SISTEMA JSFC
AND SUBSIDIARIES

Consolidated Financial Statements
As of December 31, 2013 and 2012
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 financial statements of Sistema Joint Stock Financial Corporation and its subsidiaries (the "Group"), which comprise the consolidated statements of financial position as of December 31, 2013 and 2012, and the related consolidated statements of operations and comprehensive income, cash flows and changes in shareholders' equity for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and in accordance with the Russian Federal Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Group's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sistema Joint Stock Financial Corporation and its subsidiaries as of December 31, 2013 and 2012, and the results of their operations and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other matter

Accounting principles generally accepted in the United States of America require that the Supplementary Information on Oil and Gas Exploration and Production Activities on pages 54 through 58 be presented to supplement the basic consolidated financial statements. Such information, although not a part of the basic consolidated financial statements, is required by the Financial Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Deloitte & Touche

April 1, 2014
Moscow, Russian Federation

Закрытое акционерное общество "Делойт и Туш СНГ" для аудиторских заключений * * * Россия, г. Москва, ул. Лесная, д. 5

Raikhman M.V., Partner
(Certificate no. 01-001195 dated January 14, 2013)

The Entity: Sistema Joint Stock Financial Corporation

Certificate of state registration № 025.866, issued by the Moscow Registration Chamber on 16.07.1993.

Certificate of registration in the Unified State Register № 1027700003891 of 11.11.2002, issued by Moscow Inspectorate of the Russian Ministry of Taxation № 46.

Address: 13 Mokhovaya St., building 1, Moscow, 125009, Russia

Independent Auditors: ZAO Deloitte & Touche CIS

Certificate of state registration № 018.482, issued by the Moscow Registration Chamber on 30.10.1992.

Certificate of registration in the Unified State Register № 1027700425444 of 13.11.2002, issued by Moscow Interdistrict Inspectorate of the Russian Ministry of Taxation № 39.

Certificate of membership in "NP "Audit Chamber of Russia" (auditors' SRO) of 20.05.2009 № 3026, ORNZ 10201017407.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2013	2012
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents		$ 2,059,092	$ 1,859,217
Short-term investments	7	1,719,223	1,214,869
Assets from banking activities, current portion (including cash and cash equivalents of $1,132,368 and $769,411)	6	3,898,740	4,342,984
Accounts receivable, net	8	2,173,972	2,320,058
VAT receivable		720,181	610,974
Inventories and spare parts	10	1,848,145	1,843,046
Deferred tax assets	21	390,238	348,773
Assets of discontinued operations	4	-	371,355
Other current assets	9	1,756,082	1,673,010
Total current assets		14,565,673	14,584,286
NON-CURRENT ASSETS:			
Property, plant and equipment, net	11	19,945,701	20,839,670
Advance payments for non-current assets		187,850	230,773
Goodwill	12	1,327,779	1,767,660
Other intangible assets, net	13	2,225,927	2,129,345
Investments in affiliates	15	946,759	1,482,721
Assets from banking activities, net of current portion	6	2,554,229	2,255,709
Debt issuance costs, net		87,226	155,895
Deferred tax assets	21	344,965	327,814
Long-term investments	16	249,071	269,180
Other non-current assets		813,814	599,135
Total non-current assets		28,683,321	30,057,902
TOTAL ASSETS		$ 43,248,994	$ 44,642,188

See notes to the consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS OF DECEMBER 31, 2013 AND 2012 (CONTINUED)
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2013	2012
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Accounts payable		$ 3,144,233	$ 2,532,574
Liabilities from banking activities, current portion	17	3,864,415	4,131,390
Taxes payable		812,880	763,301
Deferred tax liabilities	21	229,038	139,842
Subscriber prepayments, current portion		620,281	606,856
Accrued expenses and other current liabilities	18	2,225,913	2,640,038
Short-term loans payable	19	40,836	292,260
Current portion of long-term debt	20	2,470,058	2,862,264
Liabilities of discontinued operations	4	-	371,355
Total current liabilities		13,407,654	14,339,880
LONG-TERM LIABILITIES:			
Long-term debt, net of current portion	20	10,764,278	12,447,374
Subscriber prepayments, net of current portion		101,240	112,805
Liabilities from banking activities, net of current portion	17	772,525	1,057,072
Deferred tax liabilities	21	1,956,472	2,015,058
Asset retirement obligations	2	184,261	228,627
Postretirement benefits obligations		91,640	89,038
Property, plant and equipment contributions		74,174	88,380
Other long-term liabilities		595,909	250,599
Total long-term liabilities		14,540,499	16,288,953
TOTAL LIABILITIES		27,948,153	30,628,833
Commitments and contingencies	27	-	-
Redeemable noncontrolling interests	2	805,130	731,661
SHAREHOLDERS' EQUITY:			
Share capital (9,650,000,000 shares issued; 9,274,755,045 and 9,209,574,962 shares outstanding with par value of 0.09 Russian Rubles, respectively)	23	30,057	30,057
Treasury stock (375,244,955 and 440,425,038 shares with par value of 0.09 Russian Rubles, respectively)		(426,715)	(501,109)
Additional paid-in capital		2,616,608	2,859,491
Retained earnings		8,993,469	7,110,467
Accumulated other comprehensive loss	23	(906,718)	(326,717)
Total Sistema JSFC shareholders' equity		10,306,701	9,172,189
Non-redeemable noncontrolling interests		4,189,010	4,109,505
TOTAL EQUITY		14,495,711	13,281,694
TOTAL LIABILITIES AND EQUITY		$ 43,248,994	$ 44,642,188

See notes to the consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars, except share and per share amounts)

	Notes	2013	2012
Sales		$ 35,063,235	$ 33,281,990
Revenue from banking activities		878,832	668,384
TOTAL REVENUES		35,942,067	33,950,374
Cost of sales, exclusive of depreciation, depletion and amortization shown separately below		(13,660,015)	(13,172,263)
Cost related to banking activities, exclusive of depreciation and amortization shown separately below		(523,960)	(372,921)
Selling, general and administrative expenses		(4,422,803)	(4,072,933)
Depreciation, depletion and amortization		(3,242,609)	(3,068,876)
Transportation costs		(895,683)	(861,933)
Impairment of goodwill	14	(258,048)	-
Impairment of long-lived assets other than goodwill and provisions for other assets	14	(833,954)	(715,636)
Taxes other than income tax		(7,209,315)	(6,758,011)
Gain on disposal of investment in RussNeft	4	1,200,000	-
Impairment of investment in Belkamneft	4	(491,986)	-
Gain on Bitel case resolution	27	371,100	-
Other operating expenses, net		(357,149)	(205,266)
Equity in results of affiliates		45,329	(9,138)
Gain on disposal of subsidiaries		-	12,394
OPERATING INCOME		5,662,974	4,725,791
Interest income		266,951	273,946
Change in fair value of derivative instruments		30,199	(2,144)
Interest expense		(1,175,227)	(1,345,596)
Foreign currency transaction (loss)/gain		(267,953)	114,912
Income from continuing operations before income tax		4,516,944	3,766,909
Income tax expense	21	(1,297,744)	(1,191,111)
Income from continuing operations		$ 3,219,200	$ 2,575,798
Loss from discontinued operations, net of tax effect of $nil and $33,794	4	-	(1,046,562)
Gain on disposal of discontinued operations, net of tax effect of nil	4	-	131,039
NET INCOME		$ 3,219,200	$ 1,660,275
Noncontrolling interest		(961,672)	(714,137)
NET INCOME ATTRIBUTABLE TO SISTEMA JSFC		$ 2,257,528	$ 946,138
Including:			
Income from continuing operations		$ 2,257,528	$ 1,371,664
Loss from discontinued operations		-	(425,526)
OTHER COMPREHENSIVE (LOSS)/INCOME, NET OF TAXES			
Currency translation (loss)/gain		(885,770)	351,092
Unrealized gain on available-for-sale securities		32,200	6,939
Unrealized gain on derivatives		45,499	8,212
Unrecognized actuarial gain/(loss)		5,310	(4,628)
Other comprehensive (loss)/income, net of taxes		(802,761)	361,615
TOTAL COMPREHENSIVE INCOME		$ 2,416,439	$ 2,021,890
Including:			
Total comprehensive income attributable to the noncontrolling interest		738,912	884,115
Total comprehensive income attributable to Sistema JSFC		1,677,527	1,137,775
Weighted average number of common shares outstanding – basic and diluted		9,239,817,019	9,295,872,223
Earnings per share, basic and diluted, U.S. cent			
Earnings per share from continuing operations		24.43	14.76
Loss per share from discontinued operations		-	(4.58)
Total earnings per share attributable to Sistema JSFC shareholders		24.43	10.18

See notes to the consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars)

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 3,219,200	$ 1,660,275
Gain on disposal of discontinued operations	-	(131,039)
Loss from discontinued operations	-	1,046,562
Income from continuing operations	3,219,200	2,575,798
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation, depletion and amortization	3,242,609	3,068,876
Equity in results of affiliates	(45,329)	9,138
Deferred income tax expense	140,292	152,168
Gain on disposal of investment in RussNeft	(1,200,000)	-
Impairment of investment in Belkamneft	491,986	-
Foreign currency transaction loss/(gain)	267,953	(114,912)
Gain on Bitel resolution, net of cash received of $125,000	(246,100)	-
Impairment of goodwill	258,048	-
Impairment of long-lived assets other than goodwill and provisions for other assets	833,954	715,636
Loss on disposal of property, plant and equipment	14,094	12,802
Amortization of connection fees	(60,309)	(73,568)
Allowance for loan losses	212,081	60,672
Dividends received from affiliates	65,247	92,322
Non-cash compensation to employees	54,158	22 498
Gain on disposal of subsidiaries	-	(12,394)
Other non-cash items	(15,057)	82,281
Changes in operating assets and liabilities, net of effects from purchase of businesses:		
Trading securities	(406,687)	(30,044)
Accounts receivable	(240,586)	(624,023)
VAT receivable	(174,951)	99,452
Inventories and spare parts	(171,320)	(417,944)
Other current assets	(93,381)	105,855
Accounts payable	533,948	323,158
Subscriber prepayments	110,112	61,965
Taxes payable	109,503	(99,951)
Accrued expenses and other liabilities	(54,127)	(175,687)
Net cash provided by operating activities of continuing operations	6,845,338	5,834,098
Net cash (used in)/provided by operating activities of discontinued operations	(16,503)	83,279
Net cash provided by operating activities	$ 6,828,835	$ 5,917,377

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (CONTINUED)
(Amounts in thousands of U.S. dollars)

	2013	2012
CASH FLOWS FROM INVESTING ACTIVITIES:		
Payments for purchases of property, plant and equipment	$ (3,458,179)	$ (3,853,968)
Payments for purchases of intangible assets	(555,077)	(355,583)
Payments for purchases of businesses, net of cash acquired	(34,664)	(889,373)
Purchase of investments in affiliates	(386,947)	(136,073)
Payments for purchases of long-term investments	(105,000)	(539,299)
Payments for purchases of short-term investments	(1,433,806)	(2,899,100)
Payments for purchases of other non-current assets	(83,451)	(11,214)
(Increase)/decrease in restricted cash	(15,819)	70,073
Proceeds from sale of subsidiaries, net of cash disposed	561,402	82,885
Proceeds from sale of property, plant and equipment	74,407	60,941
Proceeds from sale of investments in affiliates	1,485,292	-
Proceeds from sale of long-term investments	-	934,434
Proceeds from sale of other non-current assets	-	92,259
Proceeds from sale of short-term investments	1,109,585	3,139,025
Net increase in loans to banking customers and banks	(70,458)	(367,321)
Net cash used in investing activities	(2,912,715)	(4,672,314)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Principal payments on short-term borrowings, net	(231,036)	(93,749)
Net (decrease)/increase in deposits from customers	(177,105)	77,046
Reimbursement of debt issuance cost	30,125	-
Proceeds from long-term borrowings	3,504,615	3,059,293
Debt issuance costs	(6,055)	(16,056)
Principal payments on long-term borrowings	(4,758,382)	(4,350,409)
Dividends paid	(1,225,440)	(658,144)
Acquisition of non-controlling interests in existing subsidiaries	(299,184)	(1,118,653)
Proceeds from capital transactions with shares of existing subsidiaries	79,452	73,987
Purchases of treasury shares	-	(145,031)
Net cash used in financing activities	(3,083,010)	(3,171,716)
Effect of foreign currency translation on cash and cash equivalents	(271,194)	247,013
Net increase/(decrease) in cash and cash equivalents	561,916	(1,679,640)
Cash and cash equivalents at the beginning of the year (including cash of discontinued operations)	2,629,544	4,322,708
Cash and cash equivalents at the end of the year (including cash of discontinued operations)	3,191,460	2,643,068
Cash and cash equivalents of discontinued operations at the end of the year	-	(14,440)
Cash and cash equivalents of continuing operations at end of the year	$ 3,191,460	$ 2,628,628
Including:		
Non-banking activities	$ 2,059,092	$ 1,859,217
Banking activities	1,132,368	769,411

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012 (CONTINUED)
(Amounts in thousands of U.S. dollars)

		2013		2012
CASH PAID DURING THE YEAR FOR:				
Interest, net of amounts capitalized	$	(1,160,300)	$	(1,384,730)
Income taxes		(1,231,087)		(1,125,941)
NON-CASH INVESTING AND FINANCING ACTIVITIES:				
Property, plant and equipment contributed free of charge	$	597	$	1,067
Acquisition of intangible assets (Note 14)		670,300		-
Equipment and licenses acquired under capital leases		223,628		18,370
Amounts owed for capital expenditures		124,826		130,212
Payables related to business acquisitions		345		26,950

See notes to the consolidated financial statements.

