by categories of loans as of December 31, 2011 and 2010:

	2011			2010		
	RUB	**USD**	**Other**	**RUB**	**USD**	**Other**
Loans to customers						
- corporate customers	11.1%	7.6%	11.2%	13.4%	11.6%	10.0%
- individuals	17.5%	10.5%	12.6%	16.5%	10.4%	12.6%
Loans to banks	3.9%	0.2%	0.7%	4.7%	0.4%	0.5%

As of December 31, 2011 and 2010, MTS Bank did not hold any investments classified as held-to-maturity. In May 2010, MTS Bank sold the part of its bank bonds in the amount of $90.9 million, which were previously classified as held-to-maturity. The remaining portion of these bonds in the amount of $232.3 million was reclassified to available-for-sale and accounted for at fair value.

The movement in the allowance for loan losses for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Allowance for loan losses, beginning of the year	$ 257,052	$ 228,000
Additions charged to the results of operations	48,057	38,797
Write-off of allowance for loans	(37,494)	(9,126)
Currency translation adjustment	(13,726)	(619)
Allowance for loan losses, end of the year	**$ 253,889**	**$ 257,052**

7. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Bank deposits with original maturities exceeding 90 days	447,134	773,540
Promissory notes and loans	192,236	75,901
Investments in securities (trading)	124,080	2,827
Funds in trust management	-	26,986
Other	181	426
Total	**$ 763,631**	**$ 879,680**

Promissory notes and loans from third parties, which are primarily denominated in RUB, bear interest rates varying from 5.5% to 14.0% as of December 31, 2011.

The effective interest rates on bank deposits with original maturities exceeding 90 days as of December 31, 2011 are between 2.0% to 9.0% for RUB and USD denominated deposits.
As of December 31, 2010, the effective interest rates on bank deposits with original maturities exceeding 90 days were between 6.5% to 9.0% for RUB and USD denominated deposits.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

8. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Trade receivables	$ 1,954,585	$ 2,008,595
Less: provision for doubtful accounts	(198,307)	(228,172)
Total	**$ 1,756,278**	**$ 1,780,423**

Management anticipates no losses in respect of receivables from related parties and accordingly no provision has been created in respect thereof.

9. OTHER CURRENT ASSETS

Other current assets as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Prepaid expenses and other receivables	$ 955,542	$ 1,100,730
Tax advances and overpayments	592,605	460,941
Advances paid to third parties	324,791	312,228
	1,872,938	1,873,899
Less: provision for doubtful accounts	(150,094)	(188,563)
Total	**$ 1,722,844**	**$ 1,685,336**

10. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Work-in-progress	$ 290,837	$ 212,863
Finished goods and goods for resale	877,864	744,564
Raw materials and spare parts	552,079	505,500
Costs and estimated earnings in excess of billings on uncompleted contracts	15,143	6,686
	1,735,923	1,469,613
Less: long-term portion	(76,270)	(13,716)
Total	**$ 1,659,653**	**$ 1,455,897**

11. LOSS FROM IMPAIRMENT AND PROVISIONS OF OTHER ASSETS

Impairment losses recognized by the Group for the years ended December 31, 2011 and 2010 comprised of the following:

	2011	2010
Goodwill and licenses in SSTL	$ 694,651	$ -
Long-lived assets in MTS Turkmenistan	-	119,580
Other	336,611	193,801
Total	**$ 1,031,262**	**$ 313,381**

Suspension of operating licenses in SSTL – On February 2, 2012 the Indian Supreme Court delivered its judgment on a public interest petition seeking cancellation of 122 cellular phone licences granted by the Government of India in 2008, including licenses granted to SSTL in 21 telecom circles (out of 22 existing 2G licenses). In its judgment the Court quashed all 122 licences issued on and after January 10, 2008, including those granted to SSTL. The Court's directions shall come into force after four months from February 2, 2012. Further, the Court directed the Telecom Regulatory Authority of India to make fresh recommendations for the grant of licences and the allocation of spectrum in the 2G band by auction, as was done for the allocation of spectrum in the 3G band.

As a consequence of the above cancellation, the Group reassessed the carrying amount of assets in SSTL as of December 31, 2011. Due to the withdrawal of licences, the total impairment loss of $694.7 million was recognized, whereof the loss from impairment of operating licenses is $346.0 million and the loss from impairment of goodwill is $348.7 million.

Management of the Group has the intent and the ability to continue its operations in India, and has performed an analysis of the recoverability of the carrying amounts of other long-lived assets as of December 31, 2011, This analysis supported the carrying value of the assets as of December 31, 2011 of $654.0 million and indicated that no impairment is required, based on the assumption of continuous use. Management also considered recent market transactions and current prices of the long-lived assets, and concluded that no impairment of other long-lived assets of SSTL has occurred.

In addition, SSTL's loan agreements contain clauses which allow lenders, under certain circumstances including the termination or alteration of telecom licenses, to declare all or part of the loans to be payable on demand. As a consequence of such clauses, the Group has classified all debt payable by SSTL in the amount of $1,573.5 million as short-term in the Group's consolidated statement of financial position as of December 31, 2011.

Suspension of operating licenses in MTS Turkmenistan – In December 2010, MTS suspended its operations in Turkmenistan following a notice received from the Ministry of Communications of Turkmenistan informing of a decision to suspend licenses held by BCTI, its wholly-owned subsidiary in Turkmenistan, for a period of one month starting from December 21, 2010. On January 21, 2011, the period of license suspension expired, however, permission to resume operations was not granted. Following the decision to suspend the licenses, the Turkmenistan government authorities took further steps, including unilateral termination of interconnect agreements between BCTI and state-owned telecom operators, to prevent MTS from providing services to its customers. The Group initiated a number of proceedings against the Turkmenistan government authorities and the state-owned telecom operators to defend its legal rights.

On December 21, 2010, BCTI filed three requests for arbitration with the International Court of Arbitration of the International Chamber of Commerce ("ICC") against the Ministry of Communications of Turkmenistan and several state-owned telecom operators requesting specific performance on the respective agreements and compensation of damages. Subsequently, the sovereign state of Turkmenistan was joined as a respondent in the proceedings against the Ministry of Communications of Turkmenistan. An independent appraisal has shown that MTS and BCTI have suffered damages amounting to $855 million as a result of breaches committed by the respondents. MTS have made a claim for this amount in the ICC proceedings. In March 2012 MTS and BCTI withdrew the demand for specific performance of the 2005 Agreement from its' claim against Ministry of Communications of Turkmenistan and Turkmenistan after negotiations with Turkmen government stopped at the end of 2011 and not resumed to date.

On January 21, 2011, MTS sent a formal notice to the Government of Turkmenistan requesting to resolve the dispute through negotiations and notifying it of its intention to file a claim pursuant to the provisions of the Bilateral Investment Treaty between the Russian Federation and Turkmenistan. The dispute was not resolved by negotiations and, accordingly, on September 1, 2011, MTS filed a claim against Turkmenistan in the International Centre for the Settlement of Investment Disputes ("ICSID"). On October 5, 2011, the claim was registered by the ICSID Secretariat.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Considering the adverse impact of such circumstances on the Group's ability to conduct operations in Turkmenistan, the Group determined that all of its long-lived assets attributable to Turkmenistan were impaired and recorded an impairment charge of $119.6 million, whereby the loss from the impairment of intangible assets was $12.1 million and for property, plant and equipment was $107.5 million. These impairments were recognized in the consolidated statement of operations for the year ended December 31, 2010. The Group also assessed the recoverability of the subsidiary's current assets and provided for or wrote down those which were considered to be impaired in the total amount of $18.2 million.

12. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Switches, transmission devices, network and base station equipment	$ 12,161,261	$ 11,295,627
Refining, marketing, distribution and chemicals	4,900,081	4,886,962
Exploration and production assets	3,767,298	3,758,454
Other plant, machinery and equipment	2,160,619	2,063,254
Buildings and leasehold improvements	1,658,871	1,782,206
Power and utilities	664,100	610,782
Construction in-progress and equipment for installation	2,415,512	1,678,000
Land	42,014	33,650
	27,769,756	26,108,935
Less: accumulated depreciation and depletion	(9,408,930)	(8,086,736)
Total	**$ 18,360,826**	**$ 18,022,199**

Depreciation and depletion expenses for the years ended December 31, 2011 and 2010 amounted to $2,668.2 million and $2,332.8 million respectively.