SISTEMA JSFC AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012
(Amounts in thousands of U.S. dollars, except 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, 2012	**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**
Net income/(loss)	-	-	-	-	-	946,138	-	946,138	872,582	1,818,720	(158,445)
Other comprehensive income	-	-	-	-	-	-	191,637	191,637	156,678	348,315	13,300
Purchase of treasury shares	-	-	(148,837,080)	(145,031)	-	-	-	(145,031)	-	(145,031)	-
Disposal of treasury shares	-	-	90,427,017	111,120	(36,207)	-	-	74,913	-	74,913	-
Accrued compensation cost	-	-	-	-	22,498	-	-	22,498	-	22,498	-
Business combinations, disposals and capital transactions of subsidiaries (Notes 3, 4, 5)	-	-	-	-	297,599	-	-	297,599	(2,019,116)	(1,721,517)	(18,997)
Change in fair and redemption value of noncontolling interests	-	-	-	-	-	(171,984)	-	(171,984)	-	(171,984)	171,984
Dividends declared by Sistema JSFC	-	-	-	-	-	(82,336)	-	(82,336)	-	(82,336)	-
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(567,847)	(567,847)	-
Balances at December 31, 2012	**9,650,000,000**	**30,057**	**(440,425,038)**	**(501,109)**	**2,859,491**	**7,110,467**	**(326,717)**	**9,172,189**	**4,109,505**	**13,281,694**	**731,661**
Net income/(loss)	-	-	-	-	-	2,257,528	-	2,257,528	1,021,588	3,279,116	(59,916)
Other comprehensive (loss)/income	-	-	-	-	-	-	(580,001)	(580,001)	(229,192)	(809,193)	6,432
Disposal of treasury shares	-	-	65,180,083	74,394	(13,262)	-	-	61,132	-	61,132	-
Accrued compensation cost	-	-	-	-	54,158	-	-	54,158	-	54,158	-
Business combinations, disposals and capital transactions of subsidiaries (Notes 3, 4, 5)	-	-	-	-	(283,779)	-	-	(283,779)	237,429	(46,350)	27,547
Change in fair and redemption value of noncontolling interests	-	-	-	-	-	(99,406)	-	(99,406)	-	(99,406)	99,406
Dividends declared by Sistema JSFC	-	-	-	-	-	(275,120)	-	(275,120)	-	(275,120)	-
Dividends declared by subsidiaries	-	-	-	-	-	-	-	-	(950,320)	(950,320)	-
Balances at December 31, 2013	**9,650,000,000**	**30,057**	**(375,244,955)**	**(426,715)**	**2,616,608**	**8,993,469**	**(906,718)**	**10,306,701**	**4,189,010**	**14,495,711**	**805,130**

See notes to the consolidated financial statements.

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

1. DESCRIPTION OF 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 Company and the majority of its 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 on the Moscow Exchange.

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

Significant entities	Short name	Principal activity	Beneficial ownership as of December 31, 2013	Beneficial ownership as of December 31, 2012
Sistema Joint Stock Financial Corporation	Sistema	Investing and financing		
Mobile TeleSystems	MTS	Telecommunications	53%	53%
Bashneft	Bashneft	Oil and gas production	75%(1)	75%(1)
Sistema Shyam TeleServices Limited	SSTL	Telecommunications	57%	57%
MTS Bank	MTS Bank	Banking	87%	99%
RTI	RTI	Technology	85%	85%
Detsky mir-Center	Detsky mir	Retail trading	100%	75%
Medsi	Medsi	Healthcare services	75%	75%
Bashneft-Services Assets	BNSA	Oil services	100%	75%(4)
United Petrochemical Company	UPC	Petrochemical production	99%	75%(4)
Bashkirian Power Grid Company (Note 4)	BPGC	Energy transmission	79%(2)	79%(2)
SG-trans (Note 3 and 4)	SG-trans	Transportation	50%(3)	100%

(1) Voting interests as of December 31, 2013 and 2012 – 89%.
(2) Voting interests as of December 31, 2013 and 2012 – 92%.
(3) Direct voting interests of 15% and indirect ownership interest of 35% through Financial Alliance, a Group affiliate.
(4) As of December 31, 2012 BNSA and UPC were subsidiaries of Bashneft (Note 5).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of presentation – The accompanying consolidated financial statements have been prepared in conformity with 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 long-term 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, unrecognized income tax benefits, redeemable noncontrolling interests, derivative instruments, share-based compensation, 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 in the RF, Ukraine and India. Laws and regulations affecting businesses operating in these countries 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 operating subsidiaries are the currencies of the countries of their domicile.

In preparing the financial statements of the entities within the Group, transactions in currencies other than the entities' 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 USD as its reporting currency. The Group's assets and liabilities are translated into USD at exchange rates prevailing on the reporting period end 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 subsidiary whose financial statements are prepared in a currency other than the reporting currency of the Group, all of the accumulated currency translation adjustments in respect of that operation attributable to the Group are reclassified to profit or loss.

As of December 31, 2013, the official exchange rate of the Russian ruble, the functional currency of the most of the Group's subsidiaries, determined by the Central Bank of the RF was RUB 32.73 for 1 USD (RUB 30.37 for 1 USD as of December 31, 2012).

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 reportable 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).

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	7 months-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 connection fees based on the average life specific to that region.

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 sales.

Bashneft

Revenues from the production and sale of crude oil and petroleum products are recognised when the 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. Revenue is recognised at the fair value of consideration received or receivable, when the significant risks and rewards of ownership have been transferred, which is when the title passes to the customer. Revenues include excise taxes on petroleum products sales and duties on export sales of crude oil and petroleum products amounted to $5,032 million and $4,631 million for the years ended December 31, 2013 and 2012, respectively.

RTI

Revenues from the long-term contracts are recognised using the percentage-of-completion method of accounting, measured by the percent of contract costs incurred to-date to estimated contract costs. 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. Provisions for estimated losses on construction contracts in progress are made in their entirety in the period in which such losses are determined. A total expected loss on a contract is recognised immediately in profit or loss.

Contract expenses are recognised as incurred unless they create an asset related to future contract activity.

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; and (b) 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.

Where certain products of this segment are generally sold with a product return reserve is established. In addition other post-contract support obligations are accrued at the time of sale.

<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.

Regulated services – Regulated tariff services provided by the Group primarily consist of local fixed-line telephone services and services rendered to other operators, such as traffic charges, connection fees and line rental services, provided by MTS in certain regions of RF, and energy transmission services provided by BPGC. Changes in the rate structure for such services are subject to the Federal Tariff Service approval. Revenue from regulated tariff services represented approximately 3.1% and 3.2% of the consolidated revenue for the years ended December 31, 2013 and 2012, respectively. This does not include revenue attributable to discontinued operations (Note 4).

Cash and cash equivalents – Cash equivalents include demand deposits and other highly liquid investments with an original maturity of three months or less. Within the cash and cash equivalents balance are cash equivalents of $1,706.0 million and $866.1 million as of December 31, 2013 and 2012, respectively, which primarily comprise term deposits with banks and bank promissory notes with original maturities of three months or less.

Restricted cash – Restricted cash includes cash and cash equivalents restricted by agreements with third parties for special purposes.

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 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 and comprehensive income 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 loss. The gain or loss relating to the ineffective portion is recognized immediately in the consolidated statement of operations and comprehensive income. 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 and comprehensive income.

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 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.

The fair values – 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, 2013 and 2012 no reclassifications occurred.

A three-level valuation hierarchy has been established under U.S. GAAP for disclosure of fair value measurements. The valuation hierarchy is based on the transparency of inputs to the valuation of an asset or liability as of the measurement date. The three levels are defined as follows:

- Level 1 – inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets;
- Level 2 – inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument;
- Level 3 – one or more inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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 (cash and cash equivalents, loans, investments and other) involved in operations of MTS Bank. Impairment losses on loans to customers and banks are included in the allowance for loan losses. The allowance for loan losses represents management's best estimate of probable credit losses inherent in the lending portfolios as of the reporting period end. Loans that are not individually reviewed are evaluated as a group using reserve factor percentages based on historic loss experience and 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 and comprehensive income based on management's evaluation of the estimated losses, after giving consideration to the net chargeoffs which 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.

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. Inventory is accounted for using either first-in, first-out or the weighted-average cost method.

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.

Discontinued operations – In a period in which a component of the Group is either disposed of or is classified as held for sale, the Group reports its results, including any write-down to fair value less cost to sell, in discontinued operations. The results of discontinued operations, less applicable income taxes, are reported as a separate component of net income in all periods in which they occur. Assets and liabilities of discontinued operations are presented separately in the asset and liability sections of the Group's consolidated statement of financial position in all periods presented, including retrospectively representing prior year comparatives to conform to such presentation

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 and comprehensive income as incurred.

The 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

Whilst there are certain assets within the Group that have useful lives longer than those presented above, these assets are quantitatively insignificant in comparison to the overall Group balance for each category. As such, the Group has taken the approach of reporting the useful economic lives which most faithfully represent the majority of assets, in order to provide a more reasonable range that more closely relates to the Group norm.

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 proven 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 net income.

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

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 Bashneft shipping and handling costs.

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

Asset retirement obligations – The Group calculates asset retirement obligations 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, 2013 and 2012, the estimated present value of the Group's asset retirement obligations and change in liabilities were as follows:

	2013	2012
Balance, beginning of the year	$ **248,498**	$ **214,724**
Liabilities incurred in the current period	17,666	16,959
Property dispositions	(20,276)	(2,083)
Accretion expense	17,393	25,775
Revisions in estimated cash flows	(44,023)	(12,135)
Currency translation adjustment	(16,770)	5,258
Balance, end of the year	**$ 202,488**	**$ 248,498**
Current portion	18,227	19,871
Long-term portion	184,261	228,627
Balance, end of the year	**$ 202,488**	**$ 248,498**

The Group's asset retirement obligations relate primarily to the cost of removing telecommunication equipment from sites and decommissioning of oil 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 obligations 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 – Acquisitions of businesses from third parties are accounted for using the acquisition method, with assets and liabilities of an acquired entities being measured at their fair values as at the date of acquisition. Noncontrolling interests are measured at fair value.

Goodwill – Goodwill is determined as the excess of the consideration transferred plus the fair value of any noncontrolling interests 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 ("negative goodwill").

Goodwill is not amortized to operations, but instead is reviewed for impairment at least annually. At first step, the Group asseses qualitative factors to determine whether it is more likely than not that goodwill is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. Goodwill is than 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, the next step is performed whereby the 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.

Other intangible assets – Other intangible assets include billing and telecommunication software and other software, operating licenses, acquired customer bases and customer relationships, radio frequencies, trademarks and telephone numbering capacity.

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

Billing and telecommunication software	1-20 years
Operating licenses	3-20 years
Acquired customer base	1-8 years
Acquired radio frequencies	2-15 years
Software and other	1-10 years

Trademarks with indefinite 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 has the ability to exercise significant influence over their operating and financial policies ("affiliates") is included in the consolidated financial statements using the equity method of accounting. The Group's share in the net income of affiliates is included within operating income, given that the Group has day-to-day involvement in the business activities and they are considered to be integral to the Group's business. Other-than-temporary decreases in the value of investments in affiliates are recognized in net income.

All other equity investments, which consist of investments for which the Group 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 Group 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 operations and 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 (Note 14).

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 OJSC Moscow City Telephone Network (hereinafter, “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 and comprehensive income 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% or 0% subject to meeting certain conditions. 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, the Group considers 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 not considered more likely than not of being sustained based on the technical merits upon examination 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 within income taxes.

Treasury stock – If the Group reacquires the Company’s 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 Company’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 and comprehensive income. 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 share-based compensation 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.

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

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 all social contributions paid during the year ended December 31, 2013 are represented by payments to governmental social funds, including the Pension Fund of the Russian Federation, the Social Security Fund of the Russian Federation and the Medical Insurance Fund of the Russian Federation.

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, Bashneft 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.

Advertising costs – Advertising costs are expensed as incurred. Advertising costs for the year ended December 31, 2013 and 2012 were $330.8 million and $338.5 million, respectively, and were reflected as a component of selling, general and administrative expenses in the accompanying consolidated statements of operations and comprehensive income.

Taxes other than income tax – Taxes other than income tax comprise excises, extraction tax and customs, which relate to 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. As these put and call option agreements are not freestanding, the underlying shares of such put and call option agreements are classified 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 U.S. 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.

Redeemable noncontrolling interests as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
SSTL	$ 688,000	$ 656,000
K-Telecom, MTS subsidiary in Armenia	89,583	75,661
RTI (Note 5)	27,547	-
Total	**$ 805,130**	**$ 731,661**

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. 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 interests in SSTL at the redemption value and presented this as temporary equity in its consolidated statements of financial position.

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

Diluted EPS is based on net income attributable to the Group 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 does not differ from basic for the years ended December 31, 2013 and 2012.

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, 2012 has been revised in order to achieve comparability with the presentation used in the consolidated financial statements for the year ended December 31, 2013. Such reclassifications and revisions were not significant to the Group financial statements, except for presentation of discontinued operations (Note 4).

New and recently adopted accounting pronouncements – In March 2013, the Financial Accounting Standards Board (the “FASB”) issued authoritative guidance on a parent’s accounting for the cumulative translation adjustment upon derecognition of certain subsidiaries or a group of assets within a foreign entity or of an investment in a foreign entity. This new guidance requires that the parent release any related cumulative translation adjustment into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided. The guidance is effective for fiscal years and interim reporting periods within those fiscal years beginning after December 15, 2013. The amendments described in the update are to be applied prospectively to derecognition events occurring after the effective date; prior periods are not to be adjusted. The adoption of this guidance did not have a significant impact on the Group’s consolidated financial statements.

In July 2012, the FASB updated the authoritative guidance on testing indefinite-lived intangible assets for impairment. The update permits the entity first to assess qualitative factors to determine whether it is more likely than not that an indefinite-lived intangible asset is impaired as a basis for determining whether it is necessary to perform the quantitative impairment test. The guidance is effective for all entities for annual and interim goodwill impairment tests performed for fiscal years beginning after September 15, 2012. The adoption of this guidance did not have a significant impact on the Group’s consolidated financial statements.

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

3. ACQUISITIONS

Business combinations in the year ended December 31, 2013

SITRONICS-Nano – In May 2013, the Group acquired an additional 12.3% ownership interest in SITRONICS-Nano, previously an affiliate, from RUSNANO for cash consideration of RUB 2 billion ($61.1 million at the acquisition date) increasing its voting interest to 62.1%. This acquisition allowed Group to secure its rights for use of 180 and 90 nanometre equipment that has been leased from SITRONICS-Nano.

Simultaneously, the Group and RUSNANO amended the existing call and put option agreements.

Under the amended agreements, the Group has a call option to acquire RUSNANO's shares for RUB 6.1 billion plus 7.63% p.a. at any time till November 1, 2017. RUSNANO has a put option to sell its remaining shares in SITRONICS-Nano for RUB 8.1 billion not earlier than October 31, 2016 and not later than November 1, 2017.

As a result of the transactions, the Group obtained control over SITRONICS-Nano and accounted for this business combination by applying the acquisition method. The following table summarizes the consideration paid for SITRONICS-Nano and the amounts of the assets acquired and liabilities assumed that were recognized at the acquisition date, as well as the fair value of the noncontrolling interest in the investee:

Current assets	$	73,231
Net investment in the lease		518,916
Current liabilities		(76,700)
Non-current liabilities		(18,829)
Noncontrolling interest		(187,164)
		309,454
Fair value of previously held interest		(248,309)
Cash consideration	**$**	**61,145**

As part of this business combination, the Group recognised a revaluation gain resulting from the remeasurement of its previously held interest. The difference in the amount of $22.4 million between the fair value of previously held interest and the carrying value of the Group's investment has been recorded within other operating expenses (net) in the consolidated statement of operations and comprehensive income. The fair value of previously held interest and the noncontrolling interest in SITRONICS-Nano were estimated based on the amount of consideration in the transaction described above.

Business combinations in the year ended December 31, 2012

SG-trans – In November 2012, the Group acquired 100% of SG-trans OJSC, an operator of specialised railcars for transportation of liquefied petroleum gas, for a total cash consideration of RUB 22.8 billion ($732.9 million as of the acquisition date). This acquisition was in line with the Group's strategy to develop a strong position in the transportation market.

During the year ended December 31, 2013 the Group finalized the purchase price allocation for this acquisition. The provisional amounts recognized at the acquisition date were retroactively adjusted to reflect new information obtained about facts and circumstances that existed as of the acquisition date. The following table summarizes the consideration paid for SG-trans and the amounts of the assets acquired and liabilities assumed:

		Provisional amounts		**Measurement period adjustments**		**Recognized amounts (as adjusted)**
Current assets	$	103,993	$	-	$	103,993
Property plant and equipment		884,583		(142,687)		741,896
Goodwill		-		83,027		83,027
Other non-current assets		3,496		13,592		17,088
Current liabilities		(49,048)		4,117		(44,931)
Non-current liabilities		(210,122)		41,951		(168,171)
Consideration paid	**$**	**732,902**	**$**	**-**	**$**	**732,902**

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

All of the goodwill was assigned to SG-trans segment, that is reported in Other category. None of the goodwill recognized is expected to be deductible for income tax purposes.

See also discussion of subsequent disposal of SG-trans in Note 4.

NVision – In September 2012, RTI, a subsidiary of the Group, acquired a controlling 50%+0.5 share ownership interest in NVision Group CJSC ("NVision") from NVision Group Managing Company LLC. This acquisition was in line with the Group's strategy to strengthen the position of RTI as the leading supplier of complex technological solutions, increase competitive advantages of both companies and enable the Group to offer new collaborative products and solutions.

The total consideration comprised RUB 3 billion in cash ($95.5 million as of the acquisition date) and noncontrolling stakes in SITRONICS Information Technologies ("SIT") and SITRONICS Telecommunication Solutions ("STS"), excluding Intracom Telecom. As part of the transaction the Group transferred its ownership interests in SIT and STS to NVision. These trasferred interests were measured at their carrying values when determining the total consideration paid as the Group retained control over these assets.

During the year ended December 31, 2013 the Group finalized the purchase price allocation for this acquisition. The provisional amounts recognized at the acquisition date were retroactively adjusted to reflect new information obtained about facts and circumstances that existed at the acquisition date. The following table summarizes the consideration paid for NVision and the amounts of the assets acquired and liabilities assumed that were recognized at the acquisition date, as well as the fair value of the noncontrolling interests in the investee:

	Provisional amounts	Measurement period adjustments	Recognized amounts (as adjusted)
Current assets	$ 719,361	$ -	$ 719,361
Property, plant and equipment	38,717	-	38,717
Goodwill	254,701	13,730	268,431
Customer relationships	78,631	(7,694)	70,937
Other non-current assets	143,394	(22,517)	120,877
Current liabilities	(768,470)	-	(768,470)
Non-current liabilities	(56,069)	6,042	(50,027)
Noncontrolling interests	(230,683)	10,439	(220,244)
Consideration paid	**$ 179,582**	**$ -**	**$ 179,582**

Customer relationships recognized as a result of the acquisition are amortized over a period of 7.25 years. The excess of the consideration paid over the value of net assets acquired in the amount of $268.4 million was allocated to goodwill which was attributable to the RTI segment and is not deductible for income tax purposes. Goodwill was mainly attributable to the expected synergies from combining the operations of RTI and NVision.

The fair value of the noncontrolling interest in NVision was estimated by applying the income approach. This fair value measurement is based on significant inputs that are not observable in the market ("Level 3" of the hierarchy established by U.S. GAAP guidance). Key assumptions include a discount rate of 15.4% and adjustments because of the lack of control and lack of marketability that market participants would consider when measuring the fair value of the noncontrolling interest in NVision.

See also a discussion of the subsequent impairment of certain assets attributable to NVision in Note 14.

Medical Center – In August 2012, the Group gained control over the assets of Medical Center, a state owned clinics network, in exchange for 25.02% stake in Medsi, a subsidiary of the Group. Management concluded that the set of assets acquired constitute a business and accounted for the transaction as a business combination.

During the year ended December 31, 2013 the Group finalized the purchase price allocation for this acquisition. The provisional amounts recognized at the acquisition date were retroactively adjusted to reflect new information obtained about facts and circumstances that existed at the acquisition date. The following table summarizes the consideration paid for Medical Center and the amounts of the assets acquired and liabilities assumed that were recognized at the acquisition date:

	Provisional amounts	Measurement period adjustments	Recognized amounts (as adjusted)
Property, plant and equipment	$ 192,988	$ 24,030	$ 217,018
Goodwill / (negative goodwill)	35,056	(40,500)	(5,444)
Non-current liabilities	(37,398)	(2,774)	(40,172)
Consideration paid	**$ 190,646**	**$ (19,244)**	**$ 171,402**

Other acquisions – The information on other business combinations during the year ended December 31, 2012 is summarized in the following table:

Acquiree	**Principal activity**	**Date of acquisition**	**Interest acquired**	**Acquiring segment**	**Purchase price (in millions)**
Tascom	Telecommunication services	May	100%	MTS	$ 45.3
Ural Oil	Retail of oil products	April	100%	Bashneft	17.9
Other					57.1
Total					**$ 120.3**

4. DISPOSALS AND DISCONTINUED OPERATIONS

Disposal of interests in subsidiaries for the year ended December 31, 2013

SG-trans – During 2013, the Group completed a reorganisation of its transportation assets. As a result of the reorganization, SG-trans, which was acquired in 2012 (Note 3) was split into two legal entities: SG-trading which comprised the non-core non-transportation assets and SG-trans which retained all the core transport assets. In April 2013 the Group sold a 70% stake in SG-trans to Finance Alliance, an affiliate of the Group, for cash consideration of RUB 12 billion ($380.2 million at the disposal date), thereby reducing its direct ownership in SG-trans from 100% to 30%.

Upon disposal, the Group deconsolidated SG-trans and accounted for its remaing interest using the equity method. As a result of the transaction, the Group recognized a gain of $4.0 million in the consolidated statement of operations and comprehensive income.

In July 2013, the Group further sold an additional 15% of SG-trans to Unirail, a shareholder of Finance Alliance, for a cash consideration of RUB 2.5 billion ($76.4 million) with no gain or loss recognized as a result of this transaction.

MTS Uzbekistan - In June 2012, the authorities of the Republic of Uzbekistan commenced repeat audits of previously audited financial and operating activities of MTS' wholly-owned subsidiary Uzdunrobita. On July 17, 2012 Uzdunrobita suspended its services in Uzbekistan pursuant to the order of the State Agency for Communications and Information of Uzbekistan (the "SACI") temporarily suspending the operating license of Uzdunrobita for a period of ten business days. This suspension was subsequently extended to three months due to the decision of the Tashkent Economic Court of July 30, 2012.

On August 6 and 7 2012, fourteen regional antimonopoly departments of the Republic of Uzbekistan simultaneously held hearings and declared that Uzdunrobita had violated antimonopoly laws, consumer protection laws and laws governing advertisements. In total, the claims of the regional antimonopoly departments against Uzdunrobita amounted to approximately $80.0 million. This amount was subsequently reduced by the superior antimonopoly regulator to $13.0 million in the aggregate. The disputes with the antimonopoly authorities were dismissed after payments were made by Uzdunrobita pursuant to the Appeal Decision (as defined below).

On August 13, 2012, the Tashkent Economic Court granted the petition of the SACI to terminate all operating licenses of Uzdunrobita permanently. This decision was subsequently upheld by the appeals and cassation instance courts on August 27, 2012 and April 4, 2013, respectively.

Notwithstanding the fact that a tax audit of Uzdunrobita's operations for the period of 2007-2010 was completed in February 2012 and did not reveal any serious violations, further tax audits were conducted and purported to find alleged violations of licensing regulations as well as income and other tax legislation resulting in the imposition of additional taxes and fines totaling approximately $900.0 million. This amount was subsequently reduced to $669.0 million in the aggregate. Whether these taxes and sanctions can be claimed by the Uzbek tax authorities from Uzdunrobita under bankruptcy procedures (discussed below) is uncertain in light of the decisions made by the High Economic Court and the Regional Economic Courts of Appeals between April 4, 2013 and April 11, 2013. With limited exceptions, those decisions dismissed the obligation of the regional tax authorities to enforce the financial sanctions. The decisions, however, do not cover any obligation of the local tax authorities to collect the additional taxes.

During September-October of 2012, $6.4 million were seized from Uzdunrobita's bank accounts by the Uzbek State and applied to settle a portion of the State's alleged claims.

On September 17, 2012, the Tashkent City Criminal Court issued a ruling in favor of the Uzbek state authorities authorizing the confiscation of all assets of Uzdunrobita based on a criminal court's verdict which the Tashkent City Criminal Court issued against four employees of Uzdunrobita, despite the Uzdunrobita was not itself a party to such proceedings. Prior to this ruling, the Uzbek law enforcement agencies had frozen all of Uzdunrobita's assets, including cash held in local bank accounts.

On November 8, 2012, the Appellate Instance of the Tashkent City Criminal Court allowed Uzdunrobita's appeal challenging the verdict of the Tashkent City Criminal Court dated September 17, 2012. The appeals court found that all damages (taxes, sanctions, unpaid licenses duties and damages to customers) suffered by the State must be compensated by Uzdunrobita. The amount of damages was calculated and determined on the basis of all of the aforementioned claims against Uzdunrobita existing as of November 8, 2012, which amounted to $587 million to be paid in eight equal monthly instalments (the "Appeal Decision").

In accordance with applicable Uzbek laws, Uzdunrobita petitioned the Deputy General Prosecutor to challenge the Appeal Decision before the Supreme Court of Uzbekistan and grant a stay of enforcement of the Appeal Decision. Uzdunrobita's petition was rejected by the General Prosecutor's Office on December 25, 2012.

Following this rejection, Uzdunrobita immediately filed a further petition to appeal to the Supreme Court of Uzbekistan with the Chairman of the Supreme Court of Uzbekistan. On January 23, 2013, the company was notified that the matter had been submitted by the Supreme Court for consideration by the Chairman of the Tashkent City Court. On May 2, 2013, the Chairman of the Tashkent City Court rejected Uzdunrobita's petition.

In order to comply with the Appeal Decision, Uzdunrobita paid two scheduled installments in November and December 2012 totaling $147.5 million. On January 14, 2013, subsequent to the payment of a portion ($15.9 million) of the third installment due in January 2013 with all cash remaining in Uzdunrobita's bank accounts, Uzdunrobita filed a petition for voluntary bankruptcy with the Tashkent Economic Court due to its inability to meet its further obligations arising out of the Appeal Decision. On January 18, 2013, the Court initiated bankruptcy proceedings and appointed an external temporary supervisor over Uzdunrobita, and scheduled a further bankruptcy hearing which took place on April 22, 2013.

(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 Uzbekistan, the Group tested goodwill and other long-lived assets attributable to Uzbekistan for impairment upon first receiving notification of the investigations. As a result, an impairment loss on the long-lived assets presented in the table below was recorded in the consolidated statements of operations and comprehensive income for the year ended December 31, 2012. In 2013 after the loss of control over Uzdunrobita these losses were assigned to discontinued operations:

		Impairment loss
Property, plant and equipment	$	256,355
Licenses		82,885
Rights to use radio frequencies		76,641
Numbering capacity		36,145
Software and other intangible assets		50,241
Goodwill		108,544
Total impairment loss related to goodwill and long-lived assets	**$**	**610,811**

The Group used a probability-weighted valuation technique to determine the fair value of the long-lived assets as of December 31, 2012, which was determined based on unobservable inputs ("Level 3" of the hierarchy established by U.S. GAAP guidance). In calculating the future cash flows for use in the assessment of the fair value of long-lived assets, the Group used forecasts for the Uzbekistan telecommunication market and Uzdunrobita's position in that market. The forecasts were based on all available internal and external information, including growth projections and industry experts' estimates.

Separate to the impairments recognized, a liability of $418.3 million relating to the claims was recorded with an associated charge to the consolidated statements of operations and comprehensive income for the year ended December 31, 2012 as the minimum of a range of probable losses according to management's estimations, as required by U.S. GAAP if no estimate within a range is more likely than any other.

On April 22, 2013, the Tashkent Economic Court declared Uzdunrobita bankrupt and initiated six-month liquidation procedures which, as far as the Group is able to comprehend, are still in process (the period has been prolonged several times). In accordance with the terms of local liquidation procedures, Uzdunrobita's CEO was relieved of his duties and all of the oversight and governance over Uzdunrobita was transferred to the liquidation administrator. As a result the Group lost control over the subsidiary and deconsolidated Uzdunrobita.

In July 2013, two rounds of auctions were set and held in relation to the sale of assets of Uzdunrobita and all of its branches. All auctions were recognized as having failed due to the absence of any applications by interested bidders.

The Group believes that the claims of the Uzbek state authorities against Uzdunrobita that resulted in the initiation of its bankruptcy are unfounded. The Group reserves its rights to pursue all available legal options in Uzbekistan and internationally to defend itself, protect its investments and fully recover damages or obtain other relief including from any party involved in depriving the Group of its business and assets in Uzbekistan.

The Group has filed a claim against the Republic of Uzbekistan in the International Center for Settlement of Investment Disputes ("ICSID"), which is part of the World Bank Group, in Washington, D.C. The claim was registered on November 15, 2012. The tribunal was formed on August 29 2013 and first procedural hearings took place in November 2013.