13. GOODWILL

The carrying amounts of goodwill attributable to each reportable segment are as follows:

	MTS	SSTL	RTI	MTS Bank	Other	Total
Balance as of January 1, 2010						
Gross amount of goodwill	$ 1,176,889	$ 441,393	$ 124,157	$ 64,072	$ 2,508	1,809,019
Accumulated impairment loss	(48,466)	-	-	(63,560)	-	(112,026)
	1,128,423	**441,393**	**124,157**	**512**	**2,508**	**1,696,993**
Adjustments to preliminary allocations	(6,004)	-	-	-	-	(6,004)
Purchase price allocations	181,311	-	-	-	-	181,311
Currency translation adjustment	2,255	-	(2,404)	-	369	220
Balance as of December 31, 2010						
Gross amount of goodwill	1,354,081	441,393	121,753	64,072	2,877	1,984,176
Accumulated impairment loss	(48,096)	-	-	(63,560)	-	(111,656)
	1,305,985	**441,393**	**121,753**	**512**	**2,877**	**1,872,520**
Adjustments to preliminary allocations	6,945	-	-	-	-	6,945
Purchase price allocations	185,690	-	-	-	56,051	241,741
Impairment (Note 11)	-	(348,679)	-	-	-	(348,679)
Currency translation adjustment	(74,835)	(92,714)	176	-	(3,894)	(171,267)
Balance as of December 31, 2011						
Gross amount of goodwill	1,469,313	348,679	121,929	64,072	55,034	2,059,027
Accumulated impairment loss	(45,528)	(348,679)	-	(63,560)	-	(457,767)
	$ 1,423,785	**$ -**	**$ 121,929**	**$ 512**	**$ 55,034**	**$ 1,601,260**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

14. OTHER INTANGIBLE ASSETS, NET

Intangible assets other than goodwill as of December 31, 2011 and 2010 consisted of the following:

	2011			2010		
	Gross carrying value	Accumu-lated amorti-zation	Net carrying value	Gross carrying value	Accumu-lated amorti-zation	Net carrying value
Amortized intangible assets:						
Billing and telecommunication software	$ 1,668,715	(1,042,773)	625,942	$ 1,682,959	(1,056,324)	626,635
Acquired customer base	544,911	(215,267)	329,644	649,231	(236,326)	412,905
Radio frequencies	353,776	(138,546)	215,230	314,722	(100,496)	214,226
Operating licenses	702,311	(285,955)	416,356	1,410,192	(448,960)	961,232
Numbering capacity with finite contractual life, software and other	408,659	(31,541)	377,118	659,559	(137,739)	521,820
	3,678,372	(1,714,082)	1,964,290	4,716,663	(1,979,845)	2,736,818
Unamortized intangible assets:						
Trademarks	203,952	-	203,952	216,504	-	216,504
Numbering capacity with indefinite contractual life	82,924	-	82,924	68,596	-	68,596
Total intangible assets	**$ 3,965,248**	**(1,714,082)**	**2,251,166**	**$ 5,001,763**	**(1,979,845)**	**3,021,918**

Amortization expense recorded on other intangible assets for the years ended December 31, 2011 and 2010 amounted to $613.4 million and $530.0 million, respectively. The estimated amortization expense for each of the five following years and thereafter is as follows:

Year ended December 31,	
2012	$ 602,700
2013	443,375
2014	282,408
2015	180,474
2016	116,992
Thereafter	338,341
	$ 1,964,290

Actual amortization expense to be reported in future periods could differ from these estimates as a result of new intangible assets acquisitions, changes in useful lives and other relevant factors.

15. INVESTMENTS IN AFFILIATES

Investments in affiliates as of December 31, 2011 and 2010 consisted of the following:

	2011		2010	
	Voting power, %	Carrying value	Voting power, %	Carrying value
Belkamneft	38.5%	$ 597,060	38.5%	$ 559,784
Bashneft-Polus	74.9%	341,000	-	-
SITRONICS-Nano	49.8%	235,674	49.8%	243,366
MTS Belarus	49.0%	176,659	49.0%	227,130
ITC (Note 4)	49.9%	10,873	-	-
ASPEC (Note 3)	-	-	49.99%	107,185
RussNeft	49.0%	-	49.0%	-
Other	Various	21,385	Various	10,229
Total		**$ 1,382,651**		**$ 1,147,694**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Belkamneft – In April 2009, upon obtaining control over Bashneft in business combination, the Group received a 38.5% interest in Belkamneft, a company engaged in the production of crude oil. Since the Group was unable to exert any influence over the operations of Belkamneft, it accounted for this investment using the cost method. This changed in April 2010 with the acquisition of a 49% interest in RussNeft, the controlling shareholder of Belkamneft; thereafter, while the Group's equity interest was unchanged, the Group was in a position to exert significant influence and consequently, the equity method of accounting was adopted. The excess of the fair value of the investment over its carrying value in the amount of $477.4 million was recognized as gain in the consolidated statement of operations for the year ended December 31, 2010.

The financial position and results of operations of Belkamneft as of and for the years ended December 31, 2011 and 2010 were as follows:

	(unaudited) 2011	2010
Total assets	$ 2,553,094	$ 2,589,636
Total liabilities	448,498	462,671
Net income	195,852	87,949

Bashneft-Polus – In December 2011, in connection with the development of two oil fields named after R.Trebs and A.Titov located in the Nenets Autonomous District of Russia, Bashneft entered into an agreement with LUKOIL, to sell a 25.1% interest in Bashneft-Polus, its wholly-owned subsidiary holding the mineral rights for the development of the fields, for $152.9 million accompanied by a shareholders' agreement.

The Group concluded that, although the Group retained a 74.9% interest in Bashneft-Polus, the shareholders agreement provides LUKOIL with substantive participating rights in the entity. The Group, therefore, deconsolidated Bashneft-Polus and began accounting for the entity under the equity method of accounting prospectively from the date control over the subsidiary was relinquished. The Group recognized a gain of $34.6 million on this disposal, which was recognized in the Group's consolidated statement of operations for the year ended December 31, 2011. The Group recognized income tax expense in the amount of $31.0 million associated with this transaction.

The financial position and results of operations of Bashneft-Polus as of and for the year ended December 31, 2011 were as follows:

	(unaudited)
Total assets	$ 755,545
Total liabilities	300,436
Net income	-

SITRONICS-Nano – In October 2009, SITRONICS, a subsidiary of the Group, entered into an agreement to form SITRONICS-Nano, which is owned 49.75% by SITRONICS, 49.75% – by Russian Corporation of Nanotechnologies ("RUSNANO") and 0.5% – by another party. The primary purpose of SITRONICS-Nano is to acquire equipment and licenses necessary to launch 90 nanometer microchip production and to lease them to SITRONICS, and to provide project financing to SITRONICS. The equipment and licenses purchases are financed through the equity of SITRONICS-Nano and external borrowings.

SITRONICS-Nano is determined to be a variable interest entity where SITRONICS has a variable interest through a lease agreement and is not the primary beneficiary. SITRONICS accounts for the investment under the equity method.

RUSNANO has a put option to sell its shares to Sistema at market price plus 25% not earlier than in nine years and not later than in 10.5 years from the date of financing (December 2009). Sistema has a call option to acquire at any time RUSNANO's shares at RUB 6,480.0 million ($201.3 million as of December 31, 2011) plus 18% p.a. In addition, during the first nine years of operations of SITRONICS-Nano on non-fulfillment of certain criteria, RUSNANO can put its share in SITRONICS-Nano to Sistema at RUB 6,480.0 million ($201.3 million as of December 31, 2011) plus 18% p.a., less any net profit attributed and paid to RUSNANO during the period from the date of the put option application.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The maximum exposure to a loss is determined as the Group's contribution to SITRONICS-Nano adjusted by the Group's share of distributed results of the investee and is equal to $211.2 million.

The financial position and results of operations of SITRONICS-Nano as of and for the years ended December 31, 2011 and 2010 were as follows:

	(unaudited) 2011	2010
Total assets	$ 500,661	$ 449,488
Total liabilities	94,918	20,142
Net income/(loss)	919	(2,783)

MTS Belarus – The financial position and results of operations of MTS Belarus as of and for the year ended December 31, 2011 and 2010 were as follows:

	(unaudited) 2011	2010
Total assets	$ 417,555	$ 527,609
Total liabilities	92,884	72,533
Net income	107,533	145,707

RussNeft – In April 2010, the Group acquired a noncontrolling 49.0% interest in RussNeft, an oil and gas company, for a total cash consideration of $20 million. The investment is accounted for using the equity method. As a result of the final measurement of the equity interest in RussNeft and the ongoing operational losses, the Group recognized a loss in the amount of $20 million in the year ended December 31, 2010 bringing the carrying value of the Group's investment to nil in its consolidated statements of financial position. Nothing has been recognized in 2011 for this investment as the entity's net assets were still negative. As of December 31, 2011 the RussNeft's shares were pledged as a guarantee of payment of certain RussNeft debts.