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

The results of operations of Uzdunrobita are reported as discontinued operations in the accompanying consolidated statements of operations and comprehensive income and consolidated statements of cash flows for all periods presented. As a result of the disposal the Group recognized result in the amount of $nil million. The results of discontinued operations of Uzdunrobita for the year ended December 31, 2013 and 2012 were as follows:

		2013		2012
Total revenues	$	-	$	274,918
Income / (loss) before income tax		34,822		(1,037,165)
Income tax (expense) / benefit		(34,822)		41,025
Loss from discontinued operations, net of tax	**$**	**-**	**$**	**(996,140)**

The carrying amount of assets and liabilities related to Uzdunrobita as of April 22, 2013 (the date of disposal) and December 31, 2012 was as follows:

		April 22, 2013		December 31, 2012
Current assets	$	10,839	$	24,858
Non-current assets		305,621		346,497
Total assets	$	**316,460**	$	**371,355**
Current liabilities		316,460		371,355
Total liabilities	$	**316,460**	$	**371,355**

<u>Disposal of interests in affiliates for the year ended December 31, 2013</u>

RussNeft – In July 2013, the Group sold its 49% stake in RussNeft for cash consideration of $1,200 million. Prior to the disposal, the Group has been accounting for this investment using the equity method. As of the disposal date, the carrying value of the Group's investment in RussNeft was nil. Accordingly, the Group recognized a $1,200 million gain on this disposal being the difference between the consideration received and the carrying value of investment disposed.

Belkamneft – In July 2013, the Board of Directors of Bashneft approved a plan to dispose of its 38.5% investment in the shares of Belkamneft, a company engaged in the production of crude oil. As a result, the carrying amount of the Group's investment in Belkamneft of $692.0 million was adjusted to fair value less estimated cost to sell of $200.0 million which was based on the sales price anticipated at that time. As such, an impairment of $492.0 million was recognized. In September 2013, the Group completed the sale at the anticipated price.

<u>Disposals for the year ended December 31, 2012</u>

Bashkirenergo – In November 2012, the Group completed the reorganization of Bashkirenergo, its 50.5% owned subsidiary, which resulted in the establishment of two legal entities: Bashenergoaktiv which consolidated generating assets and Bashkirian Power Grid Company ("BPGC") which combined grid assets.

Upon completion of the reorganization, the Group obtained a 92.5% voting stake in BPGC and disposed its stake in Bashkirenergoaktiv to Inter RAO, a Russian energy holding, for a total cash consideration of RUB 0.7 billion and Inter RAO promissory notes of RUB 10.4 billion received in several installments through September 29, 2013 ($22.6 million and $330.0 million, accordingly, as of the disposal date). As a result of this transaction, the Group recognized gain on disposal of discontinued operations of $117.2 million with a corresponding decrease in the non-reedemable noncontrolling interests by $896.1 million.

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

As the Group had no significant continuing involvement in the operations of Bashenergoaktiv, its results of operations were reported in discontinued operations in the consolidated statements of operations and comprehensive income. The results of the discontinued operations for the year ended December 31, 2012 were as follows:

		2012
Total revenue	$	1,093,014
Total expense		(1,118,685)
Loss from discontinued operations before income tax		**(25,671)**
Income tax expense		(5,537)
Loss from discontinued operations, net of income tax	$	**(31,208)**

As part of the agreement, the Group indemnified Inter RAO for any claims made against it after the sale date for events or transactions that occurred before the sale. The maximum aggregate indemnity shall not exceed RUB 6.0 billion ($183.3 million as of December 31, 2013) for any and all warranty and indemnity claims (other than title claims). No liability has been recognized in the consolidated financial statements as the likelihood of the incurrence of a liability is not considered probable.

Sales of continuing operations to the generation business of Bashkirenergo in 2012 prior to the disposal amounted to $18.6 million. Purchases of continuing operations in the same period amounted to $84.1 million.

Moskovia – In July 2012, the Group completed the sale of its 56% interest in Moskovia, a broadcasting company, a subsidiary of SMM, for a cash consideration of $38.8 million. As a result of this transaction, the Group recognized a gain on disposal of discontinued operations of $12.7 million. Losses from discontinued operations of Moskovia for the year ended December 31, 2012 amounted to $4.2 million.

Intracom Telecom – In April 2012, the Group completed the sale of a 3% stake in Intracom Telecom to Rydra Trading Company. As a result of this transaction, the Group's ownership interest in Intracom Telecom decreased from 51% to 48%. The Group accounted for its retained investment under the equity method and recognized a loss on deconsolidation of $5.4 million in the consolidated statement of operations and comprehensive income.

M2M – In December 2012, the Group's Board of Directors approved the sale of 51% interest in M2M. In the Group's financial statements for the year ended December 31, 2012, the results of operations, M2M were reported in discontinued operations, and the assets and liabilities were reported as held for sale. During 2013 the Group changed its plan to sell M2M and, in its financial statements for the year ended December 31, 2013, reclassified its assets as held and used and reported its results in continuing operations. The comparative information for the year ended December 31, 2012 was also re-presented in order to be consistent with the current year presentation.

5. CAPITAL TRANSACTIONS OF SUBSIDIARIES

Transactions in the year ended December 31, 2013

Business-Nedvizhimost – In December 2013, MTS sold a 51% stake in Business-Nedvizhimost, a company which owns and managers a real estate portfolio in Moscow, to the Company for RUB 3.2 billion ($98.5 million as of the transaction date). This transfer of ownership interest within the Group resulted in an increase of noncontrolling interest and a decrease of additional paid-in capital by $42.7 million.

RTI – In December 2013, RTI issued 4,687,500,000 common shares with par value of 1 Russan ruble which were acquired by existing shareholders, the Company and the Bank of Moscow, for cash consideration of RUB 6.0 billion ($183.9 million as of the purchase date) in proportion to their existing ownership interests. The Bank of Moscow obtained a put option to sell its 703,125,000 shares acquired upon their issuance to the Group at a price of $27.5 million plus 8.25% p.a. not earlier than December 26, 2016 and not later than December 26, 2018. In the presence of this put option, the Group classified the underlying redeemable noncontrolling interests.

UPC – In September 2013, the Company acquired a 98% stake in United Petrochemical Company from Bashneft for RUB 6.2 billion ($192.0 million as at transaction date). This transfer of ownership interest within the Group resulted in a decrease of noncontrolling interests and an increase of additional paid-in capital by $41.4 million.

BNSA – In September 2013, the Company acquired a 100% stake in Bashneft-Services Assets from Bashneft for RUB 4.1 billion ($126.8 million as at transaction date). This transfer of ownership interest within the Group resulted in a decrease of noncontrolling interests and an increase of additional paid-in capital by $24.4 million.

MTS – In September-December 2013, the Group acquired MTS ordinary shares representing 0.6% of its charter capital on the open market for $120.0 million. The transaction was accounted for directly in equity and resulted in a decrease of noncontrolling interests by $23.0 million and a decrease of additional paid-in capital by $97.0 million.

Detsky mir – In September 2013, Detsky mir purchased 25%+1 of its own shares from Sberbank for cash consideration of $140.0 million. The transaction was accounted for directly in equity and resulted in a decrease of noncontrolling interests by $5.4 million and a decrease of additional paid-in capital by $134.6 million. The Group took a long-term loan from Sberbank to fund the purchase. Simultaneously the Group has pledged these shares to Sberbank as security against the loan.

SITRONICS-N – In September 2013, the Group undertook restructuring of certain RTI assets. Upon completion of a series of transactions, SITRONICS, a subsidiary of RTI, spun off two companies, SITRONICS-N and RTI Microelectronics, with allocation of all its major assets and liabilities to these companies. To complete the restructuring process a 100% stake in SITRONICS was sold to SITRONICS-N for 1 RUB. In October 2013, the Company acquired a 100% stake in SITRONICS-N from RTI for RUB 1.0 billion ($31.0 million as at transaction date). This transaction resulted in an increase of noncontrolling interests and a decrease of additional paid-in capital by $11.0 million.

Mikron – In August 2013, Mikron issued 691,962 ordinary shares which were purchased by one of its existing shareholders Federal Agency for State Property Management (Rosimushchestvo) for cash consideration of RUB 465 million ($14.1 million). This transaction was accounted for directly in equity and resulted in an increase of noncontrolling interests by $5.2 million and an increase of additional paid-in capital by $8.9 million.

MTS Bank – In April 2013, MTS acquired a 25.0945% stake in MTS Bank through the purchase of its additional share issuance for RUB 5 billion ($123 million). Upon completion of the transaction, the Group's effective ownership in MTS Bank decreased from 99% to 87%. This transfer of ownership interest within the Group resulted in an increase of noncontrolling interests and a decrease of additional paid-in capital by $105 million.

<u>Transactions in the year ended December 31, 2012</u>

Bashneft – In April 2012, the shareholders of Bashneft approved its reorganisation through the legal merger with its certain subsidiaries. In accordance with the Russian legislation, the merging entities announced an obligatory buy-back of their own shares which was completed in June 2012. As the result of this buy-back program, Bashneft acquired its own shares in the amount of RUB 11,070 million ($337.2 million as of the date of purchase), and the merged subsidiaries acquired their own shares in the amount of RUB 7,956 million ($242.4 million as of the date of purchase). In September 2012, the Company acquired from certain merged entities their treasury shares for RUB 1,917 million ($61.8 million as of the date of purchase). On 1 October 2012, Bashneft completed its reorganisation and the shares of the subsidiaries were converted into ordinary shares of Bashneft.

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

In November 2012, the Company acquired ordinary and preferred shares of Bashneft for RUB 9,420 million ($298.4 million as of the date of purchase) from a third party and Bashneft. In November 2012, Bashneft Middle East, a wholly owned subsidiary of Bashneft, acquired ordinary and preferred shares of Bashneft for RUB 4,627 million ($146.9 million as of the date of purchase).

Upon completion of the aforementioned transactions, the Group's effective ownership in Bashneft increased to 75.0% which resulted in a decrease in noncontrolling interests by $1,174.0 million and an increase in additional paid-in capital by $223.4 million.

RTI – In June 2012, pursuant to the terms of a voluntary tender offer originally announced in March 2012, RTI completed the acquisition of SITRONICS ordinary shares, including shares underlying Global Depositary Receipts, for a total consideration of $40.7 million. As a result, the Group's ownership in SITRONICS increased from 69.8% to 99.5%. This transaction was accounted for directly in equity and resulted in a decrease in noncontrolling interests by $50.5 million.

6. ASSETS FROM BANKING ACTIVITIES, NET

Assets from banking activities, net of an allowance for loan losses, as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Cash and cash equivalents	$ 1,132,368	$ 769,411
Loans to customers	4,842,982	4,562,523
Investments in securities (trading)	551,513	687,114
Loans to banks	161,229	599,901
Investments in securities (available-for-sale)	154,356	185,619
Other investments	127,096	123,928
Less: allowance for loan losses	(516,575)	(329,803)
Assets from banking activities, net	6,452,969	6,598,693
Less: amounts maturing after one year	(2,554,229)	(2,255,709)
Assets from banking activities, current portion	**$ 3,898,740**	**$ 4,342,984**

Major categories of loans to customers as of December 31, 2013 and 2012 comprise the following:

	2013	2012
Corporate customers	$ 2,739,345	$ 3,060,199
Individuals	2,103,637	1,502,324
Total	**$ 4,842,982**	**$ 4,562,523**

As of December 31, 2013, approximately 80% and 0.5% of loans to corporate customers and individuals, respectively, were evaluated individually for impairment (2012: 81% and 1%).

The following table presents the effective average interest rates by category of loans as of December 31, 2013 and 2012:

	2013			2012		
	RUB	USD	Other	RUB	USD	Other
Loans to customers						
- corporate customers	10.8%	7.0%	9.8%	10.9%	7.5%	9.8%
- individuals	23.4%	8.3%	4.2%	21.2%	9.3%	7.1%
Loans to banks	4.5%	0.1%	0.1%	3.6%	0.2%	0.3%

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

The movement in the allowance for loan losses for the years ended December 31, 2013 and 2012 was as follows:

		2013		2012
Allowance for loan losses, beginning of the year	$	329,803	$	253,889
Additions charged to operating results less recovery of allowance		248,032		95,278
Amounts written off againts the allowance		(37,185)		(34,606)
Currency translation adjustment		(24,075)		15,242
Allowance for loan losses, end of the year	**$**	**516,575**	**$**	**329,803**

7. SHORT-TERM INVESTMENTS

Short-term investments as of December 31, 2013 and 2012 consisted of the following:

		2013		2012
Bank deposits with original maturities exceeding three months	$	647,077	$	336,751
Trading securities		499,437		119,373
Avalaible-for-sale securities		421,736		337,377
Promissory notes and loans		150,973		421,368
Total	**$**	**1,719,223**	**$**	**1,214,869**

Promissory notes and loans to third parties are primarily denominated in RUB and USD and bear interest rates varying from 2.5% to 8.5% as of December 31, 2013.

The effective interest rates on bank deposits with original maturities exceeding three months as of December 31, 2013 are between 4.2% and 14.0% (December 31, 2012: 4.1% and 9.0%).

8. ACCOUNTS RECEIVABLE, NET

Accounts receivable, net of provision for doubtful accounts, as of December 31, 2013 and 2012 consisted of the following:

		2013		2012
Trade receivables	$	2,393,103	$	2,545,065
Less: provision for doubtful accounts		(219,131)		(225,007)
Total	**$**	**2,173,972**	**$**	**2,320,058**

9. OTHER CURRENT ASSETS

Other current assets as of December 31, 2013 and 2012 consisted of the following:

		2013		2012
Prepaid expenses and other receivables	$	831,069	$	705,342
Tax advances and overpayments		584,719		572,056
Advances paid to third parties		420,718		453,638
		1,836,506		**1,731,036**
Less: provision for doubtful accounts		(80,424)		(58,026)
Total	**$**	**1,756,082**	**$**	**1,673,010**

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

10. INVENTORIES AND SPARE PARTS

Inventories and spare parts as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Finished goods and goods for resale	$ 888,013	$ 798,626
Raw materials and spare parts	658,071	680,908
Work-in-progress	292,985	268,201
Costs and estimated earnings in excess of billings on uncompleted contracts	116,984	172,728
	1,956,053	**1,920,463**
Less: long-term portion	(107,908)	(77,417)
Total	**$ 1,848,145**	**$ 1,843,046**

11. PROPERTY, PLANT AND EQUIPMENT, NET

Property, plant and equipment, net of accumulated depreciation, as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Switches, transmission devices, network and base station equipment	$ 14,083,007	$ 13,212,459
Refining, marketing, distribution and chemicals	5,581,517	5,141,055
Exploration and production assets	4,660,966	4,932,684
Buildings and leasehold improvements	2,166,179	2,014,094
Power and utilities	760,686	738,973
Other plant, machinery and equipment	2,276,965	2,864,224
Construction in progress and equipment for installation	2,964,278	2,951,733
Land	160,973	168,311
	32,654,571	**32,023,533**
Less: accumulated depreciation and depletion	(12,708,870)	(11,183,863)
Total	**$ 19,945,701**	**$ 20,839,670**

Depreciation and depletion expenses for the years ended December 31, 2013 and 2012 amounted to $2,682.7 million and $2,538.1 million respectively.