The financial position and results of operations of Russneft as of and for the year ended December 31, 2011 and 2010 were as follows:

	(unaudited) 2011	2010
Total assets	$ 5,307,259	$ 6,219,259
Total liabilities	6,513,095	7,206,314
Net income	546,193	588,934

16. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Bank deposits	$ 772,867	$ 108,025
Loans and notes	450,814	281,712
Other	71,006	80,005
Total	**$ 1,294,687**	**$ 469,742**

The effective interest rates on bank deposits as of December 31, 2011 are between 4.9% to 10.7% for RUB and USD denominated deposits.

Long-term investments as of December 31, 2011 include loan given to Bashneft-Polus, an affiliate of the Group, in amount of $166 million.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

17. LIABILITIES FROM BANKING ACTIVITIES

Liabilities from banking activities as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Term deposits	$ 2,473,950	$ 3,026,225
Deposits repayable on demand	2,089,509	2,026,740
Promissory notes issued and other liabilities	234,008	583,654
	4,797,467	5,636,619
Less: amounts maturing within one year	(3,152,989)	(4,191,836)
Total liabilities from banking activities, net of current portion	**$ 1,644,478**	**$ 1,444,783**

Liabilities from banking activities as of December 31, 2011 and 2010 include liabilities with affiliates and other related parties for $240.1 million and $153.8 million, respectively. The fair value of liabilities from banking activities approximates their carrying value.

The following table presents the effective average interest rates by categories of bank deposits and notes issued as of December 31, 2011 and 2010:

	2011			2010		
	RUB	**USD**	**Other**	**RUB**	**USD**	**Other**
Term deposits:						
- corporate customers	8.1%	4.2%	2.8%	6.9%	4.8%	3.8%
- individuals	7.8%	4.8%	4.4%	11.0%	7.8%	7.5%
Promissory notes issued	8.6%	1.1%	-	8.3%	5.0%	-
Deposits repayable on demand:						
- corporate customers	2.2%	-	-	1.6%	-	-
- individuals	0.4%	0.1%	0.1%	0.4%	0.2%	0.3%

18. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Customers' advances	$ 777,162	$ 724,518
Payroll and other accrued expenses	389,537	468,187
Accruals for services	308,457	365,447
Bitel liability (Note 27)	213,152	210,760
Accrued interest on loans	163,771	180,878
Tax and legal provisions	101,481	88,605
Financial instruments at fair value	40,917	57,473
Dividends payable	13,069	53,474
Advance for shares of SSTL (Note 5)	-	602,276
Other	355,222	526,075
Total	**$ 2,362,768**	**$ 3,277,693**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

19. SHORT-TERM LOANS PAYABLE

Short-term loans payable as of December 31, 2011 and 2010 consisted of the following:

	Interest rate (Actual at December 31, 2011)	2011	2010
USD-denominated:			
VTB	-	$ -	$ 200,000
Other	Various	18,274	14,890
		18,274	214,890
RUB-denominated:			
Zenit	10.25%-10.50%	28,912	8,844
Bank of Moscow	MOSPRIME+5.0% (12.22 %)	26,394	-
Sberbank	-	-	581,069
Other	Various	60,794	58,717
		116,100	648,630
Other currencies			
ING Bank	13%	128,225	154,171
Other	Various	37,011	41,296
Loans from related parties	Various	-	15,094
Total		**$ 299,610**	**$ 1,074,081**

20. LONG-TERM DEBT

Long-term debt as of December 31, 2011 and 2010 consisted of the following:

	2011	2010
Loans from banks and financial Institutions	$ 10,326,198	$ 7,229,309
Notes and corporate bonds	5,356,583	6,674,890
Capital leases	227,647	250,876
Loans from related parties	54,931	50,339
Vendor financing	133,705	95,590
Other borrowings	11,209	8,916
	16,110,273	14,309,920
Less: amounts maturing within one year	(4,097,076)	(2,103,405)
Total	**$ 12,013,197**	**$ 12,206,515**

The schedule of repayments of long-term debt over the five-year period and thereafter beginning on December 31, 2011 is as follows:

Year ended December 31,	
2012	$ 4,097,076
2013	2,354,096
2014	1,467,499
2015	2,363,042
2016	2,189,133
Thereafter	3,639,427
Total	**$ 16,110,273**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Loans from banks and financial institutions – Loans from banks and financial institutions as of December 31, 2011 and 2010 consisted of the following:

	Maturity	Interest rate (Actual at December 31, 2011)	2011	2010
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2012-2020	LIBOR +1.15% (1.96%)	$ 580,742	$ -
Deutsche Bank	2012-2014	LIBOR + 1.55%(1.85%)	300,000	-
China Development Bank	2012-2017	LIBOR+1.5% (2.31%)	249,616	157,406
Gazprombank	2012-2014	LIBOR + 4.9% (5.48%)	229,309	-
Skandinavska Enskilda Banken AB	2012-2017	LIBOR+ 0.23%-1.8% (1.03%-2.61%)	204,507	242,013
Bank of China	2012-2017	LIBOR+1.5%-1.95% (2.31%-2.76%)	139,805	139,960
Bank of Moscow	2014-2018	LIBOR + 6.75%-9.5% (7.33-9.8%)	117,450	-
EBRD	2012-2014	LIBOR+1.51%-3.1% (2.32%-3.91%)	83,333	116,667
HSBC Bank plc and ING BHF Bank AG	2012-2014	LIBOR+0.3% (1.11%)	51,503	71,244
HSBC Bank plc, ING Bank AG and Bayerische Landesbank	2012-2015	LIBOR+0.3% (1.11%)	42,961	59,570
Citibank International plc and ING Bank N.V.	2012-2013	LIBOR+0.43% (1.23%)	40,688	62,486
Commerzbank AG, ING Bank AG and HSBC Bank plc	2012-2014	LIBOR+0.3% (1.11%)	36,495	51,285
Golden Gates (Bank of Moscow)	2012	9.75%	20,000	306,000
Societe Generale	2012-2016	LIBOR+1.25% (2.06%)	18,860	20,768
The Royal Bank of Scotland	2012-2013	LIBOR+0.35% (1.16%)	12,574	61,361
Barclays Bank plc	-	-	-	46,047
Troika Dialog Bank	-	-	-	30,000
Other	Various	Various	6,324	14,128
			2,134,167	1,378,935
EUR-denominated:				
Bank of China	2012-2016	EURIBOR+1.95% (3.57%)	116,812	35,123
Syndicated Loan to Intracom Telecom	2012	EURIBOR+4.5% (5.61%)	116,487	158,808
EBRD	2012	EURIBOR+5.2% (6.49%)	77,658	158,808
BNP Paribas	2012-2018	EURIBOR+1.65% (3.27%)	64,033	52,159
LBWW	2012-2017	EURIBOR+0.75% (2.37%)	36,215	43,201
The Royal Bank of Scotland	2012-2013	EURIBOR+0.35% (1.97%)	8,958	13,740
Other	Various	Various	16,282	18,346
			436,445	480,185
RUB-denominated:				
Sberbank	2013-2017	7.75%-8.90%	4,388,106	2,053,182
Gazprombank	2013-2018	8.75%-9.00%	1,830,699	990,914
Bank of Moscow	2013-2018	Mosprime+7.25% (14.47%) 7.8%-10.25%	590,309	459,364
Raiffeisenbank	2014	Mosprime+3% (9.37%-10.22%)	83,861	63,172
Unicredit	2014-2016	Mosprime+4.5%-7.5% (10.87%-13.87%)	69,271	66,927
ING Bank	2014	10.74%	32,613	-
VTB	-	-	-	492,176
VTB-Capital	-	-	-	492,176
Other	Various	Various	6,875	15,118
			7,001,734	4,633,029
Other currencies:				
State Bank of India	2012	13.5%	396,095	535,595
Other	Various	Various	357,757	201,565
			753,852	737,160
Total			**$ 10,326,198**	**$ 7,229,309**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Certain loans from banks and financial institutions are subject to restrictive covenants, including, but not limited to compliance with certain financial ratios, limitations on dispositions of assets and transactions within the Group, retention of telecom licenses. As described in Note 11, SSTL's loan agreements contain clauses which allow lenders, under certain circumstances including the termination or alteration of telecom licenses, to declare all or part of the loans to be payable on demand. As a consequence of such clauses, the Group has reclassified all debt payable by SSTL in the amount of $1,573.5 million as short-term in the Group's consolidated statement of financial position as of December 31, 2011.