Impairments of property, plant and equipment for the years ended December 31, 2013 and 2012 amounted to $285.9 million and $373.6 million respectively (Note 14).

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

12. 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, 2012						
Gross amount of goodwill	$ 1,325,145	348,679	121,929	64,072	582	1,860,407
Accumulated impairment loss	(45,528)	(348,679)	-	(63,560)	-	(457,767)
	1,279,617	**-**	**121,929**	**512**	**582**	**1,402,640**
Purchase price allocations	48,307	-	140,167	-	41,857	230,331
Adjustments to preliminary allocations			13,730		47,971	61,701
Currency translation adjustment	65,651	-	2,623	(512)	5,226	72,988
Balance as of December 31, 2012						
Gross amount of goodwill	1,441,836	339,059	278,449	67,919	95,636	2,222,899
Accumulated impairment loss	(48,261)	(339,059)	-	(67,919)	-	(455,239)
	$ 1,393,575 $	**- $**	**278,449 $**	**- $**	**95,636 $**	**1,767,660**
Impairment (Note 14)	-	-	(258,048)	-	-	(258,048)
Disposals	(722)	-	-	-	(67,816)	(68,538)
Currency translation adjustment	(93,958)	-	(17,210)	-	(2,127)	(113,295)
Balance as of December 31, 2013						
Gross amount of goodwill	1,343,717	300,047	254,291	63,068	25,693	1,986,816
Accumulated impairment loss	(44,822)	(300,047)	(251,100)	(63,068)	-	(659,037)
	$ 1,298,895 $	**- $**	**3,191 $**	**- $**	**25,693 $**	**1,327,779**

13. OTHER INTANGIBLE ASSETS, NET

Intangible assets other than goodwill as of December 31, 2013 and 2012 consisted of the following:

	2013			2012		
	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	$ 1,053,559	(580,156)	473,403	1,023,373	(572,837)	450,536
Acquired customer base and customer relationships	468,497	(247,643)	220,854	639,337	(258,656)	380,681
Radio frequencies	301,042	(149,954)	151,088	314,845	(126,467)	188,378
Operating licenses	768,488	(157,778)	610,710	472,099	(183,031)	289,068
Software and other	1,072,779	(518,409)	554,370	791,890	(303,487)	488,403
	3,664,365	(1,653,940)	2,010,425	3,241,544	(1,444,478)	1,797,066
Unamortized intangible assets:						
Trademarks	206,135	-	206,135	323,116	-	323,116
Numbering capacity with indefinite contractual life	9,367	-	9,367	9,163	-	9,163
Total	**$ 3,879,867**	**(1,653,940)**	**2,225,927**	**3,573,823**	**(1,444,478)**	**2,129,345**

Impairments of other intangible assets for the years ended December 31, 2013 and 2012 amounted to $298.2 million and $5.6 million respectively. See Note 14

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

Amortization expense recorded on other intangible assets for the years ended December 31, 2013 and 2012 amounted to $559.9 million and $530.8 million, respectively. The estimated amortization expense for the five years ending December 31, 2018 and thereafter is as follows:

Year ending December 31,		
2014	$	533,056
2015		411,610
2016		296,661
2017		194,371
2018		107,327
Thereafter		467,400
	$	**2,010,425**

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.

14. IMPAIRMENTS AND PROVISIONS

Impairments and provisions recognized by the Group in the years ended December 31, 2013 and 2012 comprised the following:

		2013		**2012**
Impairment of 180 and 90 nm equipment and intangible assets	$	357,906	$	-
Impairment of system integration intangible assets		125,747		-
Impairment of long-lived assets in India		-		213,163
Impairment of other long-lived assets		106,753		148,490
Provision for doubtful accounts		134,392		130,427
Inventory obsolescence		46,504		53,940
Other		62,652		169,616
Total impairments of long-lived assets other than goodwill and provisions for other assets		**833,954**		**715,636**
Impairment of goodwill		258,048		-
Total	**$**	**1,092,002**	**$**	**715,636**

Impairment of 180 and 90 nm equipment and intangibles assets – As of December 31, 2013, principally as a result of a significant delay of certain projects related to 180 and 90 nanometre microchip products, the Group carried out a review of the recoverable amount of long-lived assets used in the production of microchips, with a total carrying value of $547.0 million.

The estimated fair value of such long-lived assets was determined based on unobservable inputs (“Level 3” of the hierarchy established by U.S. GAAP guidance). When calculating the future cash flows used in the assessment of the fair value of long-lived assets, the Group considered historical and and projected revenue and operating costs, market conditions, asset ages, asset utilization and other relevant information. The key assumptions used in the fair value calculations included post-tax discount rate of 17.2%-35.0%, compound annual growth rate during the projected twelve-year period of 11.7%, growth rate after that period of 2.3%, and equipment useful life of 30 years.

As a result of this impairment review, the Group concluded that the fair value of the long-lived assets was $189.1 million. An impairment charge of $357.9 million was therefore recognized in the consolidated statement of operations and comprehensive income, which was allocated to the RTI segment.

Impairment of system integration intangible assets – During the year ended December 31, 2013, the Group identified indicators that the carrying amounts of long-lived assets attributable to NVision, a subsidiary of RTI, may not be recoverable. These indicators included lower than expected revenue and profitability levels and downward revisions to management's forecasts for the NVision business.

Subsequent to its acquision by the Group in 2012, NVision experienced a significant decrease in purchases made by its key customers and, as a result, revenue forecasts were substantially reduced as compared to those existing at the acquisition date. Based on the revised forecasts, the Group determined that the carrying value of the NVision asset group exceeded its undiscounted cash flows. The Group then compared the fair value of the asset group to its carrying value and determined the impairment loss. The impairment loss was allocated to the carrying values of the long-lived assets, but not below their individual fair values. The Group estimated the fair value of the assets primarily using an income approach based on unobservable inputs ("Level 3" of the hierarchy established by U.S. GAAP guidance), with the key assumptions including a discount rate of 16.5% and 3-7% of revenue royalty payments for the trademark. The decline in the fair value of the NVision reporting unit and its intangible assets, as well as fair value changes for other assets and liabilities in the step two goodwill impairment test, resulted in an implied fair value of goodwill being substantially below its carrying value.

As a result of the impairment review, for certain intangible assets with a carrying value of $129.1 million the Group concluded that the fair value amounted to $3.3 million and recorded an impairment charge of $125.7 million in the consolidated statement of operations and comprehensive income. The Group also recorded an impairment charge on goodwill of $258.0 million based on its implied fair value. The relevant impairment charges were allocated to RTI segment.

Impairment of long-lived assets in India – On February 2, 2012, following a public-interest litigation brought before the Supreme Court of India (the "Supreme Court"), the Supreme Court directed, inter alia, that all the licenses granted by the Government of India on or after January 10, 2008, including the licenses granted to SSTL in 21 telecom circles (out of 22 existing 2G licenses) and subsequent allocation of spectrum were illegal and would stand quashed (the "Ruling"). The Ruling originally stated that the aforementioned decision should become operative four months after the date of the judgement, and that the Telecom Regulatory Authority of India ("TRAI") should make fresh recommendations for the grant of licences and the allocation of spectrum in the 2G band by auction.

During 2012, uncertainty related to the Ruling continued to develop with, inter alia, delays in the auction process and concerns over the recommended spectrum prices. While the Group remained committed to continuing its operations in India, an impairment review of long-lived assets was performed as of September 30, 2012, as a consequence of which the Group recognised an impairment of long-lived assets other than goodwill and provisions for other assets of $213.2 million.

After the cancellation of the auction scheduled in November 2012 due to lack of participants, in January 2013, the Empowered Group of Ministers ("EGoM") established by the Government of India recommended reducing the reserve price for 800 MHz technology neutral spectrum and set the date for a new auction in March 2013. Based on the recommendation of the EGoM, the union cabinet approved and fixed the reserve price for the spectrum in 800 MHz band. When considering whether to participate in the new auction, the Group carefully considered a range of variables including spectrum pricing, number of carrier slots available for spectrum, levels of competition and future data potential in the circles. Based on such criteria, the Group decided to bid for eight circles. On March 11, 2013, SSTL participated in the auction and won the spectrum in these circles.

The total price for the spectrum amounted to Indian Rupee ("Rs") 36,395 million ($670.3 million at the exchange rate as of the auction date). The Group was eligible to deduct the fee paid in 2008 of Rs 16,263 million ($299.5 million at the exchange rate as of the auction date) against the amounts payable for the new spectrum. The balance is payable in equal annual installments during the period from 2016 to 2025.

In October 2013, SSTL received the Unified Telecom License, valid for 20 years, and the remaining third carrier in the 800 MHz spectrum band acquired in the March 2013 auction which enabled SSTL to provide its customers with the next generation Rev B Phase II telecom services across all its remaining nine telecom circles.

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

As of December 31, 2013 and 2012, following the continuing operating losses incurred by SSTL, the Group carried out reviews of the recoverable amount of its long-lived assets attributable to the SSTL segment. These reviews supported the carrying value of SSTL segment assets and indicated that no additional impairment is required.

The fair value of the long-lived assets was determined based on unobservable inputs (“Level 3” of the hierarchy established by U.S. GAAP guidance). In calculating the future cash flows for use in the assessment of the fair value of long-lived assets, the Group used financial budgets approved by the Company’s Board of Directors covering a seven-year period. The key assumptions used in the value in use calculations included post-tax discount rate of 13.0% (2012: 13.0%), long-term growth rate of 5.0% (2012: 5.0%) and the annual OIBDA growth rate applied from 2015, the year of expected breakeven, through the end of 7-year projected period of 4.2% p.a. (2012: 4.5% p.a.). All available external estimates were considered in developing these assumptions. The aforementioned assumptions are based on assumptions with regards to management’s best estimates for the market share, number of subscribers, average revenue per subscriber and level of costs necessary to incur to generate forecasted revenue. Unfavorable changes to the assumptions used in the impairment review might lead to an impairment loss in future reporting periods.

15. INVESTMENTS IN AFFILIATES

Investments in affiliates as of December 31, 2013 and 2012 consisted of the following:

	2013		**2012**	
	Voting power, %	**Carrying Value**	**Voting power, %**	**Carrying Value**
Bashneft-Polyus	74.9%	$ 576,030	74.9%	$ 243,944
MTS Belarus	49.0%	165,174	49.0%	165,233
SG-trans (Note 4)	15.0%	78,157	consolidated	-
Financial Alliance (Note 4)	50.0%	55,394	50.0%	43,478
Intracom S.A. Telecom Solutions	48.0%	15,796	48.0%	25,187
SITRONICS-Nano (Note 3)	consolidated	-	49.8%	250,596
Belkamneft (Note 4)	disposed	-	38.5%	698,303
RussNeft (Note 4)	disposed	-	49.0%	-
Other		56,208		55,980
Total		**$ 946,759**		**$ 1,482,721**

Bashneft-Polyus – In December 2011, in connection with the development of the R.Trebs and A.Titov fields in the Nenets Autonomous District of Russia, Bashneft entered into an agreement with LUKOIL, to sell a 25.1% interest in Bashneft-Polyus, 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-Polyus, the shareholders agreement provides LUKOIL with substantive participating rights in the entity. The Group, therefore, deconsolidated Bashneft-Polyus and accounted for its investment in the entity under the equity method of accounting prospectively from the date control over the subsidiary was relinquished.

Also, concurrent with the transaction, the Group issued a loan to Bashneft-Polyus in the amount of $171.0 million at 8.25% per annum. This loan was classified as an additional contribution to the affiliate as, in substance, it formed part of the Group’s net investment.

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

On May 18, 2012, the Federal Subsoil Resources Management Agency announced that the order to transfer the development license for a subsoil area including the R.Trebs and A.Titov oilfields to Bashneft-Polyus was cancelled. The order was issued to transfer the license back to Bashneft. As a result of this transaction, the Group recognized the license at its original cost of $563 million and recognized a related deferred tax liability of $113 million. The transfer of the license resulted in the recognition of an obligation to LUKOIL for its initial investment in Bashneft-Polyus of $145 million as of December 31, 2012.

During the year ended December 31, 2013 the Group issued loans to Bashneft-Polyus in the amount of RUB 10,0 billion ($315.1 million as of the transaction dates) at 8.0% per annum. These loans were presented as an additional contribution to the affiliate as, in substance, they formed part of the Group's investment in Bashneft-Polyus. During the year ended December 31, 2013 the Group and OJSC Lukoil also made a decision to make an additional investment in Bashneft-Polyus in the amount of RUB 1,000 million ($30.6 million as of December 31, 2013) in the proportion of their interests, the payment for which remained outstanding at December 31, 2013

Intracom S.A. Telecom Solutions – As of December 31, 2012, having considered the adverse impact of current economic environment and other factors, the Group concluded that a decrease in value of the Group's investment in Intracom S.A. Telecom Solutions had occurred, and that decrease is other than temporary. As a result, an impairment loss of $66.2 million was recorded in the consolidated statement of operations and comprehensive income for the year ended December 31, 2012.

The financial position and results of operations of significant Group affiliates as of and for the year ended December 31, 2013 were as follows:

		(unaudited)				
		Bashneft-Polyus	MTS Belarus	SG-trans	Financial Alliance[(1)]	Intracom
Total assets	$	848,020	379,050	768,648	1,480,703	486,411
Total liabilities		897,578	96,580	262,567	1,185,979	293,391
Net income/(loss)		27,537	145,975	27,841	13,435	(20,027)

(1) SG-trans amounts were consolidated in Financial Alliance amounts as of December 31, 2013.

Net income of RussNeft and Belkamneft from January 1, 2013 till the date of their disposals amounted to $322.0 million and $85.0 million, respectively (unaudited).

The financial position and results of operations of significant Group affiliates as of and for the year ended December 31, 2012 were as follows:

		(unaudited)						
		Bashneft-Polyus	MTS Belarus	Financial Alliance	Intracom	SITRONICS-Nano	Belkamneft	RussNeft
Total assets	$	351,559	367,736	217,474	485,831	545,494	2,833,487	5,418,135
Total liabilities		465,757	53,310	44,404	279,041	115,179	431,017	6,085,147
Net (loss)/income		(107,430)	67,717	12,766	(33,299)	208	166,967	360,011

16. LONG-TERM INVESTMENTS

Long-term investments as of December 31, 2013 and 2012 consisted of the following:

		2013		2012
Loans and notes	$	129,638	$	109,204
Bank deposits		90,727		133,646
Other		28,706		26,330
Total	**$**	**249,071**	**$**	**269,180**

The effective interest rates on long-term investments as of December 31, 2013 were between 6.0% to 8.6% for RUB and USD denominated investments.

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

17. LIABILITIES FROM BANKING ACTIVITIES

Liabilities from banking activities as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Term deposits	$ 2,561,569	$ 2,627,489
Deposits repayable on demand	1,859,832	2,263,996
Promissory notes issued and other liabilities	215,539	296,977
	4,636,940	**5,188,462**
Less: amounts maturing within one year	(3,864,415)	(4,131,390)
Total liabilities from banking activities, net of current portion	**$ 772,525**	**$ 1,057,072**

Liabilities from banking activities as of December 31, 2013 and 2012 include liabilities with affiliates and other related parties for $526.1 million and $305.6 million, respectively. The fair value of liabilities from banking activities approximates their carrying value due to its short-term nature.

The following table presents the effective average interest rates by categories of bank deposits and notes issued as of December 31, 2013 and 2012:

	2013			2012		
	RUB	**USD**	**Other**	**RUB**	**USD**	**Other**
Term deposits:						
- corporate customers	7.4%	1.8%	2.1%	7.8%	3.8%	3.2%
- individuals	9.7%	3.7%	2.3%	9.5%	4.8%	4.2%
Promissory notes issued	7.3%	-	-	8.7%	-	-
Deposits repayable on demand:						
- corporate customers	4.9%	-	-	3.7%	-	-
- individuals	0.6%	0.07%	0.1%	0.4%	0.04%	0.03%

18. ACCRUED EXPENSES AND OTHER CURRENT LIABILITIES

Accrued expenses and other current liabilities as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Customers’ advances	$ 744,021	$ 864,784
Accrued payroll	573,992	667,270
Accruals for services	328,050	344,552
Bitel liability (Note 27)	-	221,180
Accrued interest on loans	117,151	132,424
Financial instruments at fair value	13,199	40,711
Dividends payable	15,128	11,983
Other	434,372	357,134
Total	**$ 2,225,913**	**$ 2,640,038**

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

19. SHORT-TERM LOANS PAYABLE

Short-term loans payable as of December 31, 2013 and 2012 consisted of the following:

	Interest rate (Actual at December 31, 2013)	2013	2012
RUB-denominated:			
Nomos bank	11.0% -12.5%	$ 19,874	$ 19,755
Saint Petersburg Bank	11.25%	2,829	27,986
Bank of Moscow	8.9%	2,631	66,030
Credit Bank of Moscow	11.75%	2,444	-
TransCreditBank		-	62,556
Gazprombank		-	23,016
Sberbank		-	22,030
Other		11,928	52,880
		39,706	274,253
Denominated in other currencies		1,130	17,218
Loans from related parties		-	789
Total		**$ 40,836**	**$ 292,260**

20. LONG-TERM DEBT

Long-term debt as of December 31, 2013 and 2012 consisted of the following:

	2013	2012
Loans from banks and financial institutions	$ 6,758,129	$ 9,441,937
Notes and corporate bonds	6,333,809	5,461,217
Capital leases	80,506	265,967
Loans from related parties	64	95,610
Vendor financing	31,871	44,439
Other borrowings	29,957	468
	13,234,336	**15,309,638**
Less: amounts maturing within one year	(2,470,058)	(2,862,264)
Total	**$ 10,764,278**	**$ 12,447,374**

The schedule of repayments of long-term debt for the five years ending December 31, 2018 and thereafter is as follows:

Year ended December 31,	
2014	$ 2,470,058
2015	2,271,815
2016	2,133,646
2017	1,283,431
2018	1,480,069
Thereafter	3,595,317
Total	**$ 13,234,336**

(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, 2013 and 2012 consisted of the following:

	Maturity	Interest rate (as at December 31, 2013)	2013	2012
USD-denominated:				
Calyon, ING Bank N.V, Nordea Bank AB, Raiffeisen Zentralbank Osterreich AG	2014-2020	LIBOR+1.15% (1.50%)	$ 798,440	$ 923,182
Syndicated loan to Bashneft (Barclays Bank PLC, BNP Paribas S.A., Citibank N.A. and other)	2014-2016	LIBOR+1.7% (1.87%)	600,000	-
China Development Bank	2014-2018	LIBOR+1.5% (1.85%)	187,497	230,437
Bank of China	2014-2021	LIBOR+1.5%-3.5% (1.85%-3.85%)	170,615	177,116
Skandinavska Enskilda Banken AB	2014-2017	LIBOR+0.23%-1.8% (0.57%-2.15%)	129,494	167,000
Deutsche Bank	2014	LIBOR+1.55% (1.72%)	100,000	250,000
Bank of Moscow	2014	LIBOR+7.5% (7.75%)	82,552	82,552
HSBC Bank plc and ING BHF Bank AG	2014	LIBOR+0.3% (0.65%)	12,022	31,762
Sberbank			-	100,000
HSBC Bank plc, ING Bank AG and Bayerische Landesbank			-	26,351
Commerzbank AG, ING Bank AG and HSBC Bank plc			-	21,704
Citibank International plc and ING Bank N.V.			-	18,889
Golden Gates (Bank of Moscow)			-	10,000
ABN AMRO Bank N.V.		-	-	6,287
Other			27,223	22,856
			2,107,843	2,068,136
EUR-denominated:				
Bank of China	2014-2016	EURIBOR+1.95% (2.34%)	74,403	95,630
Credit Agricole Corporate Bank and BNP Paribas	2014-2018	EURIBOR+1.65% (2.04%)	47,574	55,032
LBWW	2014-2017	EURIBOR+0.75% (1.14%)	25,630	30,884
ABN AMRO Bank N.V.			-	4,584
Other			14,398	14,436
			162,005	200,566
RUB-denominated:				
Sberbank	2014-2020	8.35%-12.5%	3,228,355	4,766,880
Gazprombank	2015-2019	8.85%-11.0%	599,977	1,490,630
Bank of Moscow	2014-2018	CBR+3.0% (11.25%); Mosprime+4.5%-7.25% (11.65%-14.40%); 6.77%-10.25%	256,258	334,701
Alfa bank	2014	9.9%-10.99%	92,486	-
VTB	2014-2017	9.35%-10.35%	77,571	64,969
Unicredit	2016	Mosprime+5.2% (12.01%); 10.1%	73,248	83,945
Raiffeisenbank	2014-2016	Mosprime+3%-5% (9.81%-11.81%)	71,891	51,940
Credit bank of Moscow	2014	13.5%	30,554	20,248
ING Bank	-	-	-	29,632
Other			53,560	21,852
			4,483,900	6,864,797
Other currencies			4,381	308,438
Total			**$ 6,758,129**	**$ 9,441,937**

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

As of December 31, 2013 and 2012, the fair value of loans from banks and financial institutions, including the current portion, approximates their carrying value.

Notes and corporate bonds – Notes and corporate bonds as of December 31, 2013 and 2012 consisted of the following:

	Currency	Interest rate (December 31, 2013)	Fair value as of December 31, 2013	Carrying value as of December 31, 2013	Carrying value as of December 31, 2012
MTS International Notes due 2020	USD	8.625%	$ 886,694	$ 747,634	$ 747,473
MTS International Notes due 2023	USD	5.00%	468,750	500,000	-
Sistema International Funding S.A Bonds due 2019	USD	6.95%	519,798	487,854	493,365
MTS OJSC Notes due 2020	RUB	8.15%	461,514	458,306	489,375
MTS OJSC Notes due 2014	RUB	7.60%	416,772	416,098	452,995
Sistema JSFC Bonds due 2016	RUB	7.65%	406,985	406,985	440,465
Sistema JSFC Bonds due 2016	RUB	8.75%	334,407	329,790	46,467
Bashneft Bonds due 2022	RUB	9.00%	309,938	305,538	296,731
Bashneft Bonds due 2023 (6 series)	RUB	8.65%	309,510	305,538	-
MTS OJSC Notes due 2023	RUB	8.25%	308,593	305,538	-
Sistema JSFC Bonds due 2014	RUB	8.35%	297,730	296,544	343,456
MTS OJSC Notes due 2017	RUB	8.70%	298,516	294,191	329,243
Bashneft Bonds due 2023 (7 series)	RUB	8.85%	295,123	291,623	-
MTS OJSC Notes due 2015	RUB	7.75%	230,890	230,567	315,671
SSTL Bonds due 2019	INR	15.75%	206,795	206,795	233,673
Bashneft Bonds due 2023 (8 series)	RUB	8.65%	154,816	152,769	-
Bashneft Bonds due 2023 (9 series)	RUB	8.85%	137,811	136,177	-
MTS OJSC Notes due 2018	RUB	7.50%	117,794	117,442	322,146
Bashneft Bonds due 2014	RUB	0.10%	87,540	92,147	329,243
Bashneft Bonds due 2016 (1 series)	RUB	8.35%	61,914	61,307	65,896
MTS OJSC Notes due 2016	RUB	8.75%	55,310	54,627	58,865
Bashneft Bonds due 2016 (3 series)	RUB	8.35%	53,036	52,511	56,585
Bashneft Bonds due 2016 (2 series)	RUB	8.35%	47,596	47,596	51,289
DM-Center Bonds due 2015	RUB	8.50%	35,119	35,137	37,863
MTS OJSC Notes due 2015 (“A” series)	RUB	10.00%	363	363	-
MTS OJSC Notes due 2016 (“Б” series)	RUB	8.00%	366	366	-
MTS OJSC Notes due 2022 (“B” series)	RUB	5.00%	366	366	-
Sistema JSFC Bonds due 2013	RUB	-	-	-	164,127
MTS OJSC Notes due 2013	RUB	-	-	-	81,122
SITRONICS Bonds due 2013	RUB	-	-	-	65,916
SITRONICS Bonds due 2013	RUB	-	-	-	33,375
Intourist Bonds due 2013	RUB	-	-	-	5,876
			6,504,046	**6,333,809**	**5,461,217**
Less: unamortized discount			-	-	(17)
Total			**$ 6,504,046**	**$ 6,333,809**	**$ 5,461,200**

All Group’s RUB-denominated notes and corporate bonds are traded on the Moscow Exchange. MTS International Notes due 2020 and 2023 (USD denominated), and Sistema International Funding S.A Bonds due 2019 (also USD denominated) are traded on the Irish Stock Exchange. The fair values of notes and corporate bonds are based on the market quotes as of December 31, 2013 at the exchanges where they are traded.

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

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 in the reporting periods when the noteholders have the unilateral right to demand repurchase. The dates of the announcement for each particular note issue are as follows:

MTS OJSC Notes due 2018	December 2014
Bashneft Bonds due 2022	February 2015
MTS OJSC Notes due 2020	November 2015
MTS OJSC Notes due 2023	March 2018
Bashneft Bonds due 2023 (series 06)	February 2018
Bashneft Bonds due 2023 (series 07)	February 2020
Bashneft Bonds due 2023 (series 08)	February 2018
Bashneft Bonds due 2023 (series 09)	February 2020

Available credit facilities – As of December 31, 2013, the Group's total available unused credit facilities amounted to $1,782.6 million and related to the following credit lines:

	Maturity	Interest rate	Available till	Available amount
ING Bank Eurasia	2014	Mosprime/Libor/ Euribor + 1.50%	2014	76,384
Rosbank	2014	Mosprime + 0.75%	2014	137,492
Gazprombank	2014 - 2019	8.5% - 10.25%	2014 - 2019	812,343
VTB	2014 - 2018	9.0% - 10.35%	2014 - 2018	125,955
Sberbank	2014 - 2017	9,0% - 10.44%	2014 - 2017	450,591
Bank of Moscow	2014 - 2015	8.9%; Mosprime3M+5%	2014 - 2015	22,423
Rosselkhozbank			automatic prolongation	95,000
Other				62,423
Total				**$ 1,782,611**

Covenants – Loans and notes payable by the Group 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 of December 31, 2013, the Group had $309.8 million of RUB-denominated long-term debt that was presented within short-term liabilities in the statement of financial position because of non-compliance with certain financial ratios by its subsidiaries. Management believes that the Group is in compliance with all restrictive financial covenants relating to other long-term debt as of December 31, 2013.

(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, 2013 and 2012 was as follows:

	2013	2012
Current provision	$ 1,157,452	$ 1,038,943
Deferred income tax expense	140,292	152,168
Total	**$ 1,297,744**	**$ 1,191,111**

Income tax expense calculated by applying the Russian statutory income tax rate to income from continuing operations before income tax differs from income tax expense recognized in the consolidated statements of operations and comprehensive income as a consequence of the following adjustments:

	2013	2012
Income tax provision computed on income from continuing operations before income tax at the Russian statutory income tax rate of 20%	$ 903,389	$ 753,382
Adjustments due to:		
Non-deductible impairment of long-lived assets	182,102	58,508
Tax on dividends from subsidiaries	144,647	60,520
Other non-deductible expenses	115,697	223,144
Change in valuation allowance	55,358	127,816
Utilisation of the valuation allowance for losses carried forward	21,494	-
Reduction in unrecognized tax benefits	-	(14,578)
Settlements with tax authorities	(9,108)	11,338
Different tax rate of foreign subsidiaries	(44,044)	(13,641)
Currency exchange and translation differences	(60,828)	(28,232)
Effect of transactions under common control	-	22,000
Other	(10,963)	(9,146)
Income tax expense	**$ 1,297,744**	**$ 1,191,111**

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

	2013	2012
Deferred tax assets:		
Tax losses carried forward	$ 809,134	$ 856,988
Accrued expenses and accounts payable	305,432	195,471
Property, plant and equipment	142,473	207,340
Intangible assets	128,070	129,873
Deferred connection fees	34,067	37,626
Inventory obsolescence	24,819	56,941
Allowance for doubtful accounts and loans receivable	23,024	31,648
Deferred revenues	92	308
Other	129,920	82,593
	1,597,031	1,598,788
Less: valuation allowance	(837,446)	(864,238)
Total deferred tax assets	**759,585**	**734,550**
Deferred tax liabilities:		
Property, plant and equipment	(1,588,208)	(1,644,117)
Intangible assets	(218,014)	(266,692)
Undistributed earnings of subsidiaries and affiliates	(208,995)	(212,201)
Debt issuance costs	(17,445)	(31,179)
Other	(177,230)	(58,674)
Total deferred tax liabilities	**$ (2,209,892)**	**$ (2,212,863)**
Net deferred tax assets, current portion	$ 390,238	$ 348,773
Net deferred tax assets, long-term portion	344,965	327,814
Net deferred tax liabilities, current portion	(229,038)	(139,842)
Net deferred tax liabilities, long-term portion	(1,956,472)	(2,015,058)