Equipment with carrying value of $241.9 million has been pledged to collateralize some of the other loan facilities provided to the Group.

Notes and corporate bonds – Notes and corporate bonds as of December 31, 2011 and 2010 consisted of the following:

	Currency	Interest rate (December 31, 2011)	Fair value as of December 31, 2011	Carrying value as of December 31, 2011	2010
MTS International Notes due 2020	USD	8.6%	$ 804,975	$ 750,000	$ 750,000
MTS Notes due 2016	RUB	14.3%	482,667	465,895	492,176
MTS Notes due 2020	RUB	8.2%	443,732	457,928	492,176
MTS Notes due 2014	RUB	7.6%	412,625	422,988	492,176
MTS Finance Notes due 2012	USD	8.0%	402,000	400,000	400,000
Bashneft Bonds due 2016	RUB	12.5%	371,950	357,301	1,640,587
Sistema JSFC Bonds due 2014	RUB	14.8%	366,747	352,641	648,155
Sistema JSFC Bonds due 2016	RUB	7.7%	344,691	349,940	-
Bashneft Bonds due 2014	RUB	9.4%	310,752	310,597	-
MTS Notes due 2018	RUB	8.0%	302,976	298,499	315,337
MTS Notes due 2017	RUB	8.7%	298,639	310,597	328,117
Sistema JSFC Bonds due 2016	RUB	12.5%	256,484	247,333	623,423
MTS Notes due 2015	RUB	7.8%	228,838	234,706	39,823
Sistema JSFC Bonds due 2013	RUB	9.8%	159,520	154,829	196,870
SITRONICS Bonds due 2013	RUB	10.8%	90,384	93,179	98,435
Intourist Bonds due 2013	RUB	14.0%	61,498	62,119	65,623
SITRONICS Bonds due 2013	RUB	11.8%	39,070	39,011	41,212
DM-Center Bonds due 2015	RUB	8.5%	33,576	35,719	37,733
MTS Notes due 2013	RUB	7.0%	12,652	13,318	13,250
			5,423,776	5,356,600	6,675,093
Less: unamortized discount			-	(17)	(203)
Total			**$ 5,423,776**	**$ 5,356,583**	**$ 6,674,890**

All Group's RUB-denominated notes and corporate bonds are traded on MICEX-RTS, a Russian exchange. MTS International Notes due 2020 are traded on Irish stock exchange. MTS Finance Notes due 2012 redeemed in January 2012 were traded on Luxembourg stock exchange. The fair values of notes and corporate bonds are based on the market quotes as of December 31, 2011 at the exchanges where they are traded.

In certain instances the Group has an unconditional obligation to repurchase notes at par value if claimed by the noteholders, where a subsequent sequential coupon is announced. The notes therefore can be defined as callable obligations under the FASB authoritative guidance on debt, as the holders have the unilateral right to demand repurchase of the notes at par value upon announcement of new coupons. The FASB authoritative guidance on debt requires callable obligations to be disclosed as maturing in the reporting period, when the demand for repurchase could be submitted disregarding the expectations of the Group about the intentions of the noteholders. The Group discloses such notes in the aggregated maturities schedule as these are the reporting periods when the noteholders will have the unilateral right to demand repurchase.

Notes and corporate bonds are subject to certain financial and non-financial restrictive covenants, including, but not limited to, limitations on dispositions of assets, limitations on transactions with affiliates, compliance with certain financial ratios. Management believes that the Group is in compliance with all restrictive financial covenants relating to notes and corporate bonds as of December 31, 2011.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

21. INCOME TAX

The Group's income tax expense for the years ended December 31, 2011 and 2010 was as follows:

	2011	2010
Current provision	$ 1,103,480	$ 1,089,577
Deferred income tax benefit	(14,934)	(24,097)
Total	**$ 1,088,546**	**$ 1,065,480**

Income tax expenses is different from that which would be obtained by applying the statutory income tax rate to income from continuing operations before income tax expense and equity in net income of Energy companies in the Republic of Bashkortostan. The items causing this difference are as follows:

	2011	2010
Income tax provision computed on income from continuing operations before taxes at the statutory rate of 20%	$ 409,334	$ 572,204
Adjustments due to:		
Change in valuation allowance	281,221	105,129
Non-deductible expenses	279,166	240,116
Earnings distribution from subsidiaries	103,806	80,530
Effect of Group restructuring	3,543	75,400
Impairment of goodwill	69,740	-
Impairment of long-lived assets in Turkmenistan	-	27,565
(Reductions)/additions to unrecognized tax benefits	(4,034)	766
Settlements with tax authorities on prior period income tax	(10,497)	(27,252)
Foreign rates differential	(41,002)	(6,587)
Currency exchange and translation differences	(2,731)	(2,391)
Income tax expense	**$ 1,088,546**	**$ 1,065,480**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The tax effects of temporary differences that give rise to the deferred tax assets and liabilities are presented below:

		2011		2010
Deferred tax assets:				
Property, plant and equipment	$	330,904	$	392,279
Tax losses carried forward		669,271		475,523
Accrued expenses		146,672		172,593
Inventory obsolescence		52,399		61,762
Allowance for doubtful accounts and loans receivable		26,994		38,904
Intangible assets		165,092		37,517
Deferred connection fees		42,818		31,522
Deferred revenues		16,755		20,832
Other		57,970		77,570
		1,508,875		1,308,502
Less: valuation allowance		(743,160)		(460,660)
Total deferred tax assets		**765,715**		**847,842**
Deferred tax liabilities				
Property, plant and equipment		(1,181,266)		(1,362,833)
Intangible assets		(235,117)		(257,604)
Undistributed earnings of subsidiaries and affiliates		(229,840)		(242,367)
Debt issuance costs		(20,975)		(34,966)
Other		(18,781)		(36,990)
Total deferred tax liabilities	**$**	**(1,685,979)**	**$**	**(1,934,760)**
Net deferred tax assets, current portion	$	311,891	$	357,821
Net deferred tax assets, net of current portion		348,589		304,761
Net deferred tax liabilities, current portion		(168,545)		(168,982)
Net deferred tax liabilities, net of current portion		(1,412,199)		(1,580,518)

The Group has the following significant balances for income tax losses carried forward as of December 31, 2011 and 2010:

Jurisdiction	Period for carry-forward		2011		2010
India	2012-2019	$	381,320	$	241,330
Luxembourg	Unlimited		125,124		124,464
Russia	2012-2021		160,189		94,164
Other	2012-2013		2,638		15,565
Total		**$**	**669,271**	**$**	**475,523**

Management has established the valuation allowances against certain deferred tax assets (see the table below), that are not more likely than not to be realized in future periods. In evaluating the Group's ability to realize its deferred tax assets, the Company considers all available positive and negative evidence, including operating results, ongoing tax planning, and forecasts of future taxable income on a jurisdiction by jurisdiction basis. The valuation allowance as of December 31, 2011 and 2010 relates to the following deferred tax assets:

		2011		2010
Tax losses carried forward	$	478,482	$	335,362
Impairment of licenses in SSTL		87,743		-
Sale of investment in Svyazinvest		66,596		66,887
Other		110,339		58,411
Total	**$**	**743,160**	**$**	**460,660**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

22. FAIR VALUE MEASUREMENTS AND DERIVATIVE FINANCIAL INSTRUMENTS

The following fair value hierarchy table presents information regarding Group's assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and 2010:

	Fair value measurements using			
	Quoted prices in active markets for identical assets (Level 1)	**Significant other observable inputs (Level 2)**	**Significant unobservable inputs (Level 3)**	**Total fair value**
December 31, 2011				
Assets at fair value:				
Trading securities	774,659 $	- $	- $	774,659
Available-for-sale securities	97,625	111,464	-	209,089
Interest rate swaps	-	2,341	-	2,341
Currency option agreements		894	-	894
Total assets	**872,284**	**114,699**	**-**	**986,983**
Liabilities at fair value:				
Interest rate swaps	-	(15,959)	-	(15,959)
Put options	-	-	(24,958)	(24,958)
Redeemable noncontrolling interests	-	-	(99,819)	(99,819)
Total liabilities	**-**	**(15,959)**	**(124,777)**	**(140,736)**
December 31, 2010				
Assets at fair value:				
Trading securities	697,580	-	-	697,580
Available-for-sale securities	328,502	226,372	-	434,098
Interest rate swaps	-	3,322	-	3,322
Currency option agreements	-	247	-	247
Total assets	**1,026,082**	**229,941**	**-**	**1,135,247**
Liabilities at fair value:				
Interest rate swaps	-	(31,315)	-	(31,315)
Put options	-	(11,636)	(22,689)	(34,325)
Cross-currency interest rate swaps	-	(3,469)	-	(3,469)
Currency option agreements	-	(2,612)	-	(2,612)
Redeemable noncontrolling interests	-	-	(107,343)	(107,343)
Total liabilities	**-** $	**(49,032)**$	**(130,032)**$	**(179,064)**

23. SHARE CAPITAL

As of December 31, 2011 and 2010, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,267,985,025 and 9,281,827,594 shares were outstanding, respectively.