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

The Group has the following balances for income tax losses carried forward as of December 31, 2013 and 2012:

Jurisdiction	Period for carry-forward	2013	2012
India	2014-2020	$ 483,680	$ 462,542
Russia	2014-2023	200,153	269,682
Luxembourg	Unlimited	125,301	124,764
Total		**$ 809,134**	**$ 856,988**

Management has established a valuation allowances against certain deferred tax assets, which 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, 2013 and 2012 relates to the following deferred tax assets:

	2013	2012
Tax losses carried forward	$ 643,014	$ 641,175
Sale of investment in Svyazinvest	65,996	68,768
Impairment of long-lived assets in SSTL	70,194	70,194
Other	58,242	84,101
Total	**$ 837,446**	**$ 864,238**

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, 2013 and 2012:

	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, 2013				
Assets at fair value:				
Trading securities	$ 1,050,950	$ -	$ -	$ 1,050,950
Available-for-sale securities	315,432	253,255	7,405	576,092
Derivative instruments	-	56,127	-	56,127
Total assets	**1,366,382**	**309,382**	**7,405**	**1,683,169**
Liabilities at fair value:				
Derivative instruments	-	(12,863)	-	(12,863)
Contingent consideration	-	-	(336)	(336)
Redeemable noncontrolling interests	-	-	(89,583)	(89,583)
Total liabilities	**$ -**	**$ (12,863)**	**$ (89,919)**	**$ (102,782)**
December 31, 2012				
Assets at fair value:				
Trading securities	$ 806,487	$ -	$ -	$ 806,487
Available-for-sale securities	284,490	236,823	1,683	522,996
Derivative instruments	-	4,457	-	4,457
Total assets	**$ 1,090,977**	**$ 241,280**	**$ 1,683**	**$ 1,333,940**
Liabilities at fair value:				
Redeemable noncontrolling interests	-	-	(75,661)	(75,661)
Derivative instruments	-	(13,257)	(27,454)	(40,711)
Total liabilities	**$ -**	**$ (13,257)**	**$ (103,115)**	**$ (116,372)**

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

23. SHARE CAPITAL

As of December 31, 2013 and 2012, the Company had 9,650,000,000 voting common shares with a par value of RUB 0.09 issued, of which 9,274,755,045 and 9,209,574,962 shares were outstanding, respectively.

Dividends declared by the Company in the years ended December 31, 2013 and 2012 are as follows:

	2013	2012
Dividends declared, million Russian Rubles (including dividends on treasury shares of RUB360 million and RUB 123 million respectively)	9,264	2,702
Dividends declared, equivalent in million USD (including dividends on treasury shares of $11million and $4 million respectively)	283.2	82.3

Accumulated other comprehensive loss – The following table represents components of accumulated other comprehensive loss balance, net of taxes, as of December 31, 2013 and 2012:

		2013		2012
Currency translation losses	$	(1,516,611)	$	(630,841)
Unrealized gain on available-for-sale securities		37,600		5,600
Unrealized gain on derivatives		46,210		711
Unrecognized actuarial gain		9,381		3,871
Total accumulated other comprehensive loss	**$**	**(1,423,420)**	**$**	**(620,659)**
Less: amounts of accumulated other comprehensive loss attributable to non-controlling interests		516,702		293,942
Total accumulated other comprehensive loss attributable to Sistema JSFC	**$**	**(906,718)**	**$**	**(326,717)**

Tax amounts on items in other comprehensive loss are not significant and therefore are not reported separately.

24. SEGMENT INFORMATION

As a diversified holding company, the Company invests in a range of companies which meet its investment and return criteria. The Chief Operating Decision Maker is the Company's Management Board. Information reported to the Company's Management Board for the purpose of resource allocation and the assessment of segment performance is focused on each individual investment holding. The Group's reportable segments are MTS, Bashneft, SSTL, MTS Bank, RTI and Corporate. The Other category includes other operating segments including BNSA, UPC, BPGC (Bashkirenergo in 2012), Sistema Mass-media, Detsky mir, Intourist, Medsi, Binnopharm, SG-trans (prior to disposal, Note 4), NIS and Leader-Invest, none of which meets the quantitative thresholds for determining reportable segments.

See Note 1 for a description of the activities of each operating segment of the Group. The accounting policies of the reportable segments are the same as the Group's accounting policies described in Note 2. Segment profit represents the operating income/(loss) before certain corporate expenses.

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

Financial information by reportable segment is presented below:

For the year ended December 31, 2013	MTS	Bashneft	SSTL	MTS Bank	RTI	Corporate	Total reportable segments	Other	Total
Net sales to external customers[(a)]	12,488,877	17,562,645	209,432	878,832	1,685,546	46,237	32,871,569	3,070,498	35,942,067
Intersegment sales	21,884	121,912	-	24,301	509,963	36,742	714,802	204,446	919,248
Equity in net income/(loss) of affiliates	77,615	15,463	-	-	(1,696)	-	91,382	(46,053)	45,329
Net interest revenue [(b)]	-	-	-	40,678	-	-	40,678	-	40,678
Depreciation, depletion and amortization	2,244,014	596,806	63,666	19,152	96,374	14,378	3,034,390	208,219	3,242,609
Operating income/(loss)	3,662,740	2,054,262	(210,185)	18,954	(776,878)	834,945	5,583,838	124,363	5,708,201
Interest income	87,704	167,425	9,522	-	45,045	116,328	426,024	40,868	466,892
Interest expense	486,636	269,212	121,513	-	138,020	159,215	1,174,596	130,579	1,305,175
Income tax expense/(benefit)	720,893	495,284	-	(2,645)	(80,025)	140,376	1,273,883	23,861	1,297,744
Investments in affiliates	153,168	575,870	-	-	-	45,210	774,248	172,511	946,759
Segment assets	15,218,084	13,605,995	847,342	6,919,610	2,530,299	3,572,805	42,694,135	4,101,288	46,795,423
Indebtedness[(c)]	6,682,047	2,756,264	596,641	-	1,228,635	1,574,531	12,838,118	437,054	13,275,172
Capital expenditures [(d)]	2,561,310	1,018,863	45,765	21,379	95,009	73,224	3,815,550	197,706	4,013,256

For the year ended December 31, 2012	MTS	Bashneft	SSTL	MTS Bank	RTI	Corporate	Total reportable segments	Other	Total
Net sales to external customers[(a)]	12,151,844	17,113,023	303,032	668,384	1,677,608	38,876	31,952,767	1,997,607	33,950,374
Intersegment sales	9,302	12,210	-	43,887	518,618	38,889	622,906	23,120	646,026
Equity in net income/(net loss) of affiliates	27,929	(11,610)	-	-	(218)	-	16,101	(25,239)	(9,138)
Net interest revenue [(b)]	-	-	-	21,393	-	-	21,393	-	21,393
Depreciation, depletion and amortization	2,133,585	592,384	74,653	18,470	86,707	12,350	2,918,149	150,727	3,068,876
Operating income/(loss)	3,063,910	2,557,696	(621,167)	32,266	(59,261)	(253,001)	4,720,443	55,182	4,775,625
Interest income	83,487	179,344	6,423	-	29,055	136,718	435,027	27,445	462,472
Interest expense	562,541	353,173	176,481	-	83,629	153,860	1,329,684	111,679	1,441,363
Income tax expense/(benefit)	629,571	465,896	-	16,125	21,490	(25,144)	1,107,938	83,173	1,191,111
Investments in affiliates	165,233	942,247	-	-	251,747	117,233	1,476,460	6,261	1,482,721
Segment assets	15,606,599	15,211,987	630,300	7,023,706	3,108,525	2,629,385	44,210,502	4,775,186	48,985,688
Indebtedness[(c)]	7,583,742	3,601,385	1,046,717	-	1,139,827	1,646,799	15,018,470	583,428	15,601,898
Capital expenditures [(d)]	2,902,768	890,472	83,500	31,210	102,782	11,651	4,022,383	187,168	4,209,551

(a) Interest income and expenses of 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 of the Group's 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.

The following table summarizes dividends to Corporate, declared during in 2013 and 2012:

	2013	2012
Bashneft, including		
OJSC Bashneft	$ 773,041	$ 318,384
OJSC Sistema-Invest	178,159	58,564
MTS	635,369	465,675
Other	20,643	-

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

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:

	2013	2012
Operating income – reportable segments	$ 5,583,838	$ 4,720,443
Operating income – other	124,363	55,182
	5,708,201	**4,775,625**
Intersegment eliminations	(45,227)	(49,834)
Operating income	**$ 5,662,974**	**$ 4,725,791**
Interest income	266,951	273,946
Change in fair value of derivative financial instruments	30,199	(2,144)
Interest expense	(1,175,227)	(1,345,596)
Foreign currency transaction (loss)/gain	(267,953)	114,912
Income from continuing operations before income tax	**$ 4,516,944**	**$ 3,766,909**

	2013	2012
Total assets – reportable segments	$ 42,694,135	$ 44,210,502
Total assets – other	4,101,288	4,775,186
	46,795,423	**48,985,688**
Intersegment eliminations	(3,546,429)	(4,343,500)
Total assets	**$ 43,248,994**	**$ 44,642,188**

For the years ended December 31, 2013 and 2012, 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, 2013 and 2012 the Group's revenues outside of the RF were as follows:

	2013	2012
Ukraine	$ 1,282,410	$ 1,290,352
India	253,196	303,032
Armenia	156,883	159,604
Central and Eastern Europe	40,997	31,800
Other	210,661	168,133
Total	**$ 1,944,147**	**$ 1,952,921**

As of December 31, 2013 and 2012, the Group's long-lived assets located outside of the RF were as follows:

	2013	2012
Ukraine	$ 755,373	$ 783,860
India	710,225	442,835
Armenia	354,840	379,698
Central and Eastern Europe	34,953	36,383
Other	111,887	80,529
Total	**$ 1,967,278**	**$ 1,723,305**

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

25. RELATED PARTY TRANSACTIONS

The Group sells goods and provides services to and purchases goods and services from its related parties, all of which are Group affiliates, on normal commercial terms. During the years ended December 31, 2013 and 2012, the Group entered into transactions with related parties as follows:

	2013	2012
Sales	$ 102,346	$ 155,092
Revenue from banking activities	30,370	17,709
Cost of sales	(194,316)	(331,449)
Selling, general and administrative expenses	(14,228)	(4,942)
Transportation costs	(140,104)	(49,721)
Interest income	35,473	17,436
Purchase of property, plant and equipment	373,430	-

As of December 31, 2013 and 2012, the related party balances were as follows:

	2013	2012
Assets:		
Short-term investments	$ 9,840	$ 77
Accounts receivable, net	35,825	18,588
Other current assets	30,204	46,870
Long-term investments	18,515	15,981
Other non-current assets	-	39,519
Liabilities:		
Accounts payable	$ (517,987)	$ (49,489)
Accrued expenses and other current liabilities	(23,614)	(48,160)

Other related party balances and transactions as of December 31, 2013 and 2012 are disclosed in the corresponding notes to the financial statements.

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.

All such plans, including those of MTS and Bashneft, are immaterial to the Group and consequently have not been disclosed here on the basis of their lack of significance. A discussion has been included below relating to the plans operated at the Company level.

Sistema JSFC share-based long-term motivation program – During the years ended December 31, 2013 and 2012 the Company’s Board of Directors established two-year motivational programs for senior and mid-level management. Participants of the programs upon fulfillment of certain performance conditions and subject to continuing employment with the Group will be granted the Company’s ordinary shares. As a result, the Group recognized an expense of $54.2 million and $22.5 million for the years ended December 31, 2013 and 2012, respectively, which were recognized in consolidated statement of operations and comprehensive income. The fair value of awards granted was measured based on the fair value of the Company’s ordinary shares.

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

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 2068.

Rental expense under operating leases amounting to $678.5 million and $662.1 million for the years ended December 31, 2013 and 2012, respectively, and is included in selling, general and administrative expenses. Rental expense under operating leases amounting to $238.1 million and $235.7 million for the years ended December 31, 2013 and 2012 respectively, is included in cost of sales.

Future minimum rental payments under operating leases in effect as of December 31, 2013, are as follows:

Year ended December 31,		
2014	$	401,134
2015		274,360
2016		265,888
2017		267,934
2018		272,768
Thereafter		761,438
Total	**$**	**2,243,522**

Capital commitments – As of December 31, 2013 the Group had executed purchase agreements of approximately $1,309.5 million to acquire property, plant and equipment and intangible assets.

Guarantees – As of December 31, 2013, MTS Bank and its subsidiaries guaranteed loans for several companies, including related parties, which totaled $403 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, 2013, 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, 2013, MTS Bank and its subsidiaries had $230.0 million of commitments on loans and unused credit lines available to its customers.

Taxation – Russia currently has a number of laws related to various taxes imposed by both federal and regional governmental authorities. Applicable taxes include VAT, corporate income 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 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, 2013, tax declarations of Sistema and its subsidiaries in Russia for the preceding three fiscal years were open for further review.

The Group purchases supplemental software from foreign suppliers of telecommunications equipment in the ordinary course of business. The Group's management believes that customs duties are calculated in compliance with applicable legislation. However there is a risk that the customs authorities may take a different view and impose additional customs duties.

Pricing of revenue and expenses between each of the Group's subsidiaries and various discounts and bonuses to the Group's subscribers in the course of performing its marketing activities may 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, 2013 and 2012, no provision was recorded in the consolidated financial statements in respect of such additional claims.

Management believes that it has adequately provided for tax and customs liabilities in the accompanying consolidated financial statements. As of December 31, 2013 and 2012, the provision accrued amounted to $69.6 million and $24.6 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 $18.8 million and $14.4 million as of December 31, 2013 and 2012, respectively. However, the risk remains that the relevant authorities could take differing positions with regard to interpretive issues and the effect could be significant.

LTE license – In July 2012, the Federal Service for Supervision in the Area of Communications, Information Technologies and Mass Media has allocated MTS the necessary license and frequencies to provide LTE telecommunication services in Russia. Under the terms and conditions of the LTE license, the Group is obligated to fully deploy LTE networks within seven years, commencing from January 1, 2013 and deliver LTE services in each population center with over 50,000 inhabitants in Russia by 2019. Also, the Group is obligated to invest at least 15 billion rubles ($458.3 million using December 31, 2013 exchange rate) annually toward the LTE roll-out until the network is fully deployed. Management believes that as of December 31, 2013 the Group is in compliance with these conditions.