Dividends declared by the Company in the years ended December 31, 2011 and 2010 are as follows:

	2011	**2010**
Dividends declared, million Rubles	2,509	530.8
Dividends declared, equivalent in million USD	87.1	17.5

(Amounts in thousands of U.S. dollars, unless otherwise stated)

24. SEGMENT INFORMATION

The Group defines operating segments as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the chief operating decision maker or group in deciding how to allocate resources and in assessing performance. The Group's management evaluates the performance of the segments based on operating income.

In April 2011, the Group's Board of Directors approved a new organizational and management structure which established two business units based on the level of maturity of the various assets under management, namely "Core Assets" and "Developing Assets". This change of the structure caused the composition of the Group's reportable segments to change. The Group identified six reportable segments namely MTS and Bashneft, which form part of the Core Assets, and SSTL, MTS Bank and RTI, which form part of the Developing Assets, and Corporate division (Note 1). Information about operating segments that are not reportable due to their materiality have been combined and disclosed in the "Other" category. Prior period segment data has been restated to reflect these changes.

Intercompany eliminations presented below consist primarily of the following items: intercompany sales transactions, elimination of gross margin in inventory and other intercompany transactions conducted under the normal course of operations.

Financial information by reportable segment is presented below:

For the year ended	**Core Assets**		**Developing Assets**					
December 31, 2011	**MTS**	**Bashneft**	**SSTL**	**MTS Bank**	**RTI**	**Other**	**Corporate**	**Total**
Net sales to external customers[(a)]	12,312,501	16,537,117	262,264	529,012	1,355,363	1,947,440	37,551	32,981,248
Intersegment sales	6,187	11,969	-	31,894	737,676	27,537	26,998	842,261
Equity in results of affiliates	49,443	75,245	-	-	-	(3,759)	-	120,929
Net interest expense [(b)]	-	-	-	(1,912)	-	-	-	(1,912)
Depreciation, depletion and amortization	2,293,021	611,876	99,424	17,339	104,010	146,560	9,399	3,281,629
Operating income/(loss)	2,893,938	2,778,789	(1,196,084)	(23,510)	50,382	(129,373)	(228,712)	4,145,430
Interest income	62,559	74,021	34,152	-	13,028	74,310	102,685	360,755
Interest expense	656,898	559,806	162,442	-	83,403	110,684	274,569	1,847,802
Income tax expense/(benefit)	613,681	527,117	(6,747)	(5,118)	28,854	12,984	(82,225)	1,088,546
Investments in affiliates	176,659	937,601	-	-	214,625	16,527	37,239	1,382,651
Segment assets	15,919,243	13,530,524	1,113,191	6,978,934	2,629,665	4,079,014	3,135,691	47,386,262
Indebtedness[(c)]	8,700,407	3,393,314	1,573,523	-	1,126,471	369,382	1,246,786	16,409,883
Capital expenditures [(d)]	2,584,467	877,442	178,156	34,360	127,166	321,702	8,797	4,132,090

For the year ended	**Core Assets**		**Developing Assets**					
December 31, 2010	**MTS**	**Bashneft**	**SSTL**	**MTS Bank**	**RTI**	**Other**	**Corporate**	**Total**
Net sales to external customers[(a)]	11,295,251	11,705,968	114,615	588,946	1,169,343	1,898,620	38,576	26,811,319
Intersegment sales	3,805	772	-	24,779	462,473	3,926	24,736	520,511
Equity in results of affiliates	70,649	36,074	-	-	1,389	(15,877)	17,883	110,118
Net interest revenue [(b)]	-	-	-	24,444	-	-	-	24,444
Depreciation, depletion and amortization	2,000,495	591,477	81,822	18,571	97,950	64,895	7,544	2,862,754
Operating income/(loss)	2,744,107	2,301,342	(410,789)	21,329	82,604	84,251	(288,791)	4,534,053
Interest income	84,396	74,511	4,971	-	7,774	4,145	90,494	266,291
Interest expense	777,288	327,852	91,982	-	87,923	120,654	335,484	1,741,183
Income tax expense/(benefit)	566,339	417,154	-	11,727	29,327	42,218	(1,285)	1,065,480
Investments in affiliates	230,130	666,969	-	-	220,755	-	29,840	1,147,694
Segment assets	14,388,217	12,354,042	1,788,876	7,849,704	2,378,495	5,773,667	3,466,480	47,999,481
Indebtedness[(c)]	7,160,611	3,927,161	1,245,856	-	917,435	383,411	1,749,527	15,384,001
Capital expenditures [(d)]	2,647,117	1,088,772	169,000	19,151	91,236	105,344	58,954	4,179,574

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

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

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

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

(Amounts in thousands of U.S. dollars, unless otherwise stated)

The following table summarizes dividends declared to Corporate division during the years ended December 31, 2011 and 2010:

	2011	2010
Bashneft, including		
OJSC Bashneft	$ 495,938	$ 738,525
OJSC Sistema-Invest	145,634	197,410
MTS, including		
OJSC MTS	543,863	535,439
OJSC MGTS	157,216	-

The reconciliation of segment operating income to the consolidated income from continuing operations before income tax expense and a reconciliation of segment assets to the consolidated segment assets are as follows:

	2011	2010
Total segment operating income	$ 4,145,430	$ 4,534,053
Intersegment eliminations	(203,969)	(231,410)
Operating income	**3,941,461**	**4,302,643**
Interest income	176,584	131,534
Change in fair value of derivative financial instruments	(2,268)	(2,062)
Interest expense	(1,742,690)	(1,597,244)
Foreign currency transactions (losses)/gains	(326,415)	26,151
Income from continuing operations before income tax	**$ 2,046,672**	**$ 2,861,022**

	December 31	
	2011	2010
Total segment assets	$ 47,386,262	$ 47,999,481
Intersegment eliminations	(3,484,241)	(3,833,433)
Total assets	$ 43,902,021	$ 44,166,048

For the years ended December 31, 2011 and 2010, the Group did not have revenues from transactions with a single external customer amounting to 10% or more of the Group's consolidated revenues. For the years ended December 31, 2011 and 2010 the Group's revenues outside of the RF were as follows:

	2011	2010
Ukraine	$ 1,212,826	$ 1,148,663
Uzbekistan	440,988	447,971
India	262,264	114,615
Armenia	200,450	207,281
Central and Eastern Europe	147,325	150,755
Greece	77,264	231,461
Turkmenistan	-	207,586
Other	170,585	433,802
Total	**$ 2,511,702**	**$ 2,942,134**

(Amounts in thousands of U.S. dollars, unless otherwise stated)

As of December 31, 2011 and 2010, the Group's long-lived assets located outside of the RF were as follows:

		2011		2010
Ukraine	$	1,045,663	$	1,281,135
Uzbekistan		950,200		966,668
India		702,651		1,085,337
Armenia		430,653		485,007
Greece		98,938		110,045
Central and Eastern Europe		72,251		81,272
Other		73,086		88,043
Total	**$**	**3,373,442**	**$**	**4,097,507**

25. RELATED PARTY TRANSACTIONS

The Group provides services to and purchases services from affiliates. During the years ended December 31, 2011 and 2010, the Group entered into transactions with related parties as follows:

		2011		2010
Sales of goods and services	$	(750,027)	$	(864,187)
Revenue from banking activities		(13,926)		(11,554)
Cost of sales		249,197		8,097
Cost related to banking activities		550		14,043
Selling, general and administrative expenses		12,850		72,164

The Group enters into transactions to purchase and sell goods and services from and to its related parties in the normal course of business.