Bitel – In December 2005, MTS Finance acquired a 51.0% stake 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% stake, MTS Finance entered into a put and call option agreement with Nomihold for the remaining 49.0% interest in Tarino shares and a proportional interest in Bitel shares ("Option 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.

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 wrote off the costs relating to the purchase of the 51.0% stake in Bitel, which was reflected in its annual 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 non-operating expenses.

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 ("LCIA") 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, LCIA made an award in favor of Nomihold satisfying Nomihold's specific performance request and ordered MTS Finance to pay to Nomihold the award ("Award") including $170.0 million for the Option Shares and

$5.9 million in damages, bearing 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 the amount of $7.2 million. $3.2 million and $40.8 million in the consolidated financial statements for the years ended December 31, 2012, 2011, and 2010, respectively, representing damages, other costs and interest accrued on the awarded sums. The total liability accrued amounted to $221 million.

On January 26, 2011, Nomihold obtained a freezing order in respect of the Award from the English High Court of Justice which, in part, restricted MTS Finance from dissipating its assets. Additionally, MTS Finance was granted permission to appeal the Award, but the Appeal Court imposed conditions upon the appeal. MTS Finance sought to have the conditions lifted, however, the Supreme Court of England upheld the decision of the Appeal Court.

Further on February 1, 2011, Nomihold obtained an order of the Luxemburg District Court enforcing the Award in Luxembourg. This order was appealed by MTS Finance.

As an issuer of $400.0 million Notes due 2012 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 OJSC applied to and obtained from the English Court an order authorizing both payments to be made by MTS OJSC rather than 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 OJSC 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 funds to the trustee for distribution and because MTS OJSC owed obligations to the noteholders as guarantor under the Indenture, MTS OJSC made 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 OJSC and MTS Finance have agreed to refer to arbitration under the Rules of LCIA 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 Payments. On February 9, 2012, MTS OJSC received a request for arbitration from MTS Finance. The hearing took place at the end of January 2013.The award has clarified the rights between the parties under the Intercompany Loan Agreement. MTS OJSC was denying that any further payments were due under the Intercompany Loan Agreement. The arbitration was conducted under the Rules of LCIA.

In March 2013, Nomihold obtained initial permission from the English Commercial Court to serve proceedings out of the jurisdiction on MTS. Nomihold purported that MTS was liable to compensate it for a number of allegedly tortious wrongs, relating in part to recent proceedings in an international arbitration tribunal constituted under the rules of LCIA between Nomihold and MTS Finance, in the total amount exceeding $215 million. MTS denied any allegation of wrongdoing and considered the claims made by Nomihold without merit and inadmissible before the English courts.

In addition, three Isle of Man companies affiliated with the Group (the "KFG Companies"), were named as defendants in lawsuits filed by Bitel in the Isle of Man seeking the return of dividends received from Bitel by these three companies in the first quarter of 2005 in the amount of approximately $25.2 million plus compensatory damages, and to recover approximately $3.7 million in losses and accrued interest.

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 (in April 2013 increased to $900 million) that Altimo Coöperatief U.A. has lodged with the Isle of Man court. The KFG Companies were proceeding with their counterclaims in the Isle of Man.

In a separate arbitration proceeding initiated against the KFG Companies by Kyrgyzstan Mobitel Investment Company Limited ("KMIC"), under the rules of LCIA, 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 the acquisition of the KFG Companies by MTS Finance. The arbitration tribunal ruled that KMIC is entitled only to damages in an amount to be determined in future proceedings. At the request of the parties, the tribunal agreed to stay the damages phase of the proceedings pending conclusion of the Isle of Man proceedings.

In June 2013, an agreement was reached between Altimo, Altimo Holdings, MTS OJSC, MTS Finance, Nomihold and other associated parties to settle all disputes that have arisen from investments in Bitel ("the Agreement"). The Agreement covers matters involving a number of parties and legal proceedings, including those in the Isle of Man, London, Luxembourg and other jurisdictions. Pursuant to the Agreement all proceedings between the parties and their associated parties have been discontinued and waived, and MTS OJSC received a total payment of $150 million ("Settlement Payment"). All parties made the necessary submissions to the respective courts and tribunals to document the settlement, which, among other actions, fully discharged any and all outstanding obligations under the Award rendered by LCIA against MTS Finance in January 2011, as well as settled the tripartite LCIA arbitration between MTS OJSC, MTS Finance and Nomihold and a tort action filed by Nomihold against MTS OJSC in the English Courts.

The Group released provision of $221 million, comprising $170 million set by LCIA to exercise the put option for acquisition of the remaining 49% stake in Bitel plus $51 million in damages, interest and other costs that had been provided for in relation to the dispute with Nomihold. The release of the provision was recognized in the accompanying consolidated statements of operations and comprehensive income for the year ended December 31, 2013.

The Group recognized a gain of $150 million with respect to the Settlement Payment in the consolidated statement of operations and comprehensive income for the year ended December 31, 2013.

Litigation in Ukraine – In August 2012, MTS LLC, based in Ukraine, received a claim regarding dismissal of the international registration of four of the Group trademarks on the territory of Ukraine. The claim was fully dismissed by Economic Appeal Court of Kiev in December 2013. Since then, the Group expects no negative consequences.

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. Management estimates the range of reasonably possible losses, if any, in all pending litigations or other legal proceedings being up to $169.6 million.

28. SUBSEQUENT EVENTS

For the purpose of the accompanying consolidated financial statements, subsequent events have been evaluated through April 1, 2014.

Merger of SG-trans and Finance Alliance – In January 2014, SG-trans and Finance Alliance merged into a single legal entity named SG-trans. The Group retained 50% beneficial interest in the newly established entity.

Acquisition of additional stake in NVision – In January 2014, the Group acquired an additional 38.75% stake in NVision from minority shareholders for $82.5 million, $37.5 million of which were paid in cash and $45.0 million – in the Company's treasury shares. Upon completion of the deal, the Group's ownership in NVision comprises 88.75%.

Reorganization of Bashneft – On February 3, 2014, the meeting of shareholders of Bashneft approved its reorganization which involves merger of Bashneft and Bashneft-Invest, its wholly-owned subsidiary. In accordance with the Russian legislation, merging entities are required to buy back their own shares from shareholders who abstained or voted against the reorganization upon their request. Accordingly, Bashneft will acquire 2,724,173 ordinary shares and 8,885,866 preferred shares for a total cash consideration of RUB 17,869 million ($494 million) due by April 21, 2014.

Bashneft borrowings – In March 2014, Bashneft obtained short-term unsecured fixed interest rate borrowings from a group of lenders in the amount of RUB 53,700 million. The interest rate varies from 8.24% to 9.75% per annum.

Acquisition of Burneftegaz – In March 2014, the Group acquired a 100% interest in Burneftegaz, a company engaged in exploration and production of crude oil in the Tyumen District for a total cash consideration of approximately $1,000 million. The entity will be accounted for and consolidated in the consolidated financial statements of the Group from the effective date of its acquisition. As of the date of these consolidated financial statements the Group does not have sufficiently reliable information to present summary financial information of Burneftegaz

Political developments – Since November 2013, Ukraine has been in a political and economic turmoil. The Ukrainian Hryvnia devalued against major world currencies and significant external financing is required to maintain stability of the economy. In February 2014, the Parliament of Ukraine voted for the reinstatement of the 2004 Constitution and dismissal of the incumbent President. New presidential elections are scheduled for May 2014 and a transitional government has been formed. The further political developments are currently unpredictable and may adversely affect the Ukrainian economy and the Group's business in Ukraine (Note 24).

Further escalation, if any, of the tensions between Russia, on one side, and the U.S. and the EU, on the other side, related to the political situation in Ukraine may result in a reduced access of the Russian businesses to international capital and export markets, capital flight, weakening of the Russian Ruble and other negative economic consequences. The impact of these developments on future operations and financial position of the Group is at this stage difficult to determine.

Depreciation of the Russian Ruble – During the period from January 1 to April 1, 2014, the Russian Ruble depreciated by 9% against the U.S. Dollar. Since a portion of the Group's capital expenditures, borrowings and certain operating costs are denominated in U.S. Dollars, this and any further devaluation could adversely affect the Group's results of operations in 2014 and going forward. A decline in the value of the Russian Ruble against the U.S. Dollar also results in a translation loss when the Group translates its ruble revenues and assets into U.S. Dollars which is the Group's reporting currency.

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

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 and exploration 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, 2013	**Consolidated subsidiaries**	**Group's share in equity investees**
Unproved oil and gas properties	$ 370,831	$ 49,313
Proved oil and gas properties	4,773,016	-
Accumulated depreciation, depletion and amortization	(843,607)	-
Net capitalized costs	**$ 4,300,240**	**$ 49,313**

As of December 31, 2012	**Consolidated subsidiaries**	**Group's share in equity investees**
Unproved oil and gas properties	$ 783,448	$ 159,563
Proved oil and gas properties	4,059,061	2,343,962
Accumulated depreciation, depletion and amortization	(744,866)	(697,334)
Net capitalized costs	**$ 4,097,643**	**$ 1,806,191**

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

Year ended December 31, 2013	**Consolidated subsidiaries**	**Group's share in equity investees**
Acquisition of unproved properties	$ 362,979	$ 10,800
Exploration costs	107,211	12,500
Development costs	561,569	32,156
Total costs incurred	**$ 1,031,759**	**$ 55,456**

Year ended December 31, 2012	**Consolidated subsidiaries**	**Group's share in equity investees**
Acquisition of unproved properties	$ 174,614	$ 105,218
Exploration costs	8,878	79,268
Development costs	97,877	177,992
Total costs incurred	**$ 281,369**	**$ 362,478**

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

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, 2013	**Consolidated subsidiaries**	**Group's share in equity investees**
Sales	$ 1,732,291	$ 709,371
Transfers	3,428,760	-
Total revenues	5,161,051	709,371
Production costs (excluding production taxes)	(946,025)	(160,453)
Exploration expenses	(107,211)	(12,500)
Depreciation, depletion and amortization	(237,723)	(93,830)
Accretion expense	(14,430)	(974)
Taxes other than income taxes	(1,970,366)	(284,203)
Related income tax	(377,059)	(41,386)
Total results of operation of producing activities	**$ 1,508,237**	**$ 116,025**

Year ended December 31, 2012	**Consolidated subsidiaries**	**Group's share in equity investees**
Sales	$ 1,613,121	$ 1,536,320
Transfers	3,740,654	-
Total revenues	5,353,775	1,536,320
Production costs (excluding production taxes)	(743,583)	(369,626)
Exploration expenses	(8,878)	(79,268)
Depreciation, depletion and amortization	(223,185)	(205,907)
Accretion expense	(16,346)	(650)
Taxes other than income tax	(1,995,690)	(578,799)
Related income taxes	(473,218)	(93,284)
Total results of operation of producing activities	**$ 1,892,875**	**$ 208,786**

(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 years ended December 31, 2013 and 2012 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		
As of January 1, 2012	1,966,641	532,768
Revisions of previous estimates	130,697	14,662
Production	(109,805)	(34,046)
Sales of reserves	-	(16,296)
As of December 31, 2012	1,987,533	497,088
Revisions of previous estimates	161,666	-
Production	(114,338)	(16,900)
Sales of reserves	-	(480,188)
As of December 31, 2013	2,034,861	-
Proved developed reserves		
As of December 31, 2012	1,811,659	289,259
As of December 31, 2013	1,808,948	-
Proved undeveloped reserves		
As of December 31, 2012	175,874	207,829
As of December 31, 2013	225,913	-

The noncontrolling interests included in the above total proved reserves was 508,715 thousand barrels and 496,883 thousand barrels as of December 31, 2013 and 2012, respectively. The noncontrolling interests included in the above proved developed reserves was 452,237 thousand barrels and 452,915 thousand barrels as of December 31, 2013 and 2012, respectively.

The Group'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, 2013		
Future cash inflows	$ 102,182,302	$ -
Future production and development costs	(53,188,710)	-
Future income tax expenses	(9,798,718)	-
Future net cash flows	39,194,874	-
Discount for estimated timing of cash flows (10% p.a)	(24,045,091)	-
Discounted future net cash flows	$ 15,149,783	$ -
Noncontrolling interest in discounted future net cash flows	3,787,468	-

	Consolidated subsidiaries	Group's share in equity investees
As of December 31, 2012		
Future cash inflows	$ 96,737,215	$ 22,771,604
Future production and development costs	(50,570,973)	(14,734,498)
Future income tax expenses	(9,233,248)	(1,607,421)
Future net cash flows	36,932,994	6,429,685
Discount for estimated timing of cash flows (10% p.a)	(22,640,690)	(3,581,928)
Discounted future net cash flows	$ 14,292,304	$ 2,847,757
Noncontrolling interest in discounted future net cash flows	3,573,076	-

(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	**2013**	**2012**
Sales and transfers of oil and gas produced, net of production costs and taxes other than income tax	$ (2,137,449)	$ (2,605,623)
Net changes in prices and production costs estimates	875,613	2,293,541
Net changes in mineral extraction taxes	(481,482)	172,281
Development costs incurred during the period	475,509	97,877
Changes in estimated future development costs	(743,255)	(386,009)
Revisions of previous quantity estimates	2,075,556	1,524,219
Net changes in income taxes	(325,797)	(473,320)
Accretion of discount	1,564,493	1,270,312
Other changes	(445,708)	520,615
Aggregate change in the standardized measure of discounted future net cash flows for the year	**$ 857,480**	**$ 2,413,893**
Discounted present value as at January 1	**$ 14,292,304**	**$ 11,878,411**
Discounted present value as at December 31	**$ 15,149,784**	**$ 14,292,304**

Group's share in equity investees	**2013**	**2012**
Net changes due to sales of minerals in place	$ -	$ (90,244)
Sales and transfers of oil and gas produced, net of production costs	(252,215)	(508,626)
Net changes in prices and production costs estimates	-	(247,371)
Net changes in mineral extraction taxes	-	(136,599)
Development costs incurred during the period	22,050	191,299
Changes in estimated future development costs	-	(47,622)
Revisions of previous quantity estimates	-	144,741
Net changes in income taxes	(19,270)	74,683
Accretion of discount	326,514	365,347
Other changes	-	(272,594)
Aggregate change in the standardized measure of discounted future net cash flows for the year	**$ 77,079**	**$ (526,986)**
Discounted present value as at January 1	**$ 2,847,757**	**$ 3,374,743**
Discounted present value as at the date of RussNeft disposal	**$ 2,924,836**	**$**
Discounted present value as at December 31	**$ -**	**$ 2,847,757**