As of December 31, 2011 and 2010, the related party balances were as follows:

		2011	2010
Assets:	$		
Cash and cash equivalents		1,038	1,457
Short-term investments		3,323	29,475
Accounts receivable, net		136,201	94,688
Other current assets		7,166	6,261
Long-term investments		188,043	144,144
Liabilities:			
Accounts payable		(46,225)	(63,781)
Accrued expenses and other current liabilities		(53,898)	(81,535)

Other related party balances as of December 31, 2011 and 2010 are disclosed in the corresponding notes to the financial statements.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

26. SHARE-BASED COMPENSATION

The Company, and several of its subsidiaries, operate share-based compensation plans in order to compensate their employees. This is done through either “equity” plans, in which employees may exercise their options for shares, or “phantom” plans, which generally allow employees to receive cash compensation which varies depending on the share price that the options are linked to.

Sistema JSFC Share-based Long-Term Motivation Program – In 2010, the Company’s Board of Directors established a three-year motivational program for senior management (“Sistema JSFC Share-based Long-Term Motivation Program”). According to the program, participants were granted phantom shares of the Company upon their continued employment with the Group. Participants had right to convert up to two-thirds of phantom shares granted before December 31, 2010 into cash and the rest, including shares granted during 2011, were converted into ordinary shares of the Company in January 2012.

The grant-date fair value of an equity portion of the award was measured at the fair value of the Company’s ordinary shares at grant-date and equated to $83.8 million and $54.3 million as of December 31, 2011 and 2010, respectively. The Group recognized $31.7 million and $75.5 million of compensation expense for the Company’s Share-based Long-Term Motivation Program for the years ended December 31, 2011 and 2010, respectively.

In addition to the plans disclosed above, the Group has a number of share-based compensation plans in its subsidiaries, including MTS and Bashneft, not disclosed here on the basis of their lack of significance to the Group.

27. COMMITMENTS AND CONTINGENCIES

Operating leases – The Group leases land, buildings and office space mainly from municipal organizations through contracts which expire in various years through 2060.

Rental expenses under operating leases amounting to $527.2 million and $495.7 million for the years ended December 31, 2011 and 2010, respectively, and are included in selling, general and administrative expenses and operating expenses. Rental expenses under the operating leases amounting to $232.0 million and $182.4 million for the years ended December 31, 2011 and 2010 respectively, are included in cost of sales.

Future minimum rental payments under operating leases in effect as of December 31, 2011, are as follows:

Year ended December 31,		
2012	$	387,384
2013		186,023
2014		172,452
2015		171,873
2016		172,020
Thereafter		568,870
Total	**$**	**1,658,622**

Agreement with Apple – In August 2008, MTS entered into an unconditional purchase agreement with Apple Sales International to buy 1.5 million iPhone handsets at the list price on the purchase date over a three year period. Pursuant to the agreement MTS is also required to incur certain iPhone promotion costs. As of December 31, 2011 MTS made 28.6% of its total purchase installment contemplated by the agreement. The total amount paid for handsets purchased under the agreement for the years ended December 31, 2011 and 2010 amounted to $140.8 million and $79.4 million, respectively.

Capital commitments – As of December 31, 2011, the Group had executed purchase agreements of approximately $764.1 million to acquire property, plant and equipment, intangible assets and costs related thereto.

Guarantees – As of December 31, 2011, MTS Bank and its subsidiaries guaranteed loans for several companies, including related parties, which totaled $304.3 million. These guarantees would require payment by the Group only in the event of default on payment by the respective debtor. As of December 31, 2011, no event of default has occurred under any of the guarantees issued by the Group.

Commitments on loans and unused credit lines – As of December 31, 2011, MTS Bank and its subsidiaries had $528.6 million of commitments on loans and unused credit lines available to its customers.

Taxation – Russia and the CIS countries currently have a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income tax (profits tax), a number of turnover-based taxes, and payroll (social) taxes. Laws related to these taxes have not been in force for significant periods, in contrast to more developed market economies; therefore, the government's implementation of these regulations is often inconsistent or nonexistent. Accordingly, few precedents with regard to tax rulings have been established. Tax declarations, together with other legal compliance areas (for example, customs and currency control matters), are subject to review and investigation by a number of authorities, which are enabled by law to impose extremely severe fines, penalties and interest charges. These facts create tax risks in Russia and the CIS countries that are more significant than those typically found in countries with more developed tax systems.

Generally, according to Russian tax legislation, tax declarations remain open and subject to inspection for a period of three years following the tax year. As of December 31, 2011, tax declarations of the Company and its subsidiaries in Russia for the preceding one-three fiscal years are open for further review.

During 2011 and 2010 the Russian tax authorities completed the tax audits of the number of Group's subsidiaries. Based on the results of this audits, the Russian tax authorities assessed that $61.8 million and $17.4 million in additional taxes, penalties and fines were payable by the Group as of December 31, 2011 and 2010, respectively. The Group partially appealed in courts of original jurisdictions.

Management believes that it has adequately provided for tax and customs liabilities in the accompanying consolidated financial statements. As of December 31, 2011 and 2010, the provision accrued amounted to $7.1 million and $10.0 million, respectively. In addition, the accrual for unrecognized income tax benefits, potential penalties and interest recorded in accordance with the authoritative guidance on income taxes totaled $22.4 million and $17.8 million as of December 31, 2011 and 2010, respectively. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

With regard to matters where practice concerning payment of taxes is unclear, management estimated possible tax exposure to be approximately $550 million and $184 million as of December 31, 2011 and 2010, respectively.

Pricing of revenue and expenses between each of the Group's subsidiaries in the course of its activities might be subject to transfer pricing rules. The Group's management believes that taxes payable are calculated in compliance with the applicable tax regulations relating to transfer pricing. However there is a risk that the tax authorities may take a different view and impose additional tax liabilities. As of December 31, 2011 and 2010, no provision was recorded in the consolidated financial statements in respect of such additional claims.

Bitel – In December 2005, MTS Finance, a subsidiary of MTS, acquired a 51.0% interest in Tarino Limited ("Tarino"), from Nomihold Securities Inc. ("Nomihold"), for $150.0 million in cash based on the belief that Tarino was at that time the indirect owner, through its wholly owned subsidiaries, of Bitel LLC ("Bitel"), a Kyrgyz company holding a GSM 900/1800 license for the entire territory of Kyrgyzstan.

Following the purchase of the 51.0% interest, MTS Finance entered into a put and call option agreement with Nomihold for “Option Shares,” representing the remaining 49.0% 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 $170.0 million.

Following a decision of the Kyrgyz Supreme Court on December 15, 2005, Bitel’s corporate offices were seized by a third party. As the Group did not regain operational control over Bitel’s operations in 2005, it accounted for its 51.0% investment in Bitel at cost as at December 31, 2005. The Group appealed the decision of the Kyrgyz Supreme Court in 2006, but the court did not act within the time period permitted for appeal. The Group subsequently sought the review of this dispute over the ownership of Bitel by the Prosecutor General of Kyrgyzstan to determine whether further investigation could be undertaken by the Kyrgyz authorities.

In January 2007, the Prosecutor General of Kyrgyzstan informed the Group that there were no grounds for involvement by the Prosecutor General’s office in the dispute and that no legal basis existed for the Group to appeal the decision of the Kyrgyz Supreme Court. Consequently, the Group decided to write off the costs relating to the purchase of the 51.0% interest in Bitel, which was reflected in its consolidated financial statements for the year ended December 31, 2006. Furthermore, with the impairment of the underlying asset, a liability of $170.0 million was recorded with an associated charge to earnings.

In November 2006, MTS Finance received a letter from Nomihold purporting to exercise the put option and sell the Option Shares for $170.0 million 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 Option Shares. Nomihold sought specific performance of the put option, unspecified monetary damages, interest, and costs. In January 2011 the London Court of International Arbitration made an award in favor of Nomihold satisfying Nomihold’s specific performance request and ordered MTS Finance to pay to Nomihold $170.0 million for the Option Shares, $5.9 million in damages and $34.9 million in interest and other costs – all representing in total approximately $210.8 million (“Award”). An amount of the Award is bearing an interest until Award is satisfied. In addition to the $170.0 million liability related to this case and accrued in the year ended December 31, 2006, the Group recorded an additional loss in amount of $40.8 million and $3.2 million in the consolidated financial statements for the year ended December 31, 2010 and 2011, respectively, representing interest accrued on the awarded sums.

On January 26, 2011, Nomihold obtained a freezing order in respect of the Award from the English High Court of Justice which, in part, restricts MTS Finance from dissipating its assets. Additionally, MTS Finance has been granted permission to appeal the Award, but the Court has imposed conditions upon the appeal. MTS Finance is currently seeking to have the conditions lifted.

Further on February 1, 2011, Nomihold obtained an order of the Luxemburg District Court enforcing the Award in Luxembourg. This order is in the process of being appealed.

As an issuer of US $400,000,000 2012 Notes pursuant to an Indenture dated January 28, 2005 (as amended) (“the Notes”), MTS Finance was due to redeem the principal of the Notes and pay the final coupon payment on January 30, 2012. However as a result of the freezing order, MTS applied to and obtained from the English Court an order authorizing both payments to be made by MTS on behalf of MTS Finance (“the Direct Payments”). The Direct Payments to noteholders by the trustee under the Indenture were made on or around January 28, 2012.

The Direct Payments were made despite an obligation under an intercompany loan agreement dated January 28, 2005 between MTS and MTS Finance (“the Intercompany Loan Agreement”) to process the payments through MTS Finance. However because MTS Finance was subject to a freezing order and not capable of transferring out the money to the trustee for distribution, and because MTS owed obligations to the noteholders as guarantor under the Indenture, MTS decided to make the Direct Payments to the noteholders pursuant to an order of the English Court.

In relation to the obligations under the Intercompany Loan Agreement, MTS and MTS Finance have agreed to refer to arbitration the question of whether under the Intercompany Loan Agreement itself there remains an obligation to make any further payments to MTS Finance in light of the Direct Payment. On February 9, 2012, MTS received a request for arbitration from MTS Finance. The process is underway and will clarify the rights between the parties under the Intercompany Loan Agreement. MTS denies that any further payments are due under the Intercompany Loan Agreement. The arbitration will be conducted under the Rules of the London Court of International Arbitration and it is expected to last between 6 and 12 months.

In addition, three Isle of Man companies affiliated with the Group (the “KFG Companies”), have been named defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received by these three companies in the first quarter of 2005 from Bitel in the amount of approximately $25.2 million plus compensatory damages, and to recover approximately $3.7 million in losses and accrued interest. In the event that the defendants do not prevail in these lawsuits, the Group may be liable to Bitel for such claims. Bitel’s Isle of Man advocates have recently withdrawn from their representation of Bitel, and Bitel does not appear to be pursuing these claims.

In January 2007, the KFG Companies asserted counterclaims against Bitel, and claims against other defendants, including Altimo LLC (“Altimo”), Altimo Holdings & Investments Limited (“Altimo Holdings”), CP-Crédit Privé SA and Fellowes International Holdings Limited, for the wrongful misappropriation and seizure of Bitel. The defendants sought to challenge the jurisdiction of the Isle of Man courts to try the counterclaims asserted by the KFG Companies.

On March 10, 2011, the Judicial Committee of the UK Privy Council ruled in favor of the KFG Companies and confirmed the jurisdiction of the Isle of Man courts to try the counterclaims asserted by the KFG Companies against various defendants, including Sky Mobile, Altimo and Altimo Holdings, for the wrongful misappropriation and seizure of Kyrgyz telecom operator Bitel and its assets.

On June 30, 2011, the KFG Companies obtained from the Isle of Man court a general asset freezing injunction over the assets of Altimo and Altimo Holdings. The general freezing injunction against Altimo Holdings was replaced on November 30, 2011 by a specific freezing injunction over (i) Altimo Holding's interest in its Dutch subsidiary, Altimo Coöperatief U.A., and (ii) VimpelCom common shares worth $500 million that Altimo Coöperatief U.A. has lodged with the Isle of Man court. The KFG Companies are proceeding with their counterclaims in the Isle of Man. A trial has been set to commence in May 2013.

In a separate arbitration proceeding initiated against the KFG Companies by Kyrgyzstan Mobitel Investment Company Limited (“KMIC”), under the rules of the London Court of International Arbitration, the arbitration tribunal in its award found that the KFG Companies breached a transfer agreement dated May 31, 2003 (the “Transfer Agreement”), concerning the shares of Bitel. The Transfer Agreement was made between the KFG Companies and IPOC International Growth Fund Limited (“IPOC”), although IPOC subsequently assigned its interest to KMIC, and KMIC was the claimant in the arbitration. The tribunal ruled that the KFG Companies breached the Transfer Agreement when they failed to establish a date on which the equity interests in Bitel were to be transferred to KMIC and by failing to take other steps to transfer the Bitel interests. This breach occurred prior to MTS Finance’s acquisition of the KFG Companies. The arbitration tribunal ruled that KMIC is entitled only to damages in an amount to be determined in future proceedings. The tribunal is currently deciding whether to stay the damages phase of the LCIA proceedings pending conclusion of the Isle of Man proceedings. The Group is not able to predict the outcome of these proceedings or the amount of damages to be paid, if any.

3G license – In May 2007, the Federal Service for Supervision in the Area of Communications and Mass Media awarded MTS a license to provide 3G services in the RF. The 3G license was granted subject to certain capital and other commitments. The major conditions are that the Group will have to build a certain number of base stations that support 3G standards and will have to start providing services in the RF by a certain date, and will have to build a certain number of base stations by the end of the third, fourth and fifth years from the date of granting the license. Management believes that as of December 31, 2011 the Group is in compliance with these conditions.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

Other – In the ordinary course of business, the Group is a party to various legal proceedings, and subject to claims, certain of which relate to the developing markets and evolving fiscal and regulatory environments in which the Group operates. In the opinion of management, the Group's liability, if any, in all pending litigation, other legal proceedings or other matters will not have a material effect upon the financial condition, results of operations or liquidity of the Group.

28. SUBSEQUENT EVENTS

For the purpose of the accompanying consolidated financial statements, subsequent events have been evaluated through April 20, 2012.

Acquisition of noncontrolling interest in NIS – In February 2012, the Group increased its interest in NIS, a federal GPS network operator, from 51% to 70% through an acquisition of an additional issue of NIS' shares paid by contributing its 51% interest in M2M Telematics, acquired in 2010 (Note 3), to the charter capital of NIS.

Voluntary tender offer for noncontrolling interest in SITRONICS – In March 2012, RTI, a subsidiary of the Group, made a voluntary tender offer to acquire up to 36.9% of SITRONICS' common shares, representing all noncontrolling interest in the company including the shares underlying SITRONICS GDRs. The offer period remains open until May 22, 2012.

Motivation program – In January 2012, Sistema JSFC granted approximately 1% of the Company's charter capital to certain members of management and Board of Directors within the framework of Sistema JSFC Share-based Long-Term Motivation Program (Note 26).

29. SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION AND PRODUCTION ACTIVITIES (UNAUDITED)

This section provides unaudited supplemental information on oil and gas exploration and production activities in accordance with ASC No. 932 Extractive Activities – Oil and Gas, subtopic 235, Notes to Financial Statements (ASC No. 932) in six separate tables:

I. Capitalized costs relating to oil and gas producing activities;
II. Costs incurred in oil and gas property acquisition, exploration, and development activities;
III. Results of operations for oil and gas producing activities;
IV. Reserve quantity information;
V. Standardized measure of discounted future net cash flows;
VI. Principal sources of changes in the standardized measure of discounted future net cash flows.

Amounts shown for equity companies represent the Group's share in its exploration and production affiliates, which are accounted for using the equity method of accounting.

I. Capitalized costs relating to oil and gas producing and exploration activities

As of December 31, 2011	**Consolidated subsidiaries**	**Group's share in equity investees**
Unproved oil and gas properties	$ -	$ 358,659
Proved oil and gas properties	3,699,741	2,111,775
Accumulated depreciation, depletion and amortization	(475,813)	(554,230)
Net capitalized costs	$ 3,223,928	$ 1,916,204

As of December 31, 2010	**Consolidated subsidiaries**	**Group's share in equity investees**
Unproved oil and gas properties	$ 48,799	$ -
Proved oil and gas properties	3,693,491	2,020,998
Accumulated depreciation, depletion and amortization	(315,900)	(414,135)
Net capitalized costs	$ 3,426,390	$ 1,606,863

(Amounts in thousands of U.S. dollars, unless otherwise stated)

II. Costs incurred in oil and gas property acquisition, exploration, and development activities

Year ended December 31, 2011	Consolidated subsidiaries	Group's share in equity investees
Acquisition of proved properties	$ -	$ -
Acquisition of unproved properties	-	358,659
Exploration costs	15,948	11,029
Development costs	471,955	174,516
Total costs incurred	$ 487,903	$ 544,204

Year ended December 31, 2010	Consolidated subsidiaries	Group's share in equity investees
Acquisition of proved properties	$ -	$ 13,028
Acquisition of unproved properties	48,799	-
Exploration costs	8,004	3,775
Development costs	240,321	66,370
Total costs incurred	$ 297,124	$ 83,173

III. Results of operations for oil and gas producing activities

The Group's results of operations for oil and gas producing activities are presented below. In accordance with ASC No. 932, transfers to Group companies are based on market prices estimated by management. Income taxes are based on statutory rates. The results of operations exclude corporate overhead and interest costs.

Year ended December 31, 2011	Consolidated subsidiaries	Group's share in equity investees
Sales	$ 1,499,992	$ 1,227,109
Transfers	3,350,651	141,961
Total revenues	4,850,643	1,369,070
Production costs (excluding production taxes)	(759,000)	(248,474)
Exploration expenses	(15,948)	(11,029)
Depreciation, depletion and amortization	(219,897)	(154,920)
Accretion expense	(23,237)	(2,271)
Taxes other than income taxes	(1,937,304)	(545,930)
Related income tax	(379,051)	(93,848)
Total results of operation of producing activities	$ 1,516,206	$ 312,598

Year ended December 31, 2010	Consolidated subsidiaries	Group's share in equity investees
Sales	$ 984,403	$ 471,682
Transfers	2,343,576	188,737
Total revenues	3,327,979	660,419
Production costs (excluding production taxes)	(623,800)	(129,909)
Exploration expenses	(8,004)	(2,516)
Depreciation, depletion and amortization	(170,612)	(57,313)
Accretion expense	(11,969)	(839)
Taxes other than income tax	(1,257,987)	(254,785)
Related income taxes	(251,121)	(47,642)
Total results of operation of producing activities	$ 1,004,486	$ 167,415

(Amounts in thousands of U.S. dollars, unless otherwise stated)

IV. Reserve quantity information

Proved reserves are the estimated quantities of oil and gas reserves for which geological and engineering data demonstrate their recoverability with reasonable certainty in future years from known reservoirs under existing economic and operating conditions. In accordance with ASC No. 932 existing economic and operating conditions are based on the 12-months average price. Proved reserves do not include additional quantities of oil and gas reserves that may result from applying secondary or tertiary recovery techniques not yet tested and determined to be economic.

Proved developed reserves are the quantities of proved reserves expected to be recovered through existing wells with existing equipment and operating methods.

Due to the inherent uncertainties and the necessarily limited nature of reservoir data, estimates of reserves are inherently imprecise, require the application of judgment and are subject to change as additional information becomes available.

Management has included within proved reserves significant quantities which the Group expects to produce after the expiry dates of certain of its current production licenses in the Russian Federation. The Subsoil Law of the Russian Federation states that, upon expiration, a license is subject to renewal at the initiative of the license holder provided that further exploration, appraisal, production or remediation activities are necessary and provided that the license holder has not violated the terms of the license. The law applies both to newly issued and old licenses and the management believes that licenses will be renewed upon their expiration for the remainder of the economic life of each respective field.

Estimated net proved oil and gas reserves and changes for the year ended December 31, 2011 and December 31, 2010 are shown in the tables set out below.

Thousands of barrels (proved developed and undeveloped reserves)	**Consolidated subsidiaries**	**Group's share in equity investees**
Crude oil		
January 1, 2010	1,795,100	-
Acquisition of equity interest in RussNeft	-	462,458
Revisions of previous estimates	181,512	36,298
Purchase of hydrocarbons in place	-	3,903
Extensions and discoveries	-	-
Production	(100,712)	(20,886)
Sales of reserves	-	-
December 31, 2010	1,875,900	481,773
Revisions of previous estimates	198,295	83,116
Extensions and discoveries	-	-
Production	(107,554)	(32,121)
Sales of reserves	-	-
December 31, 2011	1,966,641	532,768
Proved developed reserves		
December 31, 2010	1,763,800	323,945
December 31, 2011	1,799,986	328,915
Proved undeveloped reserves		
December 31, 2010	112,100	157,828
December 31, 2011	166,655	203,853

The noncontrolling interest included in the above total proved reserves was 609,487 thousand barrels and 506,493 thousand barrels as of December 31, 2011 and 2010, respectively. The noncontrolling interest included in the above proved developed reserves was 557,839 thousand barrels and 476,199 thousand barrels as of December 31, 2011 and 2010, respectively.

The Company's proved oil reserves are located entirely in the Russian Federation.

(Amounts in thousands of U.S. dollars, unless otherwise stated)

V. Standardized measure of discounted future net cash flows

The standardized measure of discounted future net cash flows, related to oil and gas reserves in the Group's most significant oil fields, is calculated in accordance with the requirements of ASC No. 932. Estimated future cash inflows from production are computed by applying the 12-months average price for oil and gas to year-end quantities of estimated net proved reserves. Adjustment in this calculation for future price changes is limited to those required by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates. These rates reflect allowable deductions and tax credits and are applied to estimated future pre-tax net cash flows, less the tax bases of related assets. Discounted future net cash flows have been calculated using a ten percent discount factor. Discounting requires a year-by-year estimate of when future expenditures will be incurred and when reserves will be produced.

The information provided in the tables set out below does not represent management's estimate of the Group's expected future cash flows or of the value of the Group's proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under ASC No. 932 requires assumptions as to the timing and amount of future development and production costs. The calculations should not be relied upon as an indication of the Group's future cash flows or of the value of its oil and gas reserves.

	Consolidated subsidiaries	Group's share in equity investees
As of December 31, 2011		
Future cash inflows	$ 89,617,864	$ 24,725,444
Future production and development costs	(48,995,633)	(15,045,873)
Future income tax expenses	(8,124,446)	(1,935,914)
Future net cash flows	32,497,785	7,743,657
Discount for estimated timing of cash flows (10% p.a)	(20,619,374)	(4,368,914)
Discounted future net cash flows	$ 11,878,411	$ 3,374,743
Noncontrolling interest in discounted future net cash flows	3,682,307	

	Consolidated subsidiaries	Group's share in equity investees
As of December 31, 2010		
Future cash inflows	$ 66,653,165	$ 15,166,680
Future production and development costs	(36,263,017)	(9,669,078)
Future income tax expenses	(6,078,030)	(1,099,520)
Future net cash flows	24,312,118	4,398,082
Discount for estimated timing of cash flows (10% p.a)	(15,216,083)	(2,439,139)
Discounted future net cash flows	$ 9,096,035	$ 1,958,943
Noncontrolling interest in discounted future net cash flows	2,455,929	

(Amounts in thousands of U.S. dollars, unless otherwise stated)

VI. Principal sources of changes in the standardized measure of discounted future net cash flows

Consolidated subsidiaries	**2011**	**2010**
Discounted present value as at January 1	$ **9,096,035**	$ **4,017,552**
Sales and transfers of oil and gas produced, net of production costs and taxes other than income tax	(2,138,391)	(1,438,187)
Net changes in prices and production costs estimates	6,558,516	4,235,993
Net changes in mineral extraction taxes	(3,700,969)	(1,442,021)
Development costs incurred during the period	471,955	240,321
Changes in estimated future development costs	(236,136)	(419,299)
Revisions of previous quantity estimates	1,307,855	2,180,360
Net changes in income taxes	(644,395)	(758,859)
Accretion of discount	959,147	437,130
Other changes	204,794	2,043,045
Discounted present value at December 31	$ **11,878,411**	$ **9,096,035**

Group's share in equity investees	**2011**	**2010**
Discounted present value as at January 1	$ 1,958,943	$ 2,220,905
Net changes due to purchases of minerals in place	-	19,392
Sales and transfers of oil and gas produced, net of production costs	(563,637)	(273,208)
Net changes in prices and production costs estimates	2,869,933	38,964
Net changes in mineral extraction taxes	(1,195,214)	(434,834)
Extensions and discoveries, less related costs	-	-
Development costs incurred during the period	174,269	58,047
Changes in estimated future development costs	(177,524)	47,719
Revisions of previous quantity estimates	364,093	49,463
Net changes in income taxes	(322,407)	75,606
Accretion of discount	204,399	168,691
Other changes	61,888	(11,802)
Discounted present value at December 31	$ **3,374,743**	$ **1,958,943